

Operating Results and Financial Position

1. Fiscal 2005 in Review

During fiscal 2005, the Japanese economy continued to recover steadily, though some uncertainties were seen before the summer due to inventory adjustment centering on IT related areas. The recovery was supported mainly by an increase in private consumption and corporate investment owing to improved earnings results. Overseas, the US economy continued a steady expansion due to strong domestic demand, despite such negative economic factors as an increase of crude oil prices. Economies in Europe and Asia were 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 this fiscal year:

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 expanded our lineup of full-spec high-definition LCD TVs and worked toward expanding sales worldwide. Other efforts included an enhancement of unique products, such as mobile phones equipped with our original cutting-edge devices. In the Electronic Components business, we strived to further expand LCD business. We expanded production capacity at the Kameyama No.1 Plant to meet the growing demand for large-size TV panels. Furthermore, in order to ensure a more stable supply, we started construction of the Kameyama No.2 Plant. As for photovoltaic power systems, we continued to take aggressive measures to expand the business, including the commencement of mass production of thin-film photovoltaic modules.

As a result, the current fiscal year recorded domestic net sales of 1,397.0 billion yen, up 5.1% over the previous year, and overseas net sales of 1,400.0 billion yen, up 15.7%, for a total of 2,797.1 billion yen, up 10.1%. Operating income was 163.7 billion yen, up 8.4% from the previous year. Net income was 88.6 billion yen, up 15.4%.

Regarding cash flow, net cash provided by operating activities was 263.7 billion yen, while net cash used in investing activities was 229.3 billion yen. Net cash used in financing activities was 33.7 billion yen. As a result, cash and cash equivalents at the end of the period were 299.4 billion yen, increase of 4.1 billion yen from the previous year end.

We plan to declare an annual dividend for fiscal 2005 of 22 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 12 yen at the 112th Ordinary General Meeting of Shareholders.

Operating results by product group are as follows:

Consumer/Information Products

Sales of Audio-Visual and Communication Equipment were 1,090.9 billion yen, up 12.2% over the previous 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 224.6 billion yen, up 5.9%. Our uniquely featured products contributed to the growth.

Sales of Information Equipment were 421.2 billion yen, up 1.2%. Sales of copier/printers increased, which covered sales declines of PCs.

Electronic Components

Sales of LSIs were 135.7 billion yen, up 2.6% over the previous year. Sales of CCD/CMOS imagers increased, which offset the decrease in sales of flash memory.

Sales of LCDs were 633.4 billion yen, up 16.5%. The solid growth in sales of LCD panels for large-size color TVs and mobile equipment contributed to an overall sales increase.

Sales of Other Electronic Components were 291.0 billion yen, up 10.8%. Sales of photovoltaic power systems increased, leading to the overall sales gains.

2. Forecast for Fiscal 2006

As for the outlook for fiscal 2006, the Japanese economy is expected to maintain a solid recovery supported mainly by private demand. The world economy will continue to grow strongly centering on the US, though some uncertainties remain, such as soaring prices of crude oil and raw materials.

In an effort to achieve further growth, the Sharp Group is strengthening its one-of-a-kind strategy, while working 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 expanding our lineup of full-spec high-definition models. We will also introduce new technologies which enhance image quality and performance, along with establishing a state-of-the-art global production system. One-of-a-kind products in other business areas will also be upgraded. These include our original cutting-edge mobile phones corresponding to new services in Japan.

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 will realize a stable supply of panels for LCD TVs with the revolutionary productivity of the Kameyama No.2 plant. Other measures include boosting sales of panels for mobile equipment, including system LCDs. 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. 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 current forecasts for fiscal 2006:

Net sales	3,000.0 billion yen	+ 7.3 % over the previous fiscal year
Operating income	180.0 billion yen	+ 10.0 % over the previous fiscal year
Net income	100.0 billion yen	+ 12.8 % over the previous fiscal year

The above figures are based on an exchange rate of ¥115 =US\$1.00 for fiscal 2006.

The company also plans to declare an annual dividend for fiscal 2006 of 24 yen per share (interim and year-end dividend of 12 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 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.