

## **Operating Results and Financial Position**

### **1. Review of Six Months Ended September 30, 2006**

During the past interim period, the Japanese economy continued to recover steadily, supported by an increase in private consumption and corporate investment due to improved earnings results. Overseas, economies in Asia and Europe have been growing strongly, while a decelerating trend was seen in the U.S. economy, such as slowing in the housing market.

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 the interim period:

In the Consumer/Information Products business, we worked to further expand sales of LCD color TVs. With ongoing advancement in digital high-definition broadcasting around the globe, we expanded our lineup of full high-definition LCD TVs and worked toward expanding sales worldwide. Other efforts included an enhancement 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 enable the production of 40- and 50-inch-class LCD panels with extremely high efficiency. For small- and medium-size LCDs, we intensified sales of LCD panels for mobile equipment, including System LCDs. As for photovoltaic power generation systems, we continued to take aggressive measures to expand the business globally, with a wide product lineup variety.

As a result, the interim period recorded domestic net sales of 710.6 billion yen, up 3.7% over the same period last year, and overseas net sales of 755.0 billion yen, up 16.1%, for a total of 1,465.6 billion yen, up 9.7%. Operating income was 90.1 billion yen, up 20.1% from the same period last year. Net income was 46.5 billion yen, up 27.5%.

Regarding cash flow, net cash provided by operating activities was 120.7 billion yen, while net cash used in investing activities was 120.3 billion yen. Net cash used in financing activities was 0.5 billion yen. As a result, cash and cash equivalents at the end of the period were 301.3 billion yen, increases of 1.8 billion yen compared to March 31, 2006.

We decided on an interim dividend of 12 yen per share, an increase of 2 yen over the previous year.

Operating results by product group are as follows:

#### **Consumer/Information Products**

Sales of Audio-Visual and Communication Equipment were 587.8 billion yen, up 14.4% over the same period last 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 119.2 billion yen, up 6.5%. Sales increased for our distinctive products, such as superheated steam ovens.

Sales of Information Equipment were 211.6 billion yen, up 2.1%. Sales of copier/printers, mainly digital full-color MFPs increased, resulting in overall sales growth.

#### **Electronic Components**

Sales of LSIs were 72.7 billion yen, up 9.7% from the same period last year. Sales increased for major devices, including CCD/CMOS imagers.

Sales of LCDs were 324.2 billion yen, up 9.7% over the same period last year. The solid growth in sales of LCD panels for large-size TVs and mobile equipment contributed to an overall sales increase.

Sales of Other Electronic Components were 150.1 billion yen, up 7.0%. Sales of solar cells expanded, resulting in overall sales increase.

## **2. Forecast for Fiscal 2006**

As for the outlook for fiscal 2006, the Japanese economy is expected to maintain a solid recovery, driven by private demand. However, attention should be given to the world economy, as cause for concern remains, such as an increasingly uncertain outlook for the U.S. economy.

In an effort to achieve further growth, the Sharp Group is strengthening its one-of-a-kind strategy, as we work to improve profitability and get the maximum value out of the company.

In the Consumer/Information products business, we will work to further improve the competitiveness of LCD color TVs. This is to be accomplished through globally introducing large-size models with a full-spec high-definition LCD panel. We will also promote creation of optimal production systems at major global markets, and pursue thorough cost reduction. One-of-a-kind products in other business areas will be also upgraded. These include high-value-added mobile phones incorporating our original device 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 aim to increase sales of large-size panels for TVs, with the introduction of a second production line at the Kameyama No.2 plant. Other measures include enhancing cost competitiveness of panels for mobile equipment, including System LCDs. In photovoltaic power generation systems, we will work to expand sales in global markets, with technical innovation and enhanced cost competitiveness.

In addition to these efforts, we will continuously seek innovation in production technologies as well as promoting R&D and value engineering in order to achieve further growth. Lastly, we will continue to take initiatives proactively to enhance our CSR efforts, which include conducting business in an environmentally responsible manner, complying with laws and statutes.

Sharp Corporation resolved the 20<sup>th</sup> unsecured convertible bond issue with attached warrants (total issue amount of 200.0 billion yen) that was decided at the Board of Directors meeting held on September 26<sup>th</sup>, 2006. The bond was issued on October 17<sup>th</sup>, 2006 and will be used to fund plant and equipment.

The following are the forecasts for fiscal 2006 (Consolidated):

Net sales	3,000.0 billion yen	+ 7.3 % over the previous fiscal year
Operating income	180.0 billion yen	+ 10.0 % over the previous fiscal year
Net income	100.0 billion yen	+ 12.8 % over the previous fiscal year

The above figures are based on an exchange rate of ¥115=US\$1.00 for the second half of fiscal 2006.

The company also plans to declare an annual dividend for fiscal 2006 of 24 yen per share (interim and year-end dividend of 12 yen each) , an increase of 2 yen over the previous year.

Note:

\*The above estimates of operating results are based on certain assumptions that Sharp Corporation deemed reasonable at the time they were prepared, and actual operating 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.