

Operating Results

1. Analysis of Financial Results and Financial Position

(1) Review of the Six Months Ended September 30, 2007

During the past interim period, the Japanese economy continued to recover modestly, supported by private-sector demand. Overseas, the U.S. economy showed a decelerating trend due mainly to the subprime loan issue, which led to turmoil in international financial and capital markets. As a result, coupled with soaring crude oil prices, there was a growing uncertainty in the world economy.

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 the interim period:

In the Consumer/Information Products business, we worked to further expand sales of LCD color TVs. We expanded our lineup of large-size models, utilizing our cutting-edge technologies, including Double-Speed 120-Hz Frame Rate Conversion LCD Technology. On the production front, we have completed an integrated production system extending from LCD modules to TVs, in Mexico and Poland. Other efforts included a release of unique products, such as One-Seg-compatible mobile phones and wireless PDAs 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 3rd 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 actively promoted further technological innovation and cost reduction.

As a result, the interim period recorded domestic net sales of 784.2 billion yen, up 10.3% over the same period last year, and overseas net sales of 856.6 billion yen, up 13.5%, for a total of 1,640.8 billion yen, up 12.0%. Operating income was 79.0 billion yen, down 12.3% and net income was 43.3 billion yen, down 6.9%, both falling short of the same period last year. Profits are affected by such factors as a rise in depreciation and amortization due to the revision of the Corporate Tax Law, increased cost resulting from launch of LCD TV production bases overseas and profit decline of solar cells caused by shortages and soaring prices of raw materials.

Regarding cash flow, net cash provided by operating activities was 134.6 billion yen, while net cash used in investing activities was 177.8 billion yen. Net cash provided by financing activities was 19.7 billion yen. As a result, cash and cash equivalents at the end of the period were 307.0 billion yen, a decrease of 22.1 billion yen compared to March 31, 2007.

Operating results by product group are as follows:

Consumer/Information Products

Sales of Audio-Visual and Communication Equipment were 782.7 billion yen, up 33.2% over the same period last year. Sales of large-size LCD color TVs and mobile phones increased, contributing to the overall sales increase.

Sales of Home Appliances were 129.3 billion yen, up 8.5%. Brisk sales of refrigerators and air conditioners contributed to the growth.

Sales of Information Equipment were 218.7 billion yen, up 3.4%. Sales of copier/printers and wireless PDAs increased, resulting in overall sales growth.

Electronic Components

Sales of LSIs were 80.8 billion yen, up 11.1% over the same period last year. Sales of CCD/CMOS imagers increased, which offset the decrease in sales of flash memory.

Sales of LCDs (sales to outside customers) were 285.8 billion yen, down 11.8%. However, sales including internal sales expanded, reflecting solid sales of TV panels for internal use.

Sales of Other Electronic Components were 143.3 billion yen, down 4.5%. Sales of devices for digital equipment increased, while a sales decline of solar cells led to an overall sales decrease.

(2) Forecast for Fiscal 2007

As for the outlook for fiscal 2007, the world economy will remain unpredictable due to such factors as deceleration in the U.S. economy, international financial instability and high crude oil prices. Meanwhile, the electronics industry is expected to face fiercer competition in the growing market, including digital audio-visual equipment, meaning there is little ground for optimism.

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 expand LCD color TV business globally. We will improve competitiveness of our LCD TVs by promoting low-cost operations utilizing the strengths of our vertically integrated business model and developing new technologies to enhance image quality and functionality. One-of-a-kind products in other business areas will also be upgraded. These include our Blu-ray Disc recorders and One-Seg-compatible mobile phones.

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 take advantage of the Kameyama plant and increase sales of high-resolution LCD panels for TVs. Other measures include expanding applications for our proprietary LCDs, including the New Mobile ASV LCD. For other devices, we will also work to improve competitiveness through technological innovation and cost reduction.

Furthermore, we are planning to build a new state-of-the-art LCD panel plant and a solar cell plant for the mass production of thin-film solar cells in Sakai City, Osaka Prefecture. The new plants will start operations by March 2010, with the LCD panel plant being the first in the world to use 10th generation glass substrates.

In addition to these efforts, we will continuously promote R&D for future technologies and innovate the value chain to outpace severe global competition. 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 forecasts for fiscal 2007 (Consolidated):

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|------------------|---------------------|---------------------------------------|
| 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 the second half of fiscal 2007.

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
- 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

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 will distribute an interim dividend of 14 yen per share, an increase of 2 yen over the previous year. Since we are planning to distribute a year-end dividend of 14 yen per share, the total annual dividend will be 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 from fiscal 2000 through 2007. 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.

Management Policy

The information is omitted from disclosure as there have been no significant changes in Management Policy since publication of a financial release on April 25, 2007 (Consolidated financial results for the year ended March 31, 2007).

The above financial release is available at the SHARP web site:

<http://www.sharp.co.jp/>