

## **Operating Results and Financial Position**

### **1. Fiscal 2004 in Review**

In Japan, fiscal 2004 started with such positive economic factors as increases in exports and corporate investment. However, towards the end of the period, exports weakened and production decreased, reflecting inventory adjustment centering on IT related areas. These resulted in a slowdown in the economy. Overseas, the US and Asian economies continued a steady expansion. Recovery has been seen in European economies.

During fiscal 2004, 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. We consistently focused on making highly distinctive products and devices, which drove fiscal 2004 growth. 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 enhanced the product line-up of large-size LCD color TVs by introducing such models as a 45-inch HDTV with a built-in terrestrial digital tuner and full-spec high definition LCD panel. Other efforts included an enhancement of unique products, such as 3G mobile phones equipped with our original high-value added LCDs, and an Electric Superheated Steam Oven which roasts food using water in the form of superheated steam. In the Electronic Components business, we strived to expand LCD business. For large-size LCDs, we increased production capacity at the Kameyama Plant to secure stable supplies for TV panels. For small- and medium-size LCDs, we strengthened sales of LCDs for mobile terminals. Focus was placed especially on System LCDs. As for photovoltaic power systems, we continued to promote the business globally. One example of our efforts was an expansion of production capacity of solar cells in response to growing worldwide demand.

As a result, the current fiscal year recorded domestic net sales of 1,329.7 billion yen, up 16.3% from the previous year, and overseas net sales of 1,210.1 billion yen, up 8.7%, for a total of 2,539.8 billion yen, up 12.5%. Operating income was 151.0 billion yen, up 24.1% from the previous year. Net income was 76.8 billion yen, up 26.6%.

Regarding cash flow, net cash provided by operating activities was 219.1 billion yen, while net cash used in investing activities was 259.0 billion yen. Net cash provided by financing activities was 57.5 billion yen. As a result, cash and cash equivalents at the end of the period were 295.3 billion yen, an increase of 17.6 billion yen from the previous year end.

We plan to declare an annual dividend for fiscal 2004 of 20 yen per share, an increase of 2 yen per share over the previous year. Since an interim dividend of 10 yen per share has already been paid, we plan to propose a year-end dividend of 10 yen at the 111th Ordinary General Meeting of Shareholders.

Operating results by product group are as follows:

#### **Consumer/Information Products**

Sales of Audio-Visual and Communication Equipment were 972.5 billion yen, up 16.1% over the previous year. Sales of LCD color TVs, mainly for large-size models, and 3G mobile phones increased, contributing to the overall sales increase.

Sales of Home Appliances were 212.0 billion yen, up 1.7% over the previous year. Despite such negative market conditions as intensifying competition and a fall in price, our uniquely featured products contributed to the growth.

Sales of Information Equipment were 416.3 billion yen, up 6.0% over the previous year. Solid sales were recorded for copier/printers centering on digital color copiers, which more than offset sales declines of PCs.

#### **Electronic Components**

Sales of ICs were 140.9 billion yen, down 17.0% from the previous year. Sales of flash memory decreased due to a fall in price, resulting in lower overall sales.

Sales of LCDs were 543.8 billion yen, up 28.9% over the previous year. Sales of LCD color TV panels increased due to expanded production capacity at the Kameyama Plant. Sales of high-value added panels for mobile terminals, mainly for mobile phones, also increased. These contributed to an overall sales increase.

Sales of Other Electronic Components were 254.2 billion yen, up 11.9% over the previous year. Sales of photovoltaic power systems, the key business of the group, recorded a significant increase.

## 2. Forecast for Fiscal 2005

As for the outlook for fiscal 2005, while Japanese economy is expected to maintain moderate recovery, some uncertainties are to be seen, such as increasing raw materials prices, including crude oil prices, which will depress corporate profits, and decreasing exports due to a deceleration of the global economy.

In an effort to achieve further growth, 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 improve the competitiveness of LCD color TVs in anticipation of the full-scale arrival of the digital high-definition TV era. This is to be accomplished through realizing higher-resolution pictures, and more advanced features of LCD color TVs. Innovation in production design and manufacturing technologies, as well as thorough cost reduction, will be also implemented for this purpose. One-of-a-kind products in other business areas will be also upgraded. These include our 3G mobile phones, which will become more sophisticated through the use of our original device technologies, and our unique, health-conscious and environmentally-friendly home appliances. 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 aim to increase sales of panels for large-size LCD color TVs by making the fullest use of high-efficient production systems and increased production capacity at our Kameyama Plant. Other measures include an increase of production capacity for System LCDs to meet burgeoning demands for mobile terminals. We will continue our efforts to upgrade System LCDs. In Photovoltaic Power Systems, we will work to improve competitiveness through increasing production capacity, improving the conversion efficiency and slashing costs.

In addition to these efforts, we will continuously seek innovation in production technologies and promote value engineering in order to achieve further growth. A global business structure will be established for efficient sales operations and marketing activities best suited to every region in the world. Lastly, we will continue to take initiatives proactively to fulfill our commitment to society, which include conducting business in an environmentally responsible manner, complying with laws and statues and ensuring product safety and quality.

The following are the forecasts for fiscal 2005:

Net sales	2,750.0 billion yen	+ 8.3 % over the previous fiscal year
Operating income	160.0 billion yen	+ 5.9 % over the previous fiscal year
Net income	87.0 billion yen	+ 13.2 % over the previous fiscal year

The above figures are based on an exchange rate of ¥105 =US\$1.00 for fiscal 2005.

The company also plans to declare an annual dividend for fiscal 2005 of 20 yen per share (interim and year-end dividend of 10 yen each), the same level as the previous year.

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 yen/US dollar and euro markets)
- Significant fluctuations in valuation in capital markets
- Sudden, rapid changes in technology, 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.