



Kyocera Corporation
Outline of Q&A on Financial Presentation for the Year Ended March 31, 2018
(Held on April 27, 2018)

[Management Strategy]

Q: One year has passed since Kyocera adopted the structure under President Tanimoto. Can you tell us what changes you have made internally and what effect these changes have had? Also, did the president take the initiative in the decision to conduct a share buyback? Please also tell us if there have been any changes in management.

A: We have made aggressive investment to increase production, partly because business has been brisk for the Components Business. We have also actively introduced new products. In addition, we have devised a plan to spend over ¥100 billion on capital investment in the year ending March 31, 2019 (“fiscal 2019”). This is an apt expression of our eagerness. In terms of the share buyback, our policy didn’t suddenly changed when I became president, but the latest decision was made by me. The decision was made partly in light of the decline in share price following announcement in February for the financial results for the nine months ended December 30, 2017.

Q: The positive approach you are taking will see record highs in both capital expenditures and R&D expenses for fiscal 2019. I don’t think you have been so assertive in making large increases in investment in the past, however, due to concerns over rising depreciation costs at each business unit (amoeba) level. Can you tell us what changes have been made to the investment decision-making process?

A: R&D expenses are a corporate issue and a decision was made to increase investment as part of the president’s policy. We are also positively encouraging capital expenditures. On top of this, market conditions are strong. We have laid the foundations for our R&D structure and made changes enabling efforts that straddle the organization, which has made it more reassuring for each division to go about development. The same can be said for capital expenditures.

Q: Can you tell us your vision for the future in terms of concrete measures in the IoT, 5G and energy markets?

A: In the energy field, we are pushing ahead with the development of power storage batteries in the solar energy business and R&D division to promote self-consumption of energy. In

the 5G and the ADAS (Advanced Driver Assistance System) field we will combine internal resources and determine what kind of solutions we can generate through development, which also includes initiatives in our telecommunications business.

Q: It seems Kyocera is in a stage of building up business assets at the moment since you are actively conducting mergers and acquisitions and making capital expenditures. With R&D expenses increasing, you could say that this investment is for intangible assets as well. What sort of application do you have in mind for these business assets?

A: We are currently investing primarily in the Components Business. In R&D, although we possess technology in telecommunications, we don't believe there are many paths toward survival in telecommunications equipment as a standalone business. As an example, in the energy field, we are interested in expanding the application of telecommunications technology for services or solutions as a means to fully utilize our unique telecommunications technology in the remote monitoring of large-scale solar power generation facilities.

Q: In terms of specific domains in technology, 5G, automotive and renewable energy spring to mind. Do you think you need to identify concrete applications and consider specific domains for investment? Or do you think the areas you should invest in will become clear to a certain extent in each business as time goes by?

A: We are confident that we can drive sufficient expansion primarily in the Components Business to achieve our sales target of ¥2 trillion in fiscal 2021. But anything beyond that, for example in the ¥3 trillion range, is going to be difficult to realize with the existing Components Business. It will be necessary to take a selection and concentration approach in 5G and energy-related fields in order to work toward ¥3 trillion. We would also like to add the medical field to the mix if possible, but are yet to devise any concrete plan for this.

[Shareholder Return]

Q: Kyocera recently announced a share buyback in the amount of ¥40 billion. What direction are you heading with your total return ratio in combination with dividends within your shareholder return policy?

A: Our basic shareholder return policy remains unchanged in that we want to prioritize dividends. In terms of whether we will conduct share buybacks every year, we will make that decision in consideration of future business opportunities and the environment. We understand that there are certain expectations from shareholders and therefore intend to remain positive in our outlook.

Q: Have you not considered cancelling shares? Kyocera has an overabundance of capital,

so you couldn't really discount the possibility of cancelling shares as part of your capital policy, right?

A: We are considering share cancellation as well. We did cancel a certain amount of shares a few years ago. Since we may use them for merger and acquisition activity, we are not considering canceling shares immediately after a buyback at the moment. However, if the shares cannot be used for the purpose we originally set, we may indeed look at cancellation.

[Shift to International Financial Reporting Standards (IFRS)]

Q: What has been the impact of the shift to IFRS?

A: There has been no effect on sales. Profit is expected to increase by around ¥10 billion based on the net of a reduction in costs associated with the change to the straight-line method for depreciation method and an increase in pension expenses.

[M&A/Collaboration with other companies]

Q: Kyocera conducted five mergers and acquisitions in the year ended March 31, 2018 (fiscal 2018). Can you tell us how this impacted sales and profit in fiscal 2018 and the expected impact in fiscal 2019?

A: Merger and acquisition activity contributed approximately ¥50 billion to sales in fiscal 2018, while there was very little benefit to profit due in part to the amortization cost associated with the purchases. We are forecasting ¥100 billion in sales and around 5% profit ratio in fiscal 2019 from the M&A.

Q: Will you possibly cooperate further with KDDI Corporation (KDDI) going forward considering how enthusiastic that company is toward the IoT? IoT network services will soon be important in the solar energy business too. Can you tell us how close your relationship is to KDDI?

A: KDDI continues to buy our mobile handsets while our subsidiary Kyocera Communication Systems Co., Ltd. (KCCS) is deploying IoT network services in the low-speed range known as Sigfox. KDDI is engaged with Narrowband IoT (NB-IoT). The circuits for the IoT modules being developed by Kyocera are provided by KDDI. The diverse nature of IoT services means we are keen to see how far we can go together with KDDI rather than restrict ourselves to particular business domains.

Q: Kyocera has simply been a shareholder in KDDI in the past, but it might be more interesting to do business from a deeper level relationship-wise going forward. Do you think you might team up with KDDI in the IoT field?

A: KDDI has injected capital into our subsidiary KCCS. Through KCCS, I believe we have

the opportunity to work with KDDI in a much closer capacity in the development of IoT solutions.

[Document Solutions Group]

Q: In the Document Solutions Group, Kyocera's market share is growing and results are good despite a lack of overall market growth. Can you tell us the background to this? Also, what is your future policy here?

A: Our share has traditionally been low in the Document Solutions Group, so we are increasing it little by little. In addition to using our internally manufactured amorphous silicon drum, we developed a low-temperature toner in fiscal 2018 and are pushing the appeal of our ecological products across the board. I think this strategy has been embraced by our customers as well.

In addition, we are taking steps to enhance productivity and automated our toner factory in fiscal 2018. We are currently constructing a factory in China for OPC (Organic Photo Conductor) photoreceptor drums, with plans to begin operation around June 2018. Production required around 200 people in the past, while products at the new factory will be able to be made with a headcount of only a dozen or so. We also plan to operate a line in which robots handle assembly automatically at our Hirakata Plant in Osaka. We are therefore undertaking initiatives in the Document Solutions Group to significantly boost productivity.

[Solar Energy Business]

Q: Can you tell us the effect of cost reductions in fiscal 2019 due to the write-down relating to polysilicon material in the solar energy business? Will the write-down of material costs have the effect of further cost reductions in addition to the effects of integrating production sites?

A: The write-down relating to polysilicon material was recorded for both inventory already purchased as well as the balance of material yet to be purchased. As a result, material costs will decrease by around 30%.

We intend to use the cost savings to help us increase sales. Although sales in fiscal 2019 are forecast to remain roughly unchanged year on year, we will use the savings to help us secure demand as we have been receiving a large number of inquiries, particularly for projects by companies seeking to reduce carbon dioxide emissions.

Q: In the solar energy business, Kyocera is working to capture demand for self-consumption. Can you tell us the progress being made in development? I believe power storage batteries

have a high cost and it may be difficult to make them economically rational.

A: The self-consumption model would not exist without power storage batteries. In terms of economic rationality, although in some instances solar panels may now be procured without any out-of-pocket costs, the costs associated with power storage batteries are still disproportionately high. As a result, Kyocera is conducting development with the aim of doubling the life of the power storage battery. We are seeing positive signs at the test level. In terms of self-consumption in industry, it may not be feasible to build a solar power generating facility adjacent to a factory due to how large these facilities are. More than likely the facility would have to be built elsewhere. In that case, it is necessary to think about how to transport the electricity to the place it will be consumed. It wouldn't really be feasible to lay a cable on one's own, and with that in mind, we are looking to find a solution to this issue this fiscal year, which will include teaming up with other companies to do so.

Cautionary statement

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