

Traversing the path to growth

Review of Fiscal 2005

In reflection of our aim to be a creative company that continues to grow in the 21st century, the year ended March 31, 2005 (fiscal 2005) was significant for the Kyocera Group.

Continued implementation of our core management strategy of “high-value-added diversification” generated two key results: the development of new business structures to facilitate future expansion; and continued preparations to enter new business sectors with strong growth potential.

New business structures for future expansion

Over the past few years, we have implemented a series of radical reforms within our production systems in Japan to create highly profitable, value-added operations. Systemic reforms have focused on boosting productivity, cutting lead times and enhancing quality. In addition to rationalizing and constructing integrated in-house production operations, we have begun manufacturing some items at Kyocera facilities in China that we previously procured from Japanese subcontractors. Together, these measures have significantly improved our production processes and capabilities, effectively rebuilding many of Kyocera’s manufacturing systems. The results were apparent in the solid year-on-year gains in profit posted by the components segments, which include the Fine Ceramic Parts, Semiconductor Parts and Electronic Device Groups. Elsewhere, the internally reformed Applied Ceramic Products Group (formerly “Consumer-Related Products”) took advantage of expanding markets for solar energy systems and cutting tools to post significantly improved earnings.

The overriding aim in both the Telecommunications Equipment Group and the Optical Equipment Group (formerly “Optical Instruments”) is to restore profits rapidly. We undertook decisive structural reforms in both segments.

The restructuring of the Telecommunications Equipment Group concentrated on U.S. subsidiary Kyocera Wireless Corp. (KWC), which develops, manufactures and sells CDMA mobile

phone handsets. In the first phase of planned structural reforms, we transferred production from the U.S. (San Diego) to Mexico to boost KWC’s price competitiveness and improve profitability during fiscal 2005.

In the Optical Equipment Group, we significantly downsized our development, manufacturing and sales operations for consumer-market cameras, concentrating resources instead on optical modules. This strategic specialization was meant to overcome sluggish profits and was implemented in consideration of our competition and market position. By leveraging the Kyocera Group’s extensive technologies in lenses and optical components, we hope to seize new opportunities in this sector and improve the profitability of the Optical Equipment Group.

Although one-time charges associated with fiscal 2005 reforms in the Telecommunications Equipment and Optical Equipment Groups totaled approximately ¥11.7 billion (\$109 million), Kyocera is confident that these initiatives will restore profits and set both segments on a firm foundation for growth in fiscal 2006 and beyond. In this sense, we believe these moves represented real progress.

Investment in new businesses with strong growth potential

Elsewhere, we continued to prepare for a new core business that is expected to contribute strongly to Kyocera Group earnings in the future. In fiscal 2005, we invested in a new mass-production facility at Kyocera SLC Technologies Corporation to produce organic packages, which have important applications in next-generation MPUs for digital consumer products. This business is set for commercialization in fiscal 2006. We also continued to develop other products with strong growth potential, such as organic electroluminescent (EL) displays and solid oxide fuel cells (SOFCs).

Fiscal 2005 results

Consolidated net sales rose in fiscal 2005 due to solid contributions from the Fine Ceramic Parts, Semiconductor Parts and



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Applied Ceramic Product Groups. Net sales increased by 3.5% compared with fiscal 2004 to ¥1,180,655 million (\$11,034 million). Profit from operations slipped 7.3% to ¥100,968 million (\$944 million), mainly as a result of restructuring charges. Income before income taxes fell 6.5% to ¥107,530 million (\$1,005 million). As Kyocera recognized additional income taxes of approximately ¥18.8 billion (\$176 million), principally in relation to the receipt of a notice of tax assessment based on transfer pricing adjustments and a reduction in the deferred tax assets of a U.S. subsidiary, net income fell 32.6% to ¥45,908 million (\$429 million). As a result, diluted earnings per share amounted to ¥244.81 (\$2.29).

For a more detailed analysis of business performance, please refer to pages 17-33 (Operating and Financial Review and Prospects).

New dividend policy

Kyocera has traditionally sought to maintain stable dividends to shareholders. We recently revised this policy to place a greater emphasis on maximizing shareholder returns. Henceforth, the level of dividends will be more closely linked to consolidated performance.

Under the new dividend policy, Kyocera will aim for a consolidated payout ratio of 20-25%. In addition, management

will determine dividend amounts based on an overall assessment that takes into consideration capital expenditures necessary for Kyocera's mid- to long-term development. Based on the revised policy, Kyocera Corporation plans to pay a year-end dividend for fiscal 2005 of ¥50.00 (\$0.47) per share, compared with ¥30.00 in fiscal 2004. This will result in annual dividends for fiscal 2005 increasing to ¥80.00 (\$0.75) per share.

Fiscal 2006 Actions

The Kyocera Group aims to generate consistent earnings growth by making both the components and equipment operations "valuable businesses" with high profits. Initiatives planned for fiscal 2006 include the following:

Establish new Kyocera Group management structure

Kyocera continues to strengthen consolidated management structures to create growth and raise enterprise value. Key changes in the roles of several senior executive officers took effect on June 1, 2005. The appointments affect the roles of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Operating Officer (COO). As a result, the CEO will take responsibility for mid- and long-term management strategy formulation and execution, while the COO will be in charge of day-to-day management issues and corporate plan-

ning. The CFO will be responsible for constructing and executing a financial strategy for the Group to ensure that Kyocera maximizes cash flow.

At the same time, Kyocera also introduced a new structure for its corporate business groups, headed by newly appointed executive officers. These business group leaders will be responsible for each respective product line on a global basis, promoting the growth of Kyocera's various businesses.

Further fundamental structural reforms at KWC

Following the first phase of structural reforms at KWC, Kyocera decided to implement further fundamental reforms to make extensive use of external resources. These plans call for outsourcing the production of KWC mobile phone handsets to Flextronics International Ltd., a leading provider of electronics manufacturing services. We hope to generate swift improvements in profitability at KWC, which will now effectively focus on specialized research and development, design, sales, and marketing of mobile phone handsets.

Aggressive capital investment program

The Kyocera Group's planned capital expenditures total ¥100 billion (\$935 million) for fiscal 2006, reflecting our aggressive commitment to seize opportunities, expand our business and raise productivity. These investments are all aimed firmly at increasing future earnings.

(1) Establishing new businesses with growth potential

In June 2005, Kyocera commenced production at a new plant in Ayabe (Kyoto Prefecture), that will focus on organic packages for next-generation MPUs and peripheral devices used in digital consumer products. Elsewhere, we have established a firm footing for commercial operations in organic EL displays, an area where we have invested aggressively in product development for many years. We plan to establish a pilot plant in Shiga Prefecture in fiscal 2006 and prepare for mass production in fiscal 2007.

(2) Expanding production with new manufacturing systems

Large-scale rationalization efforts in recent years have resulted in substantial improvements to our production systems and processes in Japan, creating a fully integrated structure. These reforms should allow us to more swiftly develop operations outside our core businesses and thereby raise Kyocera Group earnings. Specific areas where we plan to increase capacity and construct new, super-rationalized plants include photovoltaic cells and solar modules, where demand is rising consistently; LCDs for industrial equipment; ceramic parts for LCD fabrication equipment used to produce new and larger displays; and ceramic cutting tools for the automotive industry.

We are confident that these initiatives will help to create pillars to support future earnings within the Kyocera Group, thereby contributing to consistent growth in earnings over the medium and long term.

We kindly ask all Kyocera stockholders and other stakeholders for their continued support and understanding as we move forward.

June 2005



Yasuo Nishiguchi,
Chairman and CEO



Masahiro Umemura,
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