

Operating Results and Financial Position

1. Fiscal 2001 in Review

During fiscal 2001, the extremely difficult situation in the Japanese economy continued, reflecting a drop in private investment in plant and facilities and the slump in consumer spending due to worsening unemployment and declining personal income. Internationally, the terrorist attacks of September 11th in the United States occurred at a time when trends toward economic slowdown were already evident in the U.S., Europe and Asia, further deepening recessionary feelings. In the closing days of the period, the U.S. economy was showing signs of a partial recovery, but on the whole, the severe economic situation continued.

In the midst of this unprecedented situation, Sharp committed itself to return to its roots as a manufacturer who "contributes to society by making things." We made strong efforts to create new one-of-a-kind products befitting 21st century lifestyles, and worked to strengthen development of the uniquely featured electronic devices on which they are based. In the product area, Sharp continued its aggressive efforts to introduce one-of-a-kind products, most notably our AQUOS line of LCD color TVs, but also including 1-bit digital audio products offering super-high-fidelity audio reproduction, super-thin, super-lightweight notebook computers, and mobile phones equipped with TFT LCDs and built-in cameras. In the electronic components field, Sharp continued to aggressively push development of wide-viewing-angle, fast-response-rate ASV LCDs and ultra-low-power consumption reflective LCDs, as well as to expand production of high-end CMOS imagers for use in mobile phones and of solar cells for power generation applications.

Despite these efforts, Sharp's domestic consolidated net sales for the current term suffered from the effects of the slowdown in consumer spending, reaching ¥ 983.6 billion, a decline of 14.4% from the previous term. Overseas, the effects of the global economic downturn resulted in consolidated net sales of ¥ 820.1 billion, a 5.0% decline. Overall, consolidated net sales were ¥ 1,803.7 billion, a 10.4% decline.

In terms of profits, Sharp posted a decline in operating income of ¥ 73.5 billion, down 30.5% from the previous term. Reflecting the steep drop in the stock market, net income suffered from a decline in the value of our securities, primarily banking stocks, and from losses generated from their sale, reaching ¥ 11.3 billion, down 70.6%.

Regarding our cash flow situation, revenue from operating activities increased to ¥ 139.0 billion while the amount used for investing activities was ¥ 164.0 billion. In addition, revenue gained from financing activities reached ¥ 32.1 billion, with the result that our cash and cash-equivalents balance at the end of the period was ¥ 231.4 billion, a increase of ¥ 9.7 billion over the previous term.

In addition, capital reserves were used to purchase 17,393,000 shares of outstanding Sharp Corporation common stock at a total cost of ¥ 21.9 billion and we retired them.

Operating from the viewpoint of giving priority to shareholders, Sharp plans to declare an annual dividend for fiscal 2001 of 14 yen per share, an increase of 1 yen per share over the previous term. Since an interim dividend of 7 yen per share has already been paid, we plan to propose a year-end dividend of 7 yen at the 108th ordinary general meeting of shareholders.

Financial results by product group are as follows:

Audio-Visual and Communication Equipment

Demand for LCD TVs, 1-bit digital audio equipment and mobile phones equipped with built-in cameras continued steady, resulting in sales of ¥ 688.4 billion, an increase of 2.9% over the previous term.

Home Appliances

We continued to expand our line-up of uniquely featured products, including air conditioners, air purifiers and refrigerators equipped with plasma cluster-ion generating systems that quickly neutralize unpleasant odors and airborne molds, and fully automatic washing machines equipped with an ultrasonic vacuum washing mechanism. However, the slackening in demand in reaction to the last-minute rush in appliance purchases prior to the implementation of the Home Appliance Recycling Law in Japan earlier in the year and the effects of an unusually warm winter resulted in sales of ¥ 236.3 billion, a decline of 6.6% compared to the previous term.

Information Equipment

Our flagship medium-speed digital copier/printers and LCD color monitors showed healthy growth, but the worldwide slump in demand for IT equipment led to a slump in sales of personal computers, a staple product for us. As a result, sales were ¥ 349.2 billion, down 3.5% from the previous term.

ICs

LSIs for LCD recovered in the last half of the fiscal year, but sales of flash memory suffered as a result of a dramatic drop in price and of the slump in demand for mobile phones, etc. Consequently, sales sank to ¥ 116.0 billion, a drop of 35.7% from the previous term.

LCDs

Sharp remained committed to the aggressive development of one-of-a-kind LCDs, but in the first half of fiscal 2001, sales revenue suffered from a significant decline in the price of large-size TFT LCDs and a let-up in demand for mobile phones. In the second half of the fiscal year, robust demand for LCD color monitors and LCD color TVs led to a recovery in sales of large-size TFT LCDs, but sales for the entire period declined to ¥ 261.2 billion, down 30.2% from the previous term.

Other Electronic Components

Solar cells showed steady growth, mainly for overseas shipment but demand for optoelectronic devices, particularly laser diodes, was stagnant, and sales were ¥ 152.3 billion, down 12.4% from the previous term.

2. Forecast for Fiscal 2002

Regarding the outlook for the future, in Japan, there is fear that the deflationary spiral will continue, but in some sectors, a feeling that the recession has hit bottom is beginning to take hold, and in the latter half of the fiscal year, it is anticipated that the economy will remain on the path of gradual recovery. Internationally, signs of improvement are also appearing in the U.S. economy, and in general, it appears that a trend toward economic recovery will continue.

Under such circumstances, Sharp will continue to promote efforts to “refocus and consolidate” its business activities based on its unique “one-of-a-kind” strategy, to further improve profit-earning potential and maximize corporate value.

First, in our product business, we will fill out our line of LCD color TVs and work aggressively to introduce these products overseas. We will also start construction of a state-of-the-art plant for large-size LCD color TVs in Kameyama, Mie Prefecture. For mobile phones, we will move toward even further business expansion, including introducing next-generation models and expanding into the U.S. and European markets. For home appliances, we will aim for new growth by expanding our line of unique products based on proprietary technologies, such as plasma cluster-ion technology.

Meanwhile, in our electronic components business, we will work to strengthen competitiveness by intensively promoting our unique one-of-a-kind LCDs. In particular, we will start mass production at our Tenri Plant of “system LCDs” that hold out great potential as the next generation of LCD. To cope with increased demand of “system LCDs” in the future, we will also construct a new Mie No. 3 Plant, which will be equipped with groundbreaking,

innovative production technologies. We will also work to expand production capacity at our Mie No. 2 Plant, the primary production facility for large-size TFT LCD panels, which will enable us to respond to a robust increase in demand. In addition, we will work to strengthen the cost competitiveness of our flash memory products by moving toward finer design rules, and will distinguish our products from those of competitors by offering expanded-capacity flash memory units and flash memory embedded LSIs, which we anticipate will be in great demand for use in multi-purpose IC cards. And we will revamp our business structure so that we will be less vulnerable to market conditions. We are also working to expand development and production of LSIs for LCD and of CCDs and CMOS imagers, for which even greater demand is expected in the future, centered on mobile phones equipped with digital cameras. Solar cells are also poised for high growth, and we are constructing additional production lines at our Shinjo Plant in Nara Prefecture to enable us to meet anticipated increases in worldwide demand.

Sharp is aggressively implementing a variety of measures to expand business. These include working to slash costs company-wide, introducing new technologies and production innovations to support “making products,” putting into practice “green” management systems and improving product quality and safety, and introducing a new personnel system intended to energize and empower our employees.

The following are the forecasts for the fiscal 2002 operating results.

• Consolidated results (forecast)

Net sales	2,000 billion yen	+ 10.9% over the previous fiscal year
Operating income	90 billion yen	+ 22.3% over the previous fiscal year
Net income	37 billion yen	+227.1% over the previous fiscal year

The above figures are based on an exchange rate of ¥130 =US\$1.00 for fiscal 2002.

The company also plans to declare an annual dividend for fiscal 2002 of 14 yen per share (interim and year-end dividends of 7 yen), the same as the previous fiscal year.

Note:

*The above estimates of business results are based on certain assumptions that Sharp Corporation deemed reasonable at the time they were prepared, and actual business results may differ significantly from these estimates. The following factors may influence the figures for final reported business results.

- Significant changes in the political and economic situation in major markets (Europe, North America, Asia and Japan).
- Sudden, rapid fluctuations in product supply or demand in major markets.
- Large swings in foreign exchange markets (particularly, in the dollar/euro markets)
- Significant fluctuations in valuation in capital markets
- Sudden, rapid 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.