Aiming for further growth

Review of Fiscal 2006

As we pursued our goal to be a creative company that grows continuously, the year ended March 31, 2006 (fiscal 2006) brought strategic milestones within the Kyocera Group. We implemented medium-to-long term growth strategies in two key areas: (1) Strategic capital investments to further expand our businesses; and (2) Structural reforms to build highly a profitable foundation.

Strategic Investments for Further Business Expansion

We invested aggressively in the core business in order to expand capacities, improve productivity and seize business opportunities in areas of imminent growth. Capital expenditures in fiscal 2006 amounted to ¥90,271 million ($772 million), a year-on-year increase of 42.9%. The most significant increase occurred in the components businesses, where capital expenditures rose 67.2% year-on-year to ¥64,425 million ($551 million).

In the Semiconductor Parts Group specifically, we completed construction of a new plant and commenced mass production of organic packages to house MPUs for next-generation game consoles and digital consumer products, which are expected to rise in demand from 2006 onward. In our solar energy business (part of the Applied Ceramic Products Group), we constructed systems to boost production of photovoltaic cells in Japan, and commenced production of solar modules at a new plant in the Czech Republic. The Kyocera Group currently possesses a global production system for solar energy products, with operations in the Czech Republic, China, Mexico and Japan. By leveraging this network, we are positioned to reap new benefits as we respond to growing demand for solar energy-related products worldwide.

Other capital investments to support growth in profitability included the construction of a new production line for large-dimension fine ceramic parts used in next-generation LCD manufacturing equipment.

Structural Reforms for a Highly Profitable Foundation

We undertook structural reforms in both the Telecommunications Equipment Group and Optical Equipment Group in fiscal 2006 in order to generate improvements in profitability.

In the Telecommunications Equipment Group, we transferred production of cellular handsets from Kyocera Wireless Corp. (KWC), a U.S. subsidiary, to Flextronics International Ltd. (Flextronics), a leading contract manufacturer, in September 2005. At the same time, KWC's manufacturing equipment and parts inventories were sold to Flextronics. This transfer of production from KWC to Flextronics led to a substantial reduction in manufacturing costs at KWC, with profits recovering significantly in the second half of fiscal 2006 compared with the first half.

We also continued to restructure the Optical Equipment Group by substantially downsizing the consumer camera equipment business in order to focus on optical modules. Although sales revenues from this business were much lower than in fiscal 2005, we were able to reduce losses significantly. For furture profit growth, we will utilize Kyocera Group resources to develop the Optical Equipment Group as a specialist in optical components, including high-megapixel optical modules for mobile phone handsets.

Fiscal 2006 Results

Despite lower revenues from the equipment business due to restructuring, consolidated net sales increased due to higher sales of semiconductor parts, solar energy products, and ceramic cutting tools. Net sales increased 0.1% compared with fiscal 2005, to ¥1,181,489 million ($10,098 million).

We generated significantly higher profits from similar revenue levels. The higher profitability was led by structural reforms in the equipment business, notably in the Telecommunications Equipment and Optical Equipment Groups. Profit from operations rose 2.2% to ¥103,207 million ($882 million). Income before income taxes increased 12.9% to ¥121,388 million ($1,038 million), while net income amounted to ¥69,696 million ($596 million), an increase of 51.8% compared with fiscal 2005. Diluted earnings per share soared to ¥371.43 ($3.17).

As a part of an ongoing policy to focus on the core business, we reinvestigated the way to maximize synergies within our group companies. Consequently, in September 2005, Kyocera took advantages of an opportunity to sell its investment in an equity-method affiliate, Taito Corporation, a leading operation in the amusement business in Japan, in order to achieve best possible growth for both companies, Kyocera and Taito. As a result, Kyocera recorded a gain on sales of investment in an affiliate totaling 6,931 million ($59 million).

For a more detailed analysis of business performance, please refer to pages 20-36 (Operating and Financial Review and Prospects).

Fiscal 2007 Actions

A new organizational structure for Kyocera Group management was implemented in April 2006. Under this new structure, which aims at facilitating the decision-making process at the consolidated level, the President is fully responsible for the global execution of Group business policies, while the Chairman and Vice Chairmen provide support in executing business decisions. This new structure aims at making Kyocera "a creative company that grows continuously." The Kyocera Group plans to focus on improving profitability in both the components and equipment businesses while pursuing intra-Group operational synergies to sustain growth under rapidly changing conditions.

Specific areas of management focus in fiscal 2007 are as follows:

(1) Reinforce the "Amoeba Management" System of Internal Controls

The "Amoeba Management" system, which internally controls the operating performance of small groups, is unique to Kyocera and remains a source of competitive advantage over other companies. It has been a major driving force for growth since the company's earliest days. During fiscal 2007 Kyocera plans to reinforce this system of controls to revitalize operations across development, manufacturing and sales functions, as well as other divisions affected indirectly. Our aim is to boost our ability to achieve internal targets. In particular, we aim to augment the power of our various manufacturing divisions to be profit centers for the company.

(2) Boost Performance from Strategic Investments and Structural Reforms

Another challenge in fiscal 2007 is to ensure that the strategic investments made in fiscal 2006 translate quickly into better performance. We will focus on raising profit margins in the components businesses, including the Fine Ceramic Parts Group, Semiconductor Parts Group and Applied Ceramic Products Group.

We also expect the structural reforms undertaken in the Telecommunications Equipment and Optical Equipment Groups during fiscal 2006 to translate into higher revenues and profits in fiscal 2007.

(3) Promote the Commercialization of Medium-Term Strategic Businesses

One final area of concentration is the commercialization of strategic businesses with the greatest medium-term earnings potential. We are concentrating primarily on harnessing Group resources to develop new technologies, products and market segments in the key sectors of telecommunications and information processing, and environmental preservation. Specific areas in which we aim to expand our business by developing major new products include ceramic diesel-engine components, next-generation solar cells and solid oxide fuel cells. We are working to ensure that these businesses contribute to results as soon as possible.

Noboru Nakamura
Chairman

Makoto Kawamura
President

As this overview of various ongoing initiatives shows, we are intently aiming for both sales growth and high profitability. Kyocera respectfully seeks the continued support and understanding of all stockholders and other stakeholders as we continue to move forward.

June 2006

Noboru Nakamura, Chairman

Makoto Kawamura, President