

## **Operating Results and Financial Position**

### **1. Review of the Six Months Ended September 30, 2003**

During the past interim period, harsh economic conditions continued in Japan, reflecting the prolonged deflation that has negatively impacted employment and personal income. However, some signs of recovery were seen as corporate investment increased due to improved earnings results and stock market performance. Overseas, while economies in Europe slowed down, the US economy started to show signs of recovery. Economies in Asia continued to expand steadily.

Sharp took assertive initiatives through the introduction of one-of-a-kind products that create a new life style and through the development of proprietary devices to be applied to these one-of-a-kind products. In the product business, we expanded the line-up of our unique products such as LCD color TVs for terrestrial digital broadcasts and mobile phones equipped with System LCDs and Mega Pixel CCD camera modules. In the device business, we devoted our efforts to further strengthening our original high-value-added LCDs. In addition to the existing Tenri Plant, we newly started operation at the Mie No.3 Plant, our second production facility for System LCDs. In response to increasing market demand, we enhanced production capacity for CCD and CMOS imagers. We also expanded such businesses as flash memory and photovoltaic power systems. In addition to these efforts, we formed partnerships and collaborated with leading, global companies, allowing us to increase our competitiveness.

As a result, the interim period recorded domestic net sales of 550.2 billion yen, up 4.4 % from the same period last year, and overseas net sales of 543.6 billion yen, up 22.2 %, for a total of 1,093.8 billion yen, up 12.6 %. Operating income was 58.5 billion yen, up 19.8 % from the same period last year. Net income was 27.9 billion yen, up 22.1 %.

Regarding cash flow, net cash provided by operating activities was 102.2 billion yen, while net cash used in investing activities was 50.7 billion yen. Net cash used in financing activities was 46.1 billion yen. As a result, cash and cash equivalents at the end of the period were 273.9 billion yen, increases of 2.2 billion yen since March 2003.

We decided an interim dividend of 8 yen per share, an increase of 1 yen per share over the same period last year.

Operating results by product group are as follows:

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

Although sales of the conventional products such as VCRs and facsimiles stagnated, sales of LCD color TVs and camera-equipped mobile phones increased, resulting in net sales of 399.7 billion yen, up 13.2 % over the previous year.

#### **Home Appliances**

We expanded our line-up of uniquely featured products, including air conditioners and air purifiers, incorporating our proprietary Plasmacluster Ion technology that inactivates airborne mold. Due to the market price decline, however, net sales resulted in 110.4 billion yen, dropping 5.3 % from the same period last year.

#### **Information Equipment**

Although sales of PCs declined, sales of LCD color monitors and digital color copier/printer increased, resulting in net sales of 194.5 billion yen, up 4.3 %.

#### **ICs**

Sales of CCD and CMOS imagers and flash memory significantly increased, resulting in net sales of 85.8 billion yen, up 53.9 %.

## LCDs

Sales of high-value-added LCDs for LCD color TVs and mobile phones increased, resulting in net sales of 194.1 billion yen, up 12.2 % over the same period last year.

## Other Electronic Components

Sales of solar cells for photovoltaic power systems, business pillar of the group, increased, resulting in net sales of 109.1 billion yen, up 26.0 %.

## 2. Forecast for Fiscal 2003

Looking ahead, while some uncertainties in currency movement and personal spending are observed in Japan, we see the self-sustained recovery continuing mainly in the corporate sector and thus expect the economy to maintain its positive trend. Overseas, global economy will show recovery in general as the US economy continues to improve.

Under these circumstances, 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 the product business, we are committed to expanding our LCD color TV business. We will start operation at the Kameyama Plant, where we will unify production of LCD panels and LCD color TV sets at a single site. This will enable us to improve the competitiveness of our LCD color TVs even more. With regard to mobile phones, we are introducing high-value-added models with our proprietary leading edge devices in an effort to increase sales in Japan and overseas. In the device business, we engage ourselves to strengthen our original devices. With the expectation of growing demand for System LCDs (high-resolution display suitable for mobile devices), we will introduce a second production line at our Mie No.3 Plant to increase production of System LCDs. We will also work to expand production of CCD and CMOS imagers. Flash memory will continue to move towards finer design rules. With regard to photovoltaic power systems, we will enhance manufacturing capacity to meet the growing market demand.

Sharp is aggressively implementing a variety of measures to expand its business. These include introducing innovative production technologies, working to slash costs company-wide and improving human resource management in order to motivate and empower our employees.

The following are the forecasts for the fiscal 2003:

Net sales	2,250.0 billion yen	+ 12.3 % over the previous fiscal year
Operating income	120.0 billion yen	+ 20.6 % over the previous fiscal year
Net income	57.0 billion yen	+ 74.9 % over the previous fiscal year

The above figures are based on an exchange rate of ¥110 =US\$1.00 for the second half of 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.