Important Matters on Presenting Consolidated Financial Statements

Matters Related to Accounting Procedure Standards

1) Valuation Standards and Methods for Securities

Other Securities

- Securities with available fair market values:
  Primarily, stated at fair market value based on average of market price during the last month of the fiscal year (valuation differences are disposed using the direct net asset adjustment method and the cost of securities sold is calculated using the average cost method).
- Securities with no available fair market value:
  Primarily, stated at average cost.

2) Valuation Standards and Methods for Inventories

- Finished products:
  For Sharp Corporation and domestic consolidated subsidiaries, primarily, stated at the lower of moving average cost or market.
  For overseas consolidated subsidiaries, primarily, stated at the lower of first-in, first-out cost or market.
- Work in process and raw materials:
  Primarily, stated at the current production and purchase costs.

3) Depreciation Methods Used for Tangible Fixed Assets

For Sharp Corporation and domestic consolidated subsidiaries, depreciation is based primarily on the declining-balance method (Except for machinery and equipment in the Mie and Kameyama Plants, which are depreciated on the straight line method).

Note that overseas consolidated subsidiaries primarily use the straight line method.

4) Method for Amortization for Deferred Assets

Bond issue cost is amortized under the straight line method over the redemption period.

5) Method for Appropriation for Accrued Bonuses

The reserve for payment of employee bonuses is set aside based on estimated amounts to be paid in the subsequent period.

6) Method for Appropriation for Severance and Pension Benefits

To provide for employees’ severance and pension benefits, reserves are set aside based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the end of the current consolidated fiscal year.

Further, net transition obligation is being amortized in equal amounts over 7 years.

Prior service costs are amortized over the average of the estimated remaining service lives (16 years).

Actuarial losses are recognized primarily in expenses over the average of estimated remaining services lives (16 years) commencing with the following period.

7) Accounting for Consumption Taxes, etc.

The tax exclusion method is applied.

8) Adoption of Consolidated Tax Return System

The consolidated tax return system is adopted.

Changes in Accounting Methods

Accounting Standard for Directors' Bonus

The "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)" issued by the Accounting Standards Board of Japan on November 29, 2005, is being applied from this period. This change has immaterial impact on Consolidated Statements of Income.

Accounting Standard for Presentation of Net Assets in the Balance Sheet

A new description of the net assets section, based on "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)" issued by the Accounting Standards Board of Japan on December 9, 2005, are being applied from this period. Also, the net assets section of this period is prepared in accordance with the amended Consolidated Financial Statement Regulations.

Royalty and Technical Assistance Fees and Related Costs

Previously, royalty and technical assistance fees were included in “Other income,” and the costs of the royalty and technical assistance fees were calculated in “Other expenses.” Starting from this period, however, these are included in “Net sales” and “Cost of sales,” respectively. This change was made to provide a more rational indication of the income classifications, since the income arises from main business activities carried out by Sharp. With this change, for the year ended March 31, 2007, net sales are up 15,614 million yen, cost of sales is up 4,458 million yen, and operating income is up 11,156 million yen, compared to the previous classification. However, these have no impact on income before income taxes and minority interests. For the impact that these changes had on segment information, please refer to “Segment Information.”

Method of Amortization for Bond Issue Cost

Previously, bond issue cost was fully expensed as incurred. Starting from this period, however, bond issue cost is capitalized as deferred assets and amortized under the straight line method over the redemption period. This change was made to recognize the effect of financing cost over the redemption period and realize appropriate periodic accounting of profit and loss. One of the reasons is because expansion in scale of bond issue led to increase in bond issue cost. Other reasons include the fact that effect of bond issue cost lasts over redemption period, not only when incurred, and that amortized cost method is adopted as a method of amortization for bonds. With this change, for the year ended March 31, 2007, income before income taxes and minority interests is up 4,865 million yen, compared to the previous method.

Additional Information

Previously, cost of software installed in products was, as a matter of practical convenience, recognized as manufacturing expense at the time of inspection. Starting from this period, however, cost of software installed in products is capitalized as an asset when accepted and recognized as manufacturing expense when the products installed with the software are sold, in accordance with “Accounting Standard for Research and Development Costs.” This change was made in response to the increasing monetary materiality of software installed in products, resulting from an increase of complicated and multifunctional products in the latter half of this fiscal year. With this change, for the year ended March 31, 2007, operating income and income before income taxes and minority interests are up 10,455 million yen, respectively, compared to the previous method.