

## **Operating Results and Financial Position**

### **1. Fiscal 2002 in Review**

During fiscal 2002, extremely harsh economic conditions continued in Japan, reflecting the prolonged deflation that gave negative impacts to the stock market and employment, as well as personal income. Personal spending also fell into stagnation in the end of the period. Overseas, such factors as a slowing US economy, worldwide decreasing stock prices and political tension in Middle East indicated the world economic uncertainty.

Despite these conditions, Sharp introduced one-of-a-kind products that create a new life style and developed the proprietary devices to be applied to these one-of-a-kind products. In product business, we expanded our business of LCD color TVs, mobile phones with cameras, and health-conscious appliances using Plasmacluster Ion technology. In device business, we increased sales of our advanced high-value-added LCDs, such as ASV LCDs with wide-viewing-angle and high-response-rate, and transfective Advanced TFT LCDs. At our Tenri Plant, we started mass production of System LCDs, the innovative LCDs of next-generation. In response to increasing market demand, we enhanced production capacity for CCD and CMOS imagers. As for photovoltaic power systems, we increased solar cells production capacity to the world's highest level. We also started operation of a new plant that produces laser diodes and other compound semiconductors.

As a result of these efforts, the current fiscal year recorded domestic net sales of ¥1,057.4 billion, up 7.5% from the previous year, and overseas net sales of ¥945.8 billion, up 15.3%, for a total of ¥2,003.2 billion, up 11.1%. Operating income was ¥99.4 billion, up 35.2% from the previous year. Net income was ¥32.5 billion, up 188.2% despite the extraordinary losses generated from the selling and revaluating of the investment in securities due to the steep decline in stock prices.

Regarding cash flow, net cash provided by operating activities was ¥269.1 billion, while net cash used in investing activities was ¥165.8 billion. Net cash used in financing activities was ¥57.8 billion. As a result, cash and cash equivalents at the end of the period were ¥271.7 billion, increases of ¥40.3 billion over the previous year.

Sharp purchased 20,000,000 of its own shares at a total cost of ¥25.6 billion from the market. With this purchase, we completed the purchase of all shares based on the decision made at the Ordinary General Meeting of Shareholders on June 27, 2002, which authorized the Company to purchase 20,000,000 of Sharp corporation common stock with an aggregate purchase price of ¥30.0 billion at the maximum.

Sharp plans to declare an annual dividend for fiscal 2002 of 15 yen per share, an increase of 1 yen per share over the previous year. Since an interim dividend of 7 yen per share has already been paid, we plan to propose a year-end dividend of 8 yen at the 109th Ordinary General Meeting of Shareholders.

Operating results by product group are as follows:

#### **Audio-Visual and Communications Equipment**

Although sales of the existing products such as LCD camcorders and VCR stagnated, LCD color TVs and mobile phones with cameras had significant sales increases, resulting in net sales of ¥746.4 billion, up 13.8% over the previous year.

#### **Home Appliances**

Sharp expanded a line-up of uniquely featured products, including air conditioners and air purifiers incorporating our proprietary Plasmacluster Ion technology which inactivates airborne

molds, and fully-automatic washing machines that use silver ions to inactivate bacteria and make clothes odor-proof. Due to the market price decline, however, net sales resulted in ¥223.8 billion, dropping 5.3% from the previous year.

### **Information Equipment**

Although LCD color monitors and full-color digital color copier/printer gave their steady showings, sales of PCs declined, resulting in net sales of ¥376.1 billion, down 1.6%.

### **ICs**

CCD and CMOS imagers and flash memory posted the healthy growth as mobile phones become more advanced and sophisticated in features, with the result being net sales of ¥124.7 billion, up 7.5%.

### **LCDs**

Sharp continued its aggressive strategy for high-value-added LCDs. While sales of large-size TFT LCDs largely increased in the first half of fiscal 2002, small- and medium- size LCDs for mobile phones also enjoyed steady sales increases in the second half of the fiscal year, resulting in net sales of ¥346.6 billion, up 32.7% over the previous year.

### **Other Electronic Components**

Components such as solar cells, laser diodes continued their strong showings. The result was net sales of ¥185.3 billion, up 21.7%.

## **2. Forecast for Fiscal 2003**

Looking ahead, worldwide economy gives no ground for optimism, due to the international political tension, decreasing stock prices in the global market and stagnation in the US economy.

Despite the less-than-promising outlook, Sharp is strengthening its one-of-a-kind strategy, as we work to improve profitability and get the maximum value out of the company.

In product business, we are aiming to boost worldwide sales of LCD color TVs even more, by expanding our lineup with the introduction of portable models using batteries and models for terrestrial digital broadcast. We will also start operation of Kameyama plant, where we will unify production of LCD panels and LCD color TV sets at a single site, with the aim of expanding sales in the global market. With regard to mobile phones, we are introducing high-value-added models with our proprietary leading edge devices in efforts to increase sales in Japan and overseas. In the meantime, we are aiming to make a further shift to health-conscious appliances with extended range of products that employ our proprietary Plasmacluster Ion technology. Through this shift, we will improve the profitability. In the area of devices, we are aggressively developing one-of-a-kind LCDs that will boost our competitiveness in the LCD field. In addition to the Tenri Plant, we will start mass-production of System LCDs at our Mie No.3 Plant in response to a robust demand increase. We will also work to expand production of CCD and CMOS Imagers as well as high-capacity flash memory in order to support mobile phones with advanced features. With regard to photovoltaic power systems, Sharp has enhanced manufacturing capacity to meet the growing market demand.

Sharp is aggressively implementing a variety of measures to expand business. These include introducing new technologies for innovative production systems, working to slash costs company-wide and improving human resources management that is intended to motivate and empower our employees.

The following are the forecasts for the fiscal 2003:

Net sales	2,150.0 billion yen	+ 7.3% over the previous fiscal year
Operating income	110.0 billion yen	+ 10.6% over the previous fiscal year
Net income	50.0 billion yen	+ 53.4% over the previous fiscal year

The above figures are based on an exchange rate of ¥118.0 =US\$1.00 for the fiscal 2003.

The company also plans to declare an annual dividend for fiscal 2003 of 16 yen per share (interim and year-end dividend of 8 yen each), an increase of 1 yen per share.

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 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.