

## **Operating Results and Financial Position**

### **1. Review of Six Months Ended September 30, 2005**

During the past interim period, the Japanese economy continued to recover at a moderate pace, supported by an increase in private consumption and the progress of inventory adjustment centering on IT related areas, as well as corporate investment due to improved earnings results. Overseas, the US economy continued a steady expansion due to strong domestic demand, while such negative economic factors as an increase of crude oil prices, were seen. Economies in Asia and Europe have been growing strongly.

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. We consistently focused on making highly distinctive products and devices and thus realized higher profitability. 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. In anticipation of the full-scale arrival of the digital high-definition TV era, we intensified the development of LCD color TVs, which realized further high-grade images and introduced advanced large-size models, such as a 65V-inch HDTV, onto the market. Other efforts included an enhancement of unique products, such as 3G mobile phones equipped with our original high-value added LCDs. In the Electronic Components business, we strived to further expand LCD business. For large-size LCDs, we increased production capacity at the Kameyama Plant to secure stable supplies for TV panels. As for photovoltaic power systems, we continued to promote the business aggressively to develop further demand. We commenced mass production of thin-film photovoltaic modules.

As a result, the interim period recorded domestic net sales of 685.4 billion yen, up 4.5 % over the same period last year, and overseas net sales of 650.1 billion yen, up 8.2 %, for a total of 1,335.5 billion yen, up 6.2 %. Operating income was 75.0 billion yen, down 3.2 % from the same period last year. Net income was 36.4 billion yen, down 7.2 %.

Regarding cash flow, net cash provided by operating activities was 112.1 billion yen, while net cash used in investing activities was 141.4 billion yen. Net cash provided by financing activities was 22.0 billion yen. As a result, cash and cash equivalents at the end of the period were 290.4 billion yen, decreases of 4.8 billion yen compared to March 31, 2005.

We decided on an interim dividend of 10 yen per share, the same as last year.

Operating results by product group are as follows:

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

Sales of Audio-Visual and Communication Equipment were 514.0 billion yen, up 11.5% over the same period last year. Sales of LCD color TVs, mainly large-size models, and mobile phones increased, contributing to the overall sales increase.

Sales of Home Appliances were 111.9 billion yen, up 2.0%. Despite such negative market conditions as a fall in prices in Japan and overseas, our uniquely featured products contributed to the growth.

Sales of Information Equipment were 207.2 billion yen, up 0.5%. Sales of copier/printers, mainly digital color copiers increased, resulting in overall sales growth.

#### **Electronic Components**

Sales of ICs were 69.0 billion yen, down 12.1% from the same period last year. Sales of flash memory decreased due to a fall in prices, resulting in lower overall sales.

Sales of LCDs were 295.6 billion yen, up 7.9% over the same period last year. The solid growth in sales of large-size LCD color TV panels contributed to an overall sales increase.

Sales of Other Electronic Components were 137.5 billion yen, up 8.1%. Sales of photovoltaic power systems increased, which more than offset sales declines of laser diodes.

## **2. Forecast for Fiscal 2005**

As for the outlook for fiscal 2005, while the Japanese economy is expected to maintain a moderate recovery, some uncertainties are to be seen, such as an increase of crude oil prices, which will depress the US and Chinese economies.

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 improve the competitiveness of LCD color TVs. This is to be accomplished through globally introducing large-size models with a full-spec high definition LCD panel. We will also promote development of new technologies which enhance the image quality and function, and pursue thorough cost reduction. One-of-a-kind products in other business areas will be also upgraded. These include our 3G mobile phones incorporating 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 high-value added panels for mobile terminals and panels for large-size LCD color TVs. Other measures include innovation in manufacturing technologies and further cost reduction. In Photovoltaic Power Systems, we will work to meet burgeoning global demand by introducing a wide product lineup variety, along with improving competitiveness through technological innovation, such as improving conversion efficiency.

In addition to these efforts, we will continuously promote value engineering and seek innovation in production technologies in order to achieve further growth. We will also pursue innovation in our value chain to succeed in the global competition. Lastly, we will continue to take initiatives proactively to enhance our CSR efforts, which include conducting business in an environmentally responsible manner, complying with laws and statutes 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 ¥110 =US\$1.00 for the second half of 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 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 foreign exchange markets (particularly in the yen/U.S. dollar and euro markets)
- 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

\*\*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.