

## **Operating Results**

### **1. Review of the Six Months Ended September 30, 2001**

Operating conditions in Japan deteriorated during the interim period under review. The Japanese economy was affected by falling share prices, a worsening employment climate and dwindling consumer spending, while private-sector capital investment and exports both contracted. At the same time, the US economy showed pronounced signs of a slowdown, with effects cascading through the economies of Europe and Japan's neighbors in Asia. The terrorist attacks of September 11 on the United States occurred in the middle of this uncertain period, rendering the prospects for recovery even more remote.

Striving to overcome these challenges, Sharp redoubled its vertical integration of products and devices, as it worked to develop original products for the 21st century. In products, the Company delivered a steady stream of "one-of-a-kind" products, including LCD color TVs, 1-bit digital audio units, ultra-thin, ultra-lightweight mobile notebook PCs, and mobile phones. In devices, significant breakthroughs included the ASV-LCD, with its wide viewing angles and fast response, the reflective LCD with its ultra-low power consumption, a high-quality CCD for digital still cameras, a high-grade CMOS imager for use in mobile phones, and various solar cells. Sharp also kept up the pace in developing valuable partnerships with leading companies, both in Japan and overseas.

Although the Company enjoyed favorable sales of electronic products in Japan, sales of electronic components declined. Overseas, results were struck hard by the simultaneous recession in all major regions. Consolidated interim net sales in Japan fell 6.0% against the same period the previous year, to 518.8 billion yen, while consolidated interim net sales overseas reversed 11.7% to 382.4 billion yen. Overall, Sharp's interim net sales suffered a 8.5% setback to 901.2 billion yen.

For interim earnings, interim operating income declined 14.2% against the same period the previous year, to 44.6 billion yen. Interim net income also declined, falling 14.0% to 16.2 billion yen, marking an interim period in which all key indices of sales and earnings moved in an adverse direction.

Despite these disappointing results, the Company increased the interim dividend by 1 yen over the dividend of the previous interim period, to 7 yen per share, supporting Sharp's strong shareholder focus.

Results for each area of business are described below.

#### **Audio-Visual and Communication Equipment**

Sales of conventional products such as VCRs and personal information tools declined, but sales of LCD color TVs, high-fidelity 1-bit digital audio equipment, mobile phones incorporating TFT LCDs, and mobile cameras were buoyant. Net sales in this sector improved 9.7% to 343.0 billion yen in comparison with the same period the previous year.

#### **Home Appliances**

The sales of this sector in Japan were lifted by strong interest both in unique Sharp products with the Plasma Cluster feature (which rapidly breaks down unpleasant odors and harmful gases), such as air conditioners, refrigerators, and air cleaners, and in the drum-type washer-dryer, which cleans clothes thoroughly without damaging them. Unfortunately, intensifying international competition hampered sales. Overall net sales declined 5.6% against the same period the previous year, to 119.1 billion yen.

### **Information Equipment**

Sales of LCD color monitors and digital copiers/printers were brisk. This favorable response was more than offset, however, by the worldwide recession in the IT field, which engendered weak sales of PCs, this sector's mainstay products. Net sales retreated 5.6% against the same period the previous year, to 170.9 billion yen.

### **ICs**

This sector strived to strengthen the cost competitiveness of flash memory, the sector's key device through such efforts as incorporating higher capacities, expanding composite memory operations, and redesigning Fukuyama No. 4 production systems for finer products. However, this sector's sales were adversely affected by sluggish demand for mobile phones and PCs, as well as by price drops greater than expected at the beginning of the period under review. Demand for LSIs for LCD was also sluggish. Overall net sales declined 28.5% against the same period the previous year, to 65.4 billion yen.

### **LCDs**

This sector actively endeavored to expand one-of-a-kind LCD operations such as reflective color TFT LCDs, advanced TFT LCDs, and ASV LCDs. Prices of large-size TFT LCDs fell due to dwindling IT-related demand and full-scale production increases made by Korean and Taiwanese manufacturers. Sales of duty LCDs also declined substantially due to the flagging mobile phone market. As a result of these factors, net sales fell 29.3% against the same period the previous year, to 133.9 billion yen.

### **Other Electronic Components**

Although sales of solar cells, especially for overseas markets, increased steadily, those of laser diodes, this sector's key device, remained slack due to the delayed recovery of the PC optical disk market. Net sales declined 18.2% against the same period the previous year, to 68.6 billion yen.

## **2. Forecast for Fiscal 2001**

The multi-pronged terrorist attacks on the United States exacerbated an already worsening economic picture. In its aftermath, a prolonged global slowdown seems inevitable, possibly creating the most forbidding business climate in decades.

This unprecedented challenge demands a forceful response. Focusing squarely on the manufacturing sector, Sharp will redouble its efforts to create unique products based on the Company's lineup of one-of-a-kind system devices.

For products, Sharp will extend its audio, visual and mobile product lines, in addition to its range of LCD color televisions, by developing next-generation mobile phones and marketing personal information tools overseas. Also to be significantly enhanced are the Company's range of fully automatic washing machines, fitted with the world's first vacuum ultrasound cleaning system for incredible cleaning performance with low detergent consumption, and its exclusive line of air conditioners and refrigerators with the unique Plasma Cluster system. Even in such a mature market as white goods, Sharp is confident that these exciting innovations can yield exceptional growth.

For devices, Sharp is strengthening its research and development framework, to launch mass production in fall 2002 of its low-temperature CG silicon LCDs, expected to deliver great advances in LCD technology. Our Mie No. 2 Plant is scheduled for full operation within the current fiscal year, and is expected to complement the value of these one-of-a-kind LCDs by enhancing cost competitiveness.

Turning to the IC field, Sharp is introducing an array of flash memory devices that will differentiate Sharp from the competition, while building on its operational structures that

are highly resistant to market price pressures. Sharp is bolstering its cost competitiveness through further integration of flash memory, ahead of competitors, while expanding production of high-capacity flash memory for use in next-generation cellular phones, and flash memory embedded in LSIs, which are expected to find solid demand in multipurpose IC cards.

Finally, Sharp is cutting costs across the board, introducing innovative production technology and transforming production processes to form a new paradigm in manufacturing. We are also undertaking a wide range of proactive measures, from environmental management through quality and safety improvement, to a new personnel system for revitalizing human resources. The early years of the new century will see a stronger and more purposeful management of Sharp than ever before.

The following are the forecasts for the fiscal 2001 operating results.

• Consolidated results (forecast)

Net sales	1,800 billion yen	-10.6% over the previous fiscal year
Operating income	75 billion yen	-29.2% over the previous fiscal year
Net income	26 billion yen	-32.5% over the previous fiscal year

The above figures are based on an exchange rate of ¥122 =US\$1.00 for the second half of fiscal 2001.

Also, in continuation from the previous term, we plan to increase the annual dividends for fiscal 2001 by one yen to 14 yen a share. Both the interim dividend and the term-end dividend will be 7 yen a share.

\*The forecast performance in the foregoing is based on specific assumptions we believe to be reasonable at this time. The actual performance may differ greatly from this forecast. The primary reasons for any such difference would be as follows.

- Economic conditions in our primary markets (Japan, Europe, North America, and Asia); restrictions on trade and other restrictions
- Sharp fluctuations in supply and demand for manufactured goods in our primary markets.
- Large fluctuations in exchange rates, particularly those for the dollar and the Euro
- Large price fluctuations in capital markets
- Abrupt changes in technology, etc.

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The accompanying consolidated financial statements are a translation of the consolidated financial statements of Sharp, which were prepared in accordance with accounting principles and practices generally accepted in Japan. In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, in order to present them in a form which is more familiar to readers outside Japan.