

# Kyocera Corporation Business Presentation (February 18, 2009)

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## <Slide 1: Consolidated Financial Forecast – Year ending March 31, 2009>

This slide shows consolidated financial forecasts for the year ending March 31, 2009 (“fiscal 2009”) as announced on January 29, 2009. Profit in fiscal 2009 is projected to fall below the level recorded in fiscal 2002 (ended March 31, 2002) after the IT bubble burst, due to rapid deterioration in the business environment.

## <Slide 2: Business Environment Outlook from Q4 in FY3/09 Onward>

This slide describes the business environment outlook from the fourth quarter onward.

The anxiety over a global economic recession and the financial system are not resolved, and we will continue to alert further appreciation of yen against the U.S. dollar and Euro.

In addition, production activity in numerous industries, which began to decline rapidly in October last year, continued to stagnate, and it is unclear when it will recover.

With regard to declining component demand due to fast-shrinking inventory beyond the level of real demand, we expect a slight resurgence such as high market share products and components for mobile phone in the latter half of March this year. However, we expect it to take some time for genuine recovery.

The bottom of this slide shows the forecast for production volume of key electronic equipment in calendar 2009. We are forecasting negative growth of 5% in production volume compared with 2008 for both mobile phone handsets and PCs, which were driving component demand. Meanwhile, production volume of digital cameras is projected at this moment to remain unchanged in 2009, though there is the possibility that it will drop lower.

Consequently, the business environment is expected to remain tough in the fourth quarter and beyond.

## <Slide 3: Kyocera Group Management Challenges>

This slide shows current Kyocera Group management challenges amid such a business environment.

First, to rapidly improve profitability amid dwindling sales, we are promoting comprehensive cost reductions and reorganizing business structures in departments where profit has been decreasing. These are priority issues.

To ensure high growth in sales and profit when demand recovers, we will strengthen foundations in core businesses and steadily grasp new business opportunities aimed at enhancing performance.

## <Slide 4: Measures to Improve Profitability (1)>

Since the third quarter of fiscal 2009, when orders began to fall rapidly, Kyocera, under my leadership, has been promoting the examination of urgent action aimed to maintain profitability, particularly by establishing

specialized project teams and execute various initiatives based on short-term aspect and mid- and long-term aspect.

We have been executing amoeba management, which aims at minimizing various costs. I commanded all amoebas to strengthen this amoeba management system, thereby to further reduce costs. We are making effort to reduce various costs so that large improvement in profitability can be achieved when production activities recover. For example, we are reducing production costs and improving production efficiency that leads to lower breakeven point, and cutting overhead costs such as advertisement costs.

In response to rapid deterioration in the business environment since October 2008, we have been conducting a fundamental review of our capital expenditure plan.

As shown on this slide, quarterly capital expenditures in fiscal 2009 were between ¥18.0 billion and ¥19.0 billion for each of the first three quarters. However, we expect to slash the third quarter amount by over half to ¥7.8 billion in the fourth quarter. On a full-year basis, we expect capital expenditures to be approximately ¥22 billion less than the previous fiscal year.

Next fiscal year, we will make capital investment in the solar energy business to increase production capacity while continuing to suppress investment in other businesses. We aim to restrict capital expenditures in fiscal 2010, the year ending March 2010, to between ¥30.0 billion and ¥40.0 billion, with spending to be at the same rate as the fourth quarter of fiscal 2009. In our latest forecast, capital expenditure in fiscal 2010 will be around ¥40.0 billion. Our capital expenditure plan will focus on cost-benefit analysis while considering the balance between the business environment from fiscal 2010 onward and future business growth.

With regard to depreciation, the depreciation burden from past fiscal years due to tax revisions in Japan will cease this fiscal year, and capital expenditures will be significantly reduced in both fiscal 2009 and fiscal 2010. As a result, depreciation for fiscal 2010 is expected to be approximately ¥20.0 billion lower than that of fiscal 2009 even only on account of a non-consolidated basis.

In addition, we work to reduce the labor cost. Our basic policies are maintaining the regular employees and not reduce them in Japan. However, we have to reduce the labor cost in these emergency situations through a “zero overtime” system, salary cuts for management and adjustment of operating days.

As I mentioned, while reducing the depreciation and labor cost, we aim to minimize various costs, and strengthen the amoeba management system. We try to reduce the cost by minimum of ¥50.0 billion in fiscal 2010 compared with fiscal 2009 on a non-consolidated basis through these measures.

#### **<Slide 5: Measures to Improve Profitability (2)>**

Kyocera is consolidating global R&D systems in the Telecommunications Equipment Group to improve profitability going forward. The aims of the reorganization were to eliminate development delays at KWC,

which had been an issue, and to integrate R&D systems to develop more appealing products by combining the R&D resources of Kyocera and the former SANYO business. Through this move, we aim to establish a system that enables product development based on an integrated strategy for the R&D divisions of Kyocera, KWC and the former SANYO business. Furthermore, mutual reinforcement of personnel resources will help eliminate duplication in R&D themes and reduce costs.

We are also strengthening our product promotion capabilities and making preparations for the creation of a new sales system aimed at expanding sales ahead of the new fiscal period in April.

Elsewhere, we are examining how to optimize production systems through restructuring. By implementing new systems for development, sales and production, we aim to improve profit in the mobile phone handset business, particularly in North America.

**<Slide 6: Measures to Increase Sales and Profit (1) – Strengthen Foundations in Core Businesses>**

Next, I will explain efforts to strengthen foundations in core businesses as a measure to increase sales and profit in the future. In particular, we seek to expand share of solar energy business and boost sales in the Information Equipment Group.

**<Slide 7: Expand Share of Solar Energy Business>**

First, let's look at solar energy business, where demand has been weakening, particularly in Europe, due to the economic downturn and financial crisis. The graph at lower left provides the global market forecast for solar cells reflecting revisions made by Kyocera in February in light of current circumstances. The global market is forecast to shrink by approximately 10% on a production volume base in fiscal 2010 compared with fiscal 2009 due to stagnant demand in Europe. In key countries outside of Europe, however, we are predicting the solar cell market to continue expanding, driven by subsidy policies. In the United States, subsidy policies for solar power generation have been expanded to 44 states, while tax-cuts have been extended and expectations are growing for President Obama's Green New Deal. As a result, Kyocera's recent projections suggest around a 25% increase in production volume in the United States. Subsidy programs were re-initiated in Japan in January this year, and as a result, we are forecasting between a 15~20% increase in demand in Japan.

Although current market growth has slowed temporarily, we will work to expand sales and profit in solar energy business by increasing market share through strategic up-front investment and the introduction of high-quality products. Kyocera has made no changes to its production capacity plans as of this moment in time. We plan to complete construction of a new solar cell plant in Yasu City, Shiga Prefecture in fiscal 2011 and start operations there in fiscal 2012 to complement the Shiga Yohkaichi Plant. We are also making preparations for the mass-production of new back contact solar cells that achieve higher conversion efficiency.

Although numerous solar cell manufacturers have entered the market in the past few years, I believe the market will reorganize itself and some of these companies will drop out in the coming few years. In my opinion, manufacturers that have sturdy financial foundations and that can supply high-quality products with guaranteed

long-term reliability can survive in the current solar cell market. Kyocera will leverage its strengths of global leading technological capability amassed over more than 30 years and a worldwide sales network to increase market share amid current market turmoil.

**<Slide 8: Boost Sales in the Information Equipment Group (1)>**

Next, I will explain initiatives in the Information Equipment Group.

Kyocera created new R&D, manufacturing, and sales and marketing structures in the Information Equipment Group in fiscal 2009 aimed at expanding business from fiscal 2010.

Specifically, on an R&D front, we established an R&D Center in Japan, enabling us to concentrate R&D bases in one location and therefore reduce costs and streamline R&D systems. At the R&D Center, we are focusing on the development of platforms for color engines and controllers, and of color toner.

On a manufacturing front, we concentrated equipment production bases into China and commenced operations at a new toner plant in Japan. We are working to reduce manufacturing costs and improve productivity by compartmentalizing production.

As measures to expand sales, we acquired new sales channels and started developing products under a new brand to expand our line-up.

**<Slide 9: Boost Sales in the Information Equipment Group (2) >**

First, we made Germany-based information equipment distributor TA Triumph-Adler AG (“TA”) into a subsidiary to secure a new sales channel.

In the information equipment market, direct sales systems are becoming more prominent while there is fierce competition to secure major distributors. Kyocera has been able to attain a sales network that operates via a direct sales system by making TA a subsidiary. Going forward, Kyocera will further promote products in the various countries of Europe by strengthening solution-based sales, an area of comparative strength at TA. Sales and profit from TA will be included in the Information Equipment Group from the fourth quarter.

With the objective of expanding its product line-up, Kyocera launched and started sales of the TASKalfa brand of multifunctional systems in January this year, which complements the ECOSYS brand of printers. Features of TASKalfa include use of micro-particle toner that is produced at a new toner plant in Japan, and containment of toner consumption and power consumption. TASKalfa products incorporate a new software platform and have expandability via connectivity with external systems and applications.

Kyocera will strive to promote the permeation of TASKalfa brand multifunctional systems in addition to ECOSYS brand printers to increase sales and profit in this business.

**<Slide 10: Measures to Increase Sales and Profit (2) – Grasp Further Business Opportunities>**

For our second measure to increase sales and profit, we aim to grasp business opportunities. Even as the economy stagnates, we will make the most of growing markets and our management resources, beginning with the Group's technological capabilities, since there are markets where it is possible to generate new business opportunities.

The first of these markets are environment and energy-related markets. These markets have medium- to long-term growth potential, particularly in LED lighting and fuel cells, on account of rising environmental awareness, including energy conservation.

Another of these markets is the next-generation high-speed wireless communications market, which is part of the telecommunications market. Next-generation PHS services and WiMAX 2.5GHz next-generation high-speed wireless communication services are slated to get underway in 2009.

I will now explain initiatives to grasp these business opportunities.

**<Slide 11: Trend of Sales of Environment and Energy-related Products>**

First, let's look at initiatives in environment and energy-related markets. These graphs show the ratio of environment and energy-related products to consolidated net sales. These products include those from the Information Equipment Group, which focus on technology for endurance, and the solar energy business, as well as automotive parts that curb car exhaust gas and sapphire substrates for LEDs. The sales ratio of environment and energy-related products has been increasing over the past 10 years due to growth in sales of solar cells and information equipment. The proportion is forecast to increase to 28% of consolidated net sales in fiscal 2009. I am confident that these markets will continue expanding over the medium to long term, and as such, we will work hard to further increase sales in them. From fiscal 2010 and onward, we will focus on the commercialization of new products such as the SOFC (solid oxide fuel cell) with the aim of making a contribution to business performance.

Our goal is to increase the sales ratio of products for environment and energy-related markets, and make this sector into a new core pillar supporting growth for Kyocera Group.

**<Slide 12: Expand into Next-Generation High-Speed Wireless Communications Market>**

Let's turn to the Telecommunications Equipment Group. WILLCOM Inc. plans to commence next-generation PHS services and UQ Communications Inc. plans to commence WiMAX services in fiscal 2010.

In line with the start of these new services, Kyocera will promote partnerships with communication carriers and look to steadily grasp new business opportunities, notably in the base station business, to drive growth.

In November 2008, KDDI Corp. officially announced that it had selected the LTE (long-term evolution) protocol. In response to this move, Kyocera is pushing ahead with the development of technologies befitting LTE services.

**<Slide 13: Kyocera Group Management Challenges>**

As I have explained today, Kyocera Group will work hard to rapidly improve profitability while strengthening business foundations in readiness to increase sales and profit when demand recovers.