

## **Operating Results**

### **1. Analysis of Financial Results and Financial Position**

#### **(1) Fiscal 2007 in Review**

During the first half of fiscal 2007, the Japanese economy continued to recover modestly, supported by solid export growth and corporate investment. In the second half, however, the economy showed a decelerating trend due to turmoil in international financial and capital markets, triggered by the U.S. subprime mortgage loan problem. It was also affected by soaring prices for materials, such as crude oil, and sudden fluctuations of exchange rates. Overseas, despite the growing uncertainty in the economy of the U.S. and other developed nations, the economy of the emerging countries, especially the BRICs, enjoyed solid growth.

Under these circumstances, 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. 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. We offered a wide range of lines, with a focus on cutting-edge full high-definition models marked by high resolution, large size and superior design. On the production front, we made efforts to create a global production system, with the start of integrated production extending from LCD modules to TVs at our new plants in Mexico and Poland. Other efforts included a release of unique products, such as One-Seg-compatible mobile phones equipped with our proprietary devices.

In the Electronic Components business, we strived to further expand LCD business. For large-size LCDs, in order to meet the burgeoning demand for TV panels, we installed a 3<sup>rd</sup> production line at the Kameyama No.2 Plant and enhanced production capacity. For small- and medium-size LCDs, we increased sales of System LCDs for mobile equipment. For other devices, we worked to improve their competitiveness further by actively promoting technological innovation and cost reduction.

Furthermore, we have taken a variety of aggressive measures, including the start of construction of a new LCD panel plant, a core facility in the “21<sup>st</sup> century manufacturing complex” in Sakai City, Osaka Prefecture. Other efforts included alliances with major companies in growth areas and active brand strategies in the global market.

As a result, the current fiscal year recorded domestic net sales of 1,590.7 billion yen, up 4.2% over the previous year, and overseas net sales of 1,826.9 billion yen, up 14.1%, for a total of 3,417.7 billion yen, up 9.3%. Operating income was 183.6 billion yen, down 1.5% from the previous year. Net income was 101.9 billion yen, up 0.2%.

Regarding cash flows, net cash provided by operating activities was 323.7 billion yen, while net cash used in investing activities was 394.9 billion yen. Net cash provided by financing activities was 84.0 billion yen. As a result, cash and cash equivalents at the end of the period were 339.2 billion yen, an increase of 9.9 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 1,598.1 billion yen, up 15.7% over the previous year. Sales of LCD color TVs and mobile phones increased, contributing to the overall sales increase.

Sales of Home Appliances were 249.8 billion yen, up 4.5%. Brisk sales of refrigerators and air conditioners contributed to the growth.

Sales of Information Equipment were 437.2 billion yen, down 0.1%. Though sales of copier/printers increased, a sales decline of PCs led to the overall sales decrease.

#### **Electronic Components**

Sales of LSIs were 163.5 billion yen, up 11.6% over the previous year. Sales of CCD/CMOS imagers increased, which offset a decrease in sales of flash memory.

Sales of LCDs were 683.3 billion yen, up 8.7%. The solid growth in sales of large-size TV panels contributed to an overall sales increase.

Sales of Other Electronic Components were 285.5 billion yen, down 3.0%. Sales of solar cells were the same level as the previous year, while a sales decline of the other electronic devices led to an overall sales decline.

## (2) Forecast for Fiscal 2008

As for the outlook for fiscal 2008, we expect the situation to remain severe. There are growing uncertainties in the world economy, reflecting such factors as a slowdown in the U.S. economy, increasing financial instability and high material prices. Meanwhile, in the electronics industry, global competition is expected to get fiercer in the growth areas.

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 enhance corporate value.

In the Consumer/Information Products business, we will work to further expand LCD color TV business globally. This is to be accomplished through enhancing the competitiveness of our LCD TVs by promoting low-cost operation, taking maximum advantage of having a vertically-integrated business model. We will also take measures for enhanced image quality, thinner profile and better environmental performance. One-of-a-kind products in other business areas will also be upgraded. These include our cutting-edge Blu-ray Disc recorders, One-Seg-compatible mobile phones, and health and environmental equipment utilizing our Plasmacluster Ion and superheated steam technologies.

In the Electronic Components business, we will engage in achieving further growth in LCD business. For large-size LCDs, we will boost production capacity at the Kameyama No.2 Plant and increase sales of panels for TVs. For small- and medium-size LCDs, we will expand business with our proprietary LCDs for mobile equipment. Regarding other devices, we will increase our production capacity of thin-film solar cells at the Katsuragi Plant, and work to improve the competitiveness of electronic devices for digital equipment through technological innovation and cost reduction.

In addition to these efforts, we will strengthen our corporate governance by optimizing and minimizing the number of members on our Board of Directors, and by introducing the executive officer system. 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 2008.

Net sales	3,600.0 billion yen	+ 5.3 % over the previous fiscal year
Operating income	195.0 billion yen	+ 6.2 % over the previous fiscal year
Net income	105.0 billion yen	+ 3.0 % over the previous fiscal year

The above figures are based on an exchange rate of ¥100 =US\$1.00 for fiscal 2008.

\*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
- Litigation and other legal proceedings against the Sharp Group, etc.

\*\*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 2007/2008**

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 7 consecutive years from fiscal 2000 through 2006 and will continue to return profit actively, targeting a consolidated pay-out ratio of 30%. For fiscal 2007, we intend to distribute an annual dividend of 28 yen per share, an increase of 2 yen over the previous year. With this dividend increase, our dividends will have been raised for 8 consecutive years. For fiscal 2008, we are planning to distribute an annual dividend of 28 yen per share (14 yen for interim and year-end, respectively), the same level as 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.