

Operating Results and Financial Position

1. Review of the Six Months Ended September 30, 2004

During the past interim period, the Japanese economy continued to pick up at a solid pace, supported by an increase in exports and industrial production, as well as corporate investment due to improved earnings results. Overseas, the US and Asian economies continued a steady expansion. In Europe, the economy showed signs of recovery.

Sharp Group took assertive initiatives through the introduction of one-of-a-kind products and through the development of proprietary devices that are applied to 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 product business, we worked to further expand our LCD color TV sales through the introduction of new models, such as a 45V-inch digital high-definition TV, enhancing our product line-up centering on large-size models. We also continued to create unique products, such as 3G compatible mobile phones equipped with System LCDs and high-resolution CCD camera modules. In the device business, we stepped up efforts in our proprietary devices. These efforts included the introduction of the second production phase at the Kameyama Plant enabling it to have unmatched production capacity for panels for large-size LCD color TVs. Other examples of our efforts included expanded production capacity for solar cells in response to the growing worldwide demand.

As a result, the interim period recorded domestic net sales of 656.0 billion yen, up 19.2 % from the same period last year, and overseas net sales of 601.0 billion yen, up 10.6 %, for a total of 1,257.0 billion yen, up 14.9 %. Operating income was 77.5 billion yen, up 32.4 % from the same period last year. Net income was 39.3 billion yen, up 40.7 %.

Regarding cash flow, net cash provided by operating activities was 115.3 billion yen, while net cash used in investing activities was 132.0 billion yen. Net cash provided by financing activities was 19.2 billion yen. As a result, cash and cash equivalents at the end of the period were 281.6 billion yen, increases of 4.0 billion yen compared to March 31, 2004.

We decided on an interim dividend of 10 yen per share, an increase of 2 yen per share over the same period last year.

Operating results by product group are as follows:

Audio-Visual and Communication Equipment

Sales of LCD color TVs, notably large-size models and camera-equipped mobile phones increased, resulting in net sales of 461.1 billion yen, up 15.4 % over the same period last year.

Home Appliances

Although we worked to enhance our uniquely featured products, due to the declining market prices, net sales resulted in 109.7 billion yen, down 0.6%.

Information Equipment

Sales of digital color copier/printers increased, resulting in net sales of 206.2 billion yen, up 6.0 %.

ICs

While Sales of CCD and CMOS imagers mainly for camera equipped mobile phones increased, sales of flash memory declined, resulting in net sales of 78.5 billion yen, down 8.5 %.

LCDs

Sales of high-value-added LCDs such as System LCDs increased, resulting in net sales of 274.0 billion yen, up 41.1 % over the same period last year.

Other Electronic Components

Sales of photovoltaic power systems increased, resulting in net sales of 127.2 billion yen, up 16.6 %.

2. Forecast for Fiscal 2004

Looking ahead, although we expect the economy to maintain its positive trend, attention needs to be paid to such negative effects on the world economy as increased crude oil prices.

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 product business, we will work to enhance our one-of-a-kind products. We will work to further improve the competitiveness of LCD color TVs. This is to be accomplished through slashing costs and introducing innovative manufacturing technologies, as well as by intensifying our sales activities in the global market. As for mobile phones, we will introduce 3G mobile phones with more advanced features that our original devices will make possible. In the device business, we will engage in expanding our business through the following measures. To meet burgeoning demand for LCD TV panels, we will expand production of large-size LCD panels by introducing the third production phase at the Kameyama Plant. Other measures include an effort to upgrade System LCDs, which will enable the evolution of mobile terminals. We will strengthen our sales activities to the manufacturers of assembled products, both domestic and overseas. As for solar cells, we will distinguish ourselves in the market with high conversion efficiency and cost competitiveness. We also plan to expand production of CCD and CMOS imagers.

In addition to these efforts, we will continuously seek innovation in production technologies and promote value engineering in order to achieve further growth. 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 2004:

Net sales	2,530.0 billion yen	+ 12.1 % over the previous fiscal year
Operating income	150.0 billion yen	+ 23.3 % over the previous fiscal year
Net income	75.0 billion yen	+ 23.5 % over the previous fiscal year

The above forecasts are based on an exchange rate of ¥108 =US\$1.00 for the second half of fiscal 2004.

The company also plans to declare an annual dividend for fiscal 2004 of 20 yen per share (interim and year-end dividend of 10 yen each), an increase of 2 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 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.