

Operating Results

1. Analysis of Financial Results and Financial Position

(1) Fiscal 2006 in Review

During fiscal 2006, the Japanese economy continued to recover modestly, supported by solid export growth and corporate investment due to improved earnings results. However, private consumption has remained almost flat. Overseas, while a decelerating trend was seen in the U.S. economy, such as slowing in the housing market, the Asian economy, including China, maintained high growth and the European economy as a whole continued to recover steadily.

The Sharp Group took assertive initiatives through the introduction of one-of-a-kind products and through the development of proprietary devices which support the creation of these one-of-a-kind products. We consistently focused on making highly distinctive products and devices and thus realized higher profitability. The following are examples of our efforts made during this fiscal year:

In the Consumer/Information Products business, we worked to further expand sales of LCD color TVs. Amid increasing demand for LCD TVs around the globe, we expanded our lineup of large-size LCD TVs, including cutting-edge full high-definition models, and worked toward expanding sales worldwide. Other efforts included a release of unique products, such as mobile phones capable of receiving "One segment broadcasting" or "One Seg," a new type of terrestrial digital broadcasting for mobile equipment.

In the Electronic Components business, we strived to further expand LCD business. For large-size LCDs, we began operations at the Kameyama No.2 plant. This is the world's first LCD production facility to adopt eighth generation glass substrates, which enables the production of 40- and 50-inch-class LCD panels with extremely high efficiency. We also started the second phase at the plant, intensifying production capacity for large-size LCDs. For small- and medium-size LCDs, we increased sales of System LCDs for mobile equipment, including mobile phones. Additionally, we have taken various other actions, such as capacity enhancement for solar cells and creation of distinctive devices intended for our uniquely featured products.

As a result, the current fiscal year recorded domestic net sales of 1,526.9 billion yen, up 9.3% over the previous year, and overseas net sales of 1,600.8 billion yen, up 14.3%, for a total of 3,127.7 billion yen, up 11.8%. Operating income was 186.5 billion yen, up 13.9% from the previous year. Net income was 101.7 billion yen, up 14.7%.

Regarding cash flow, net cash provided by operating activities was 314.3 billion yen, while net cash used in investing activities was 328.7 billion yen. Net cash provided by financing activities was 41.1 billion yen. As a result, cash and cash equivalents at the end of the period were 329.2 billion yen, an increase of 29.8 billion yen from the previous year end.

Operating results by product group are as follows:

Consumer/Information Products

Sales of Audio-Visual and Communication Equipment were 1,381.1 billion yen, up 26.6% over the previous year. Sales of LCD color TVs, mainly large-size models, and mobile phones increased, contributing to the overall sales increase.

Sales of Home Appliances were 239.0 billion yen, up 6.4%. Our uniquely featured products contributed to the growth.

Sales of Information Equipment were 437.9 billion yen, up 4.0%. Sales of copier/printers, mainly digital full-color MFPs increased, resulting in overall sales growth.

Electronic Components

Sales of LSIs were 141.0 billion yen, up 3.9% over the previous year. Sales of CCD/CMOS imagers increased, which offset the decrease in sales of flash memory.

Sales of LCDs were 628.8 billion yen, down 0.7%. Regarding panels for LCD color TVs, sales for outside customers decreased, resulting from increase in panels for internal use. Sales of panels for mobile equipment showed growth.

Sales of Other Electronic Components were 299.8 billion yen, up 3.0%. Sales increased for major devices, including those for Audio-Visual equipment.

(2) Forecast for Fiscal 2007

As for the outlook for fiscal 2007, the Japanese economy is expected to maintain a mild recovery, supported by improved private consumption. Overseas, though some uncertainties remain for the U.S. economy, economies in Europe and Asia are projected to grow steadily.

In an effort to achieve further growth, the Sharp Group is strengthening its one-of-a-kind strategy, while working to improve brand value and secure competitive advantage in the global market.

In the Consumer/Information Products business, we will work to further expand LCD color TV business. This is to be accomplished through globally expanding sales of large-size full high-definition models with enhanced image quality, functionality and design. We will also take measures to strengthen the competitiveness of our LCD TVs, by promoting drastic cost reduction, along with establishing a state-of-the-art global production system. One-of-a-kind products in other business areas will also be upgraded. These include our original cutting-edge mobile phones and wireless PDAs, utilizing our unique technologies.

In the Electronic Components business, we will engage in enhancing our line of original devices through the following measures. To further expand our LCD business, we will start the third phase at the Kameyama No.2 plant and increase sales of panels for LCD TVs. Other measures include boosting sales of System LCDs for mobile equipment. For other devices, including solar cells, we will also work to improve competitiveness through technological innovation and cost reduction.

In addition to these efforts, we will continuously promote R&D for future technologies and promote low-cost operation in order to achieve further growth. Lastly, we will continue to take initiatives proactively to enhance our CSR efforts, which include contributing to environmental preservation and complying with laws and statutes in conducting business.

The following are the current forecasts for fiscal 2007. With the change of depreciation and amortization method arising from fiscal 2007 tax reform in Japan, depreciation and amortization for fiscal 2007 is expected to increase 20.0 billion yen, compared to the previous method. The impact of this change has been reflected in the following forecasts for operating income and net income.

Net sales	3,400.0 billion yen	+ 8.7 % over the previous fiscal year
Operating income	190.0 billion yen	+ 1.9 % over the previous fiscal year
Net income	105.0 billion yen	+ 3.2 % over the previous fiscal year

The above figures are based on an exchange rate of ¥115 =US\$1.00 for fiscal 2007.

*The above estimates of financial results are based on certain assumptions that Sharp Corporation deemed reasonable at the time they were prepared, and actual financial results may differ significantly from these estimates. The factors that may influence the figures for final reported business results include, but are not limited to:

- The economic situation in which the Sharp Group operates
- Sudden, rapid fluctuations in demand for products and services, as well as intense price competition
- Changes in exchange rates (particularly between the yen and the U.S. dollar, the euro and other currencies)
- Sharp's ability to respond to rapid technological changes and changing consumer preferences with timely and cost-effective introductions of new products and services
- Regulations such as trade restrictions in other countries

**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.

2. Basic Policy on Distribution of Earnings and Dividends for Fiscal 2006/2007

Sharp considers distributing profits to shareholders to be one of management's top priorities. While maintaining consistently stable dividend pay-outs, and while carefully considering our consolidated business performance, financial situation and future business development in a comprehensive manner, we will implement a set of measures to return profits to our shareholders, such as increasing the amount of periodic dividends. Under this policy, we have raised dividends for 6 consecutive years from fiscal 2000 through 2005 and will continue to return profit actively, targeting a consolidated pay-out ratio of 30%. For fiscal 2006, we intend to distribute an annual dividend of 26 yen per share, an increase of 4 yen over the previous year. With this dividend increase, our dividends will have been raised for 7 consecutive years. For fiscal 2007, we are planning to distribute an annual dividend of 28 yen per share (14 yen for interim and year-end, respectively), an increase of 2 yen over the previous year. Internal reserve funds are being provided for investment in plant and equipment in areas of future growth, for development of uniquely featured products and proprietary electronic devices. They are also being provided for overseas business expansion and environmental protection measures.