

En Route to Rebirth

Annual Report 2016

For the year ended March 31, 2016

SHARP

En Route to Rebirth

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For the year ended March 31, 2016

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Forward-Looking Statements

This annual report contains certain statements describing the future plans, strategies and performance of Sharp Corporation and its consolidated subsidiaries (hereinafter "Sharp"). These statements are not based on historical or present fact, but rather assumptions and estimates based on information currently available. These future plans, strategies and performance are subject to known and unknown risks, uncertainties and other factors. Sharp's actual performance, busi-

ness activities and financial position may differ materially from the assumptions and estimates provided on account of such risks, uncertainties and other factors. Sharp is under no obligation to update these forward-looking statements in light of new information, future events or any other factors. The risks, uncertainties and other factors that could affect actual results include, but are not limited to:

- (1) The economic situation in which Sharp operates
- (2) Sudden, rapid fluctuations in demand for Sharp's products and services, as

well as intense price competition

- (3) Changes in exchange rates (particularly between the yen and the U.S. dollar, the euro and other currencies)
- (4) Regulations such as trade restrictions in other countries
- (5) The progress of collaborations and alliances with other companies
- (6) Litigation and other legal proceedings against Sharp
- (7) Rapid technological changes in products and services.

Financial Highlights

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31

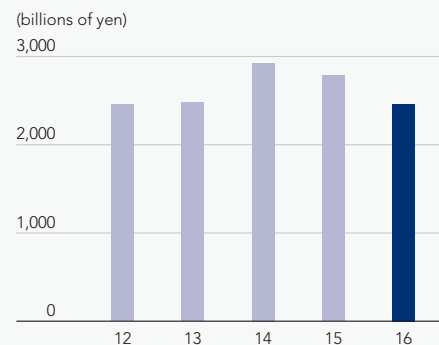
	2012	2013	Yen (millions) 2014	2015	2016
Net Sales	¥ 2,455,850	¥ 2,478,586	¥ 2,927,186	¥ 2,786,256	¥ 2,461,589
Domestic sales	1,181,168	1,007,264	1,150,091	968,449	750,499
Overseas sales	1,274,682	1,471,322	1,777,095	1,817,807	1,711,090
Operating Income (Loss)	(37,552)	(146,266)	108,560	(48,065)	(161,967)
Income (Loss) before Income Taxes	(238,429)	(466,187)	45,970	(188,834)	(231,122)
Profit (Loss) Attributable to Owners of Parent	(376,076)	(545,347)	11,559	(222,347)	(255,972)
Net Assets	645,120	134,837	207,173	44,515	(31,211)
Total Assets	2,614,135	2,087,763	2,181,680	1,961,909	1,570,672
Capital Investment	118,899	82,458	49,434	62,653	45,240
R&D Expenditures	154,798	137,936	132,124	141,042	130,120
Per Share of Common Stock (yen)					
Net income (loss)	(341.78)	(489.83)	8.09	(131.51)	(154.64)
Cash dividends	10.00	0.00	0.00	0.00	0.00
Net assets	568.83	106.90	115.43	17.84	(161.79)
Return on Equity (ROE)	(45.5%)	(145.3%)	7.2%	(197.4%)	—
Number of Shares Outstanding (Common Stock) (thousands of shares)	1,100,324	1,166,224	1,690,765	1,690,733	1,690,678
Number of Employees	56,756	50,647	50,253	49,096	43,511

(Notes) 1. The amount of leased properties is included in capital investment.

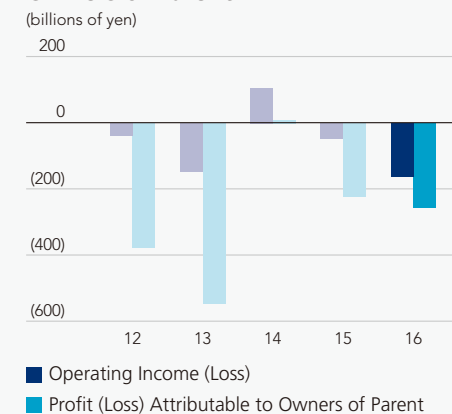
2. The computation of net income (loss) per share is based on the weighted average number of shares of common stock outstanding during each fiscal year.

3. The number of shares outstanding is after deduction of that of treasury stocks.

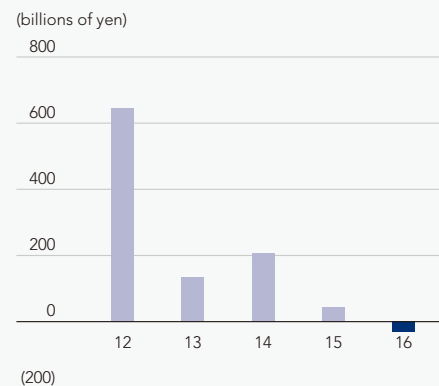
Net Sales



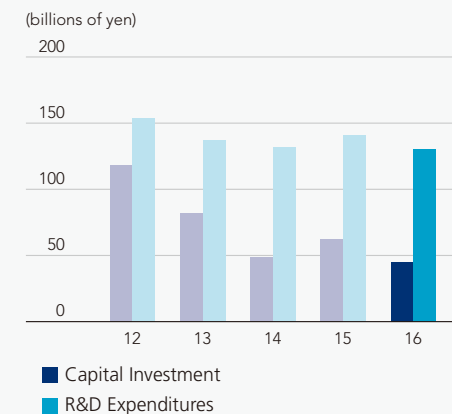
Operating Income (Loss) Profit (Loss) Attributable to Owners of Parent



Net Assets

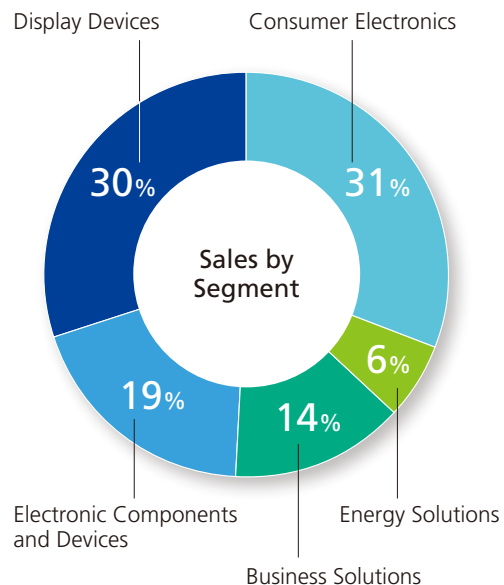


Capital Investment R&D Expenditures



Fiscal 2015 Review by Segment

Sharp Corporation and Consolidated Subsidiaries
for the Years Ended March 31



- Sales figures include internal sales between segments. The percentage of sales in pie charts has been calculated accordingly.
- Operating income (loss) figures are the amounts before adjustments for intersegment trading.
- Effective for the year ended March 31, 2016, the Company has changed its segment classification. Figures for the previous years have been adjusted to reflect the new classification.

Main Products

Consumer Electronics

LCD color televisions, Blu-ray Disc recorders, mobile phones, tablets, electronic dictionaries, calculators, facsimiles, telephones, refrigerators, superheated steam ovens, microwave ovens, small cooking appliances, air conditioners, washing machines, vacuum cleaners, air purifiers, electric fans, dehumidifiers, humidifiers, electric heaters, Plasmacluster Ion generators, beauty appliances, network control units

Energy Solutions

Solar cells, storage battery

Business Solutions

POS systems, electronic cash registers, commercial projectors, information displays, digital MFPs (multi-function printers), options and consumables, software, FA equipment, ultrasonic cleaners

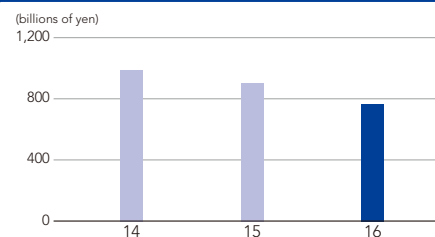
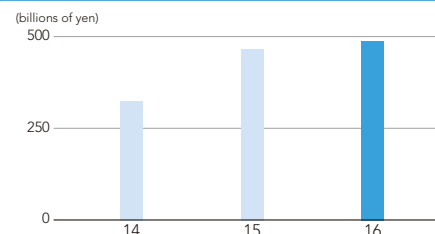
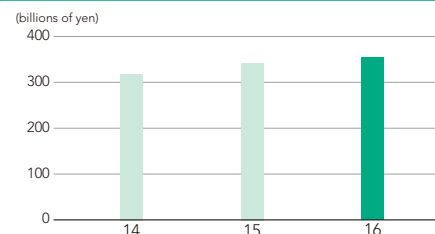
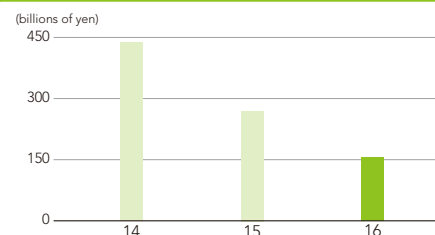
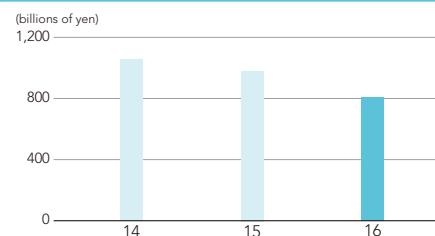
Electronic Components and Devices

Camera modules, CCD/CMOS imagers, LSIs for LCDs, microprocessors, analog ICs, high-frequency devices, network components, laser diodes, LEDs, optical sensors, components for optical communications, switching power supplies

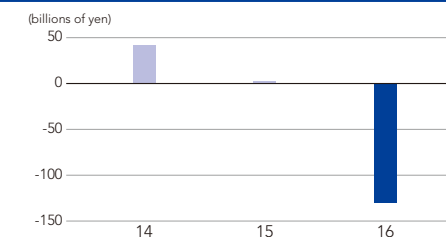
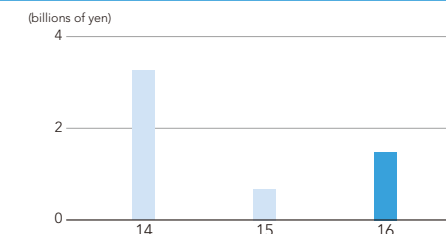
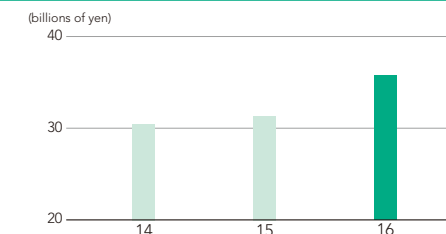
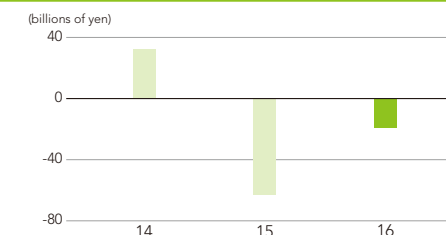
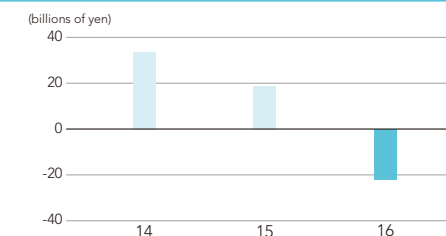
Display Devices

Amorphous silicon LCD modules, IGZO LCD modules, CG-Silicon LCD modules

Sales



Segment Income (Loss)



Risk Factors

Listed below are the principal business risks of Sharp that may have a significant influence on investors' decisions. Note that in addition to these, there exist certain other risks that are difficult to foresee. Each of these risks has the potential to impact the operations, business results, and financial position of Sharp. All references to possible future developments in the following text were made by Sharp as of March 31, 2016 (or June 23, 2016 as appropriate).

(1) Global Market Trends and Overseas Businesses

Sharp conducts its business not only in Japan but also in different regions around the world, mainly in countries of the U.S., Europe, and Asia. Business results and financial position are thus subject to economic and consumer trends (especially trends in private consumption and corporate capital investment), competition with other companies, product demand, raw material supply, and price fluctuations in each region, including Japan. The political and economic situation in respective areas may also exert an influence on business results and financial position. Moreover, difficulty in monitoring and adjusting its operations in various regions; the growing impact of world economic recession; risks related to regulations and taxation in foreign countries; various standards and customs related to doing business; trade restrictions; political instability and business uncertainty; changes in political and economic relations with Japan; social turmoil; rising personnel costs; and labor issues, etc. may affect Sharp's business results and financial position.

(2) Exchange Rate Fluctuations

The proportion of consolidated net sales accounted for by overseas sales was 60.7% in fiscal 2013, 65.2% in fiscal 2014, and 69.5% in fiscal 2015.

In addition, Sharp sells products made overseas in the Japanese market, and also sells products in countries where it does not manufacture the products. Although Sharp hedges the risk of exchange rate fluctuations by employing forward exchange contracts and expanding and strengthening optimally located production, such fluctuations may affect its business results.

(3) Dependence on Certain Products and Clients

Sales of electronic devices, LCDs and digital information equipment account for more than half of Sharp's total net sales. Accordingly, Sharp's business results may be impacted due to reasons including a decline in customer demand for such products, falling product prices, the arrival of alternative or competing products of other companies, and intensified competition stemming from the entry of new companies into the market. Sales of Sharp's electronic devices, LCDs and mobile phones are dominated by only a small number of clients, who thus account for a considerable share of sales. Sharp's business results and financial position could be affected if sales to such important clients languish due not to only factors related to Sharp's products but reasons outside of Sharp's control. These include declining demand for the clients' products, changes in product specifications, and changes in the clients' sales strategies. In addition, if such clients have concerns about Sharp's financial position, they may reduce the scale of transactions with Sharp, and prioritize

transactions with their own affiliated companies for certain products. Moreover, maintaining and developing business with such a small number of clients may lead to various limitations on Sharp's business operations.

(4) Strategic Alliances and Collaborations

On April 2, 2016, Sharp entered into a share subscription agreement with four companies of the Hon Hai Precision Industry Group, centered on Hon Hai Precision Industry Co., Ltd. Under the agreement, Sharp is to issue 3,281,950,697 shares of common share for ¥88 per share and 11,363,636 shares of Class C share for ¥8,800 per share, to be purchased by the Hon Hai Precision Industry Group via third-party allotments. The payment date is scheduled for June 28 through October 5, 2016.

The investment by the Hon Hai Precision Industry Group will enable Sharp to improve its equity ratio, make growth investments that had been constrained due to recent financial conditions, and seek synergies by drawing on the technological edge, high productivity, and cost competitiveness of the Hon Hai Precision Industry Group.

Sharp has forged strategic alliances and collaborations with other companies—including the Samsung Group and the Qualcomm Group—in order to enhance corporate competitiveness, to improve profitability and to bolster the development of new technologies and products in various business fields. If, however, any strategic or other business issues arise, or objectives change, it may become difficult to maintain such alliances and collaborative ties with these companies, or to generate adequate results. In such cases, Sharp's business results and financial position may be

impacted.

In addition, limitations could be placed on alliances and collaborations with other companies in the same industry, or conditions could be placed on alliances and collaborations could restrict the freedom of Sharp's business operations. For example, Sharp has an agreement with the Samsung Group giving Samsung preferential negotiating rights in the event that Sharp wishes to sell part of its business solutions business. (At present, Sharp has no intention of selling that business.)

(5) Business Partners

Sharp procures materials and receives services from a large number of business partners, and transactions are made once a detailed credit check of the company has been completed. However, there is a risk that business partners may suffer deterioration in performance due to slumping demand or severe price erosion, or face an unexpected M&A, or be impacted by natural disasters or accidents, or become involved in a corporate scandal such as a breach of the law, or be affected by legal regulations concerning human rights or environmental issues such as the problem of "conflict minerals" in the supply chain, or legal restrictions, or limited suppliers with capability of providing certain material provisions. Due to these and other factors, Sharp may be unable to access sufficient supplies of materials/parts from procurement sources, or the quality of such materials/parts may be inadequate. In such an event, Sharp may be forced to do business with alternative suppliers subject to conditions less favorable than with its current suppliers, or Sharp may be unable to find a supplier in a timely manner. Any of these factors could lead to a decline in the quality of Sharp's products,

Risk Factors

increases in costs, and/or delays in deliveries to customers, which may affect Sharp's business results and financial position. Under agreements with certain clients, Sharp receives advanced payments for the trading value of its products. At present, the obligation to repay such advances is offset by Sharp's accounts receivable in connection with said clients. Depending on Sharp's financial circumstances, however, under the agreements with said clients, Sharp may be requested to repay a major portion of the advances. If a request for repayment of advances is made, this could have a negative effect on Sharp's operating cash flows.

(6) Other Factors Affected by Financial Position

Sharp procures funds through borrowings from financial institutions, such as banks and life insurance companies, and through bond issues. As of March 31, 2016, the balance of such debt was equivalent to 45.4% of total assets, and short-term borrowings accounted for 88.7% of such debt. Accordingly, Sharp might become subject to restrictions on how it uses its cash flows in order to repay such debt, and also faces the possibility of an increase in expenses due to rising interest rates. Moreover, Sharp has possibility of increases in fund procurement costs as well as limitations on fund procurement. This may be because necessary funds cannot be obtained at the required time with adequate conditions, including for the refinancing of existing debt. These factors may affect Sharp's business results and financial position. Sharp has borrowing agreements with multiple financial institutions, and some of the agreements entail financial covenants. If its consolidated net assets fall below the levels specified under such

financial covenants, or if Sharp fails to undertake faithful consultations in the event that its consolidated operating income and net income fall below specified levels, Sharp may forfeit the benefit of time at the lender's request. Moreover, Sharp may also forfeit the benefit of time on bonds and other borrowings if it violates the relevant financial covenants. Sharp's major lending institutions are Mizuho Bank, Ltd. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. As necessary, Sharp consults with both banks about ways to improve its financial position and other matters. In addition, dependence on borrowings, a credit ratings reduction caused by it, or deterioration of Sharp's financial position may work to its disadvantage with respect to competition with other companies with robust financial positions, and contract-related issues could also arise between Sharp and its lenders or business partners.

(7) Technological Innovation

New technologies are emerging rapidly in the markets where Sharp operates. Resultant changes in social infrastructure, intensified market competition, changes in technology standards, obsolescence of technologies, or the appearance of substitute technologies may make Sharp unable to introduce new products in a timely manner, or lead to an increase in inventories, or the inability to recover product development costs. These and other factors may impact Sharp's business results and financial position. Apart from technologies, Sharp faces intense competition from price and marketing perspectives as well, and winning against such competition is not guaranteed. Depending on the outcome of fierce competition with other companies, Sharp may be forced to downsize or

withdraw from existing businesses, which could incur additional costs. Moreover, Sharp engages in R&D under collaborative development agreements with other companies, and it is possible that such relationships cannot be maintained, or that satisfactory outcomes cannot be produced, or that termination of such relationships cannot be handled smoothly.

(8) Intellectual Property Rights

Sharp strives to protect its proprietary technologies by acquiring patents, trademarks, and other intellectual property rights in Japan and in other countries, and by concluding contracts with other companies. However, there is a risk that rights may not be granted, or a third party may demand invalidation of an application, such that Sharp may be unable to obtain sufficient legal protection of its proprietary technologies, or may be unable to receive sufficient royalty income from the granting of licenses. In addition, intellectual property that Sharp holds may not result in a superior competitive advantage, or Sharp may not be able to make effective use of such intellectual property, such as when a third party infringes on the intellectual property rights of Sharp. There may also be instances where the period of a license received from a third party expires, or for some reason or other, is terminated, or where a third party launches litigation against Sharp, claiming infringement of intellectual property rights. Resolution of such cases may place a significant financial burden on Sharp. Furthermore, if such a third-party claim against Sharp is recognized, Sharp may have to pay a large amount of compensation, and may incur further damage by having to cease using the technology in question.

Also, in the event that a company licensed to use Sharp's intellectual property is acquired by a third party, the third party, previously unlicensed to use Sharp's intellectual property, may acquire such license, with the result that Sharp's intellectual property may lose its superiority. Alternatively, the formation of an alliance with said third party could result in Sharp's business becoming subject to new restrictions to which it had not previously been subject, the resolution of which may require Sharp to pay additional compensation. Moreover, the formation of such an alliance could result in claims for infringement of an existing licensing agreement with another third party, placing pressure on Sharp to cancel said alliance. Furthermore, although compensation is given to employees for innovations that they make in the course of their work pursuant to a patent reward system governed by internal regulations, an employee may consider such payment inadequate and initiate legal action. If any of the above problems related to intellectual property were to occur, it could impact Sharp's business results and financial position.

(9) Long-Term Investments and Agreements

Sharp actively invests in manufacturing equipment and the like and has a large amount of noncurrent assets. Various factors related to such manufacturing equipment may prevent Sharp from securing anticipated income and require it to book impairment losses, which could impact its business results and financial position. These factors include equipment not functioning as expected and difficulty converting to other products due to equipment performance problems or contractual limitations. Sharp also has goodwill and

Risk Factors

other noncurrent assets. Sharp may be required to apply impairment treatment to such assets if its profitability declines or if the market prices of its asset holdings decline significantly. Such factors may affect Sharp's business results and financial position. In addition, Sharp has a large number of long-term contractual agreements in place, and many of those agreements include promises of fixed prices or price adjustments only at predetermined intervals during the agreement period. Accordingly, fluctuations in prices and costs during the periods of such agreements may have a major negative effect on Sharp's business. In particular, there are such agreements covering raw materials for solar panels. These include a contract that obligates Sharp to purchase a total of 17,733 tons of polysilicon (as of the end of March 2016) by the end of 2020 at a rate substantially higher than the most recent market price (the weighted average price under the contracts exceeded the market price as of March 31, 2016 by around ¥3,212 per kilogram). If the market price of polysilicon falls even further, Sharp may incur additional losses. Moreover, because some of the purchase contracts at year-end prohibit the resale of polysilicon, Sharp may have difficulty recovering its losses if the prospects for future use of the material deteriorate, which in turn could incur further additional losses. Meanwhile, Sharp has long-term contractual agreements with multiple suppliers covering the supply of electricity necessary to produce solar cells at its Sakai Plant. As of the end of March 2016, total amount of future payments of such contracts was ¥38,064 million (remaining terms of between 1.5 and 12.75 years), and none of the contracts can be cancelled prior to maturity. These long-term contracts cover the supply of electricity

necessary to produce 480MW of solar cells annually. However, the actual production volume at the Sakai Plant is only 160MW per year, which is incurring considerably high production costs for the energy solutions business.

(10) Product Liability

Sharp manufactures products in accordance with strict quality control standards to ensure the utmost in quality. However, many of its products are for consumer use, and also incorporate innovative technologies. If defects arise in any of these products, Sharp may incur responsibility as a manufacturer and other obligations. In order to fulfill its responsibility as a manufacturer in case product defects do arise, Sharp has taken out insurance to cover compensations based on product liability. Nonetheless, there is still a risk of a large-scale product recall or litigation caused by unforeseen events, which may adversely affect Sharp's brand image or influence its business results and financial position.

(11) Laws and Regulations

The business activities of Sharp are subject to various regulations in countries where it operates, including business and investment approval, export regulations, tariffs, accounting standards, and taxation. Sharp must also adhere to various laws and regulations concerning trading, antitrust practices, product liability, consumer protection, intellectual property rights, product safety, the environment, recycling, internal control, and labor regulations. Changes in such laws and regulations, or additional expenses to comply with the amendments, or the occurrence of violations of legal rules by persons in Sharp may

affect Sharp's business results and financial position. Furthermore, in a case where an accident occurs related to one of Sharp's products, report of said incident, based on the Consumer Product Safety Law and related regulations in Japan, and disclosure of the accident information based on a system for public announcements could diminish Sharp's brand image.

(12) Litigation and Other Legal Proceedings

Sharp conducts business activities around the world, and as such, there is a risk that Sharp could become involved with litigation and other legal proceedings in each country. If Sharp becomes involved in litigation or other legal proceedings, with the different legal and judicial systems in each country, depending on the case, Sharp may be ordered to pay a significant amount in damages or fines. Sharp is subject to investigations conducted by the Directorate-General for Competition of the European Commission, etc., with respect to its TFT LCD business. In addition, civil lawsuits seeking monetary damages resulting from alleged anticompetitive behavior have been filed in North America and elsewhere against Sharp. With respect to the result of these proceedings and litigation, Sharp has made a reasonable estimate of potential future losses and provided a reserve in the amount deemed necessary. However, it is difficult to predict or estimate all results at this stage. In addition to proceedings already under way, new investigations by regulatory authorities or civil litigations may be filed in the future. Any adverse results could affect Sharp's business results and financial position.

(13) Leakage of Personal Data and Other Information

Sharp retains personal data and other confidential information concerning its customers, business partners and employees. Extreme care is taken to protect this information. A company-wide management system promotes employee education, internal auditing, and other measures aimed at ensuring compliance with management regulations. If information is leaked, however, it may reduce confidence in Sharp or result in substantial costs (associated with leakage prevention measures or indemnification for damages, for instance), which may affect Sharp's business results and financial position.

(14) Large-Scale Natural Disasters

Sharp has created preventative/emergency measures and a business continuity plan aimed at rapid recovery/restoration in order to be prepared for and minimize damage in the event of large-scale natural disasters such as earthquakes and typhoons, and is working hard to avoid the impact of such disasters. However, if Sharp or its partners' business activities are impaired directly or indirectly due to the occurrence of an unprecedented large-scale natural disaster, it may affect Sharp's business results and financial position.

(15) Risks Accompanying Electricity Shortages and Hikes in Electricity Prices

Electric power generation problems, caused by the nuclear power plant accident accompanying the Great East Japan Earthquake, have had various adverse effects on both Japanese and overseas markets, which is affecting Sharp's business results and financial position.

Risk Factors

Any possible future restrictions on electricity usage or hikes in electricity prices stemming from electricity shortages could cause plant operations to be reduced and/or costs to increase, which may affect Sharp's business results and financial position.

(16) Competition to Secure Skilled Personnel

Exceptional human resources in such fields as technology and management are crucial to Sharp's future growth and development. In light of Sharp's current management situation, however, it is difficult to attract new personnel and labor mobility is considerably increasing. Under such circumstances, in the event that Sharp is unable to attract new personnel or prevent the departure of existing employees, or is unable to improve the skills of key personnel engaged in business management, its business results and financial position may be affected.

(17) Other Key Variable Factors

In addition to the aforementioned risks, Sharp's business results may be significantly affected by human-induced calamities such as accidents, conflicts, insurrections or terrorism; the spread of a new strain of influenza or other infectious disease; or major fluctuations in the stock and bond markets.

(18) Outline of Significant Events Relating to Assumed Going Concern

In the year ended March 31, 2016, Sharp again recorded an operating loss and a loss attributable to owners of parent, resulting in a capital deficit on both nonconsolidated and consolidated bases,

and significant negative cash flows from operating activities. The syndicated loan agreement, which was originally due to expire on March 31, 2016, was extended on March 30, 2016, but only for a period of one month (until April 30, 2016) as of March 31, 2016. Further, as Sharp has fallen into a capital deficit on both nonconsolidated and consolidated bases, Sharp may forfeit the benefit of time on the syndicated loan. Although there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, we believe that these conditions will not cast a material uncertainty about Sharp's ability to continue as a going concern, due to implementation of various measures to resolve these and other major issues as described below. Therefore, no further disclosure for the "Going Concern Assumption" in the notes to the consolidated financial statements is necessary.

At meetings held on February 25 and March 30, 2016, Sharp Corporation's Board of Directors made resolutions and amendment resolutions to issue new shares with a total amount of approximately ¥388.8 billion through third-party allotments, in which the allottees are Hon Hai Precision Industry Co., Ltd. and others. On April 2, 2016, Sharp entered into a share subscription agreement with the aforementioned companies. Related proposals (amendment to Articles of Incorporation and issuance of shares offered for subscription through third-party allotment) were subsequently approved at the 122nd Ordinary General Meeting of Shareholders and General Meetings of Class Shareholders, held on June 23, 2016.

Funds procured through the capital increase through third-party allotment of new shares will

be used for capital investment toward the growth of each business division and for operating expenses (working capital) to enhance Sharp's brand value and expand into new business fields. This will enable Sharp to allot the funds to the growth investment, that had been constrained due to recent financial conditions, prepare to implement structural reforms currently under consideration, and otherwise establish a robust management foundation.

On April 26, 2016, Sharp's main banks, including Mizuho Bank, Ltd. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., agreed to renew the syndicated loan agreement scheduled due on April 30, 2016.

Further, although it has fallen into a capital deficit on both nonconsolidated and consolidated bases, on May 25, 2016, Sharp received notice from each lender bank of the syndicated loans that it would not forfeit the benefit of time due to such capital deficit.

Through the ongoing support and the implementation of the various measures described above, Sharp will be able to avoid the risk of fund insufficiency and stabilize its financial base.

Members of the Board, Audit & Supervisory Board Members

(As of August 16, 2016)

Members of the Board



President &
Chief Executive Officer
Tai Jeng Wu



Member of the Board
Katsuaki Nomura



Member of the Board
Toshiaki Takayama



Member of the Board
Yoshisuke Hasegawa



Member of the Board
Masahiro Okitsu



Member of the Board
Young Liu



Member of the Board
Takeo Nakagawa



Member of the Board
Kazuya Nakaya*



Member of the Board
Yoshihisa Ishida*

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Members

Yujiro Nishio
Shuzo Fujii

Audit & Supervisory Board Members

Masuo Okumura*
Tohru Suda*

*Outside

Five-Year Financial Summary

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31

	Yen (millions)				
	2012	2013	2014	2015	2016
Net Sales	¥ 2,455,850	¥ 2,478,586	¥ 2,927,186	¥ 2,786,256	¥ 2,461,589
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Capital Investment*1	118,899	82,458	49,434	62,653	45,240
Depreciation and Amortization	269,020	197,880	132,401	117,323	81,931
R&D Expenditures	154,798	137,936	132,124	141,042	130,120
	Yen				
Per Share of Common Stock					
Net income (loss)	¥ (341.78)	¥ (489.83)	¥ 8.09	¥ (131.51)	¥ (154.64)
Diluted net income	—	—	7.87	—	—
Cash dividends	10.00	0.00	0.00	0.00	0.00
Net assets	568.83	106.90	115.43	17.84	(161.79)
Other Financial Data					
Return on equity (ROE)	(45.5%)	(145.3%)	7.2%	(197.4%)	—
Return on assets (ROA)	(13.7%)	(23.2%)	0.5%	(10.7%)	(14.5%)
Equity ratio	23.9%	6.0%	8.9%	1.5%	(2.7%)

*1 The amount of leased properties is included in capital investment.

Five-Year Financial Summary

	Yen (millions)				
	2012	2013	2014	2015	2016
Net Sales	¥ 2,455,850	¥ 2,478,586	¥ 2,927,186	¥ 2,786,256	¥ 2,461,589
Sales by Segment*2 (Sales to Outside Customers)					
Audio-Visual and Communication Equipment	1,060,770	732,017	—	—	—
Health and Environmental Equipment	292,224	309,613	—	—	—
Information Equipment	277,561	296,787	—	—	—
Consumer/Information Products	1,630,555	1,338,417	—	—	—
LCDs	420,226	650,847	—	—	—
Solar Cells	223,869	259,895	—	—	—
Other Electronic Devices	181,200	229,427	—	—	—
Electronic Components	825,295	1,140,169	—	—	—
Total	2,455,850	2,478,586	—	—	—
Digital Information Equipment	—	732,017	733,317	670,326	—
Health and Environmental Equipment	—	309,613	326,896	315,022	—
Energy Solutions	—	259,895	439,028	270,881	—
Business Solutions	—	296,787	318,856	340,323	—
Product Business	—	1,598,312	1,818,097	1,596,552	—
LCDs	—	650,847	814,718	772,997	—
Electronic Devices	—	229,427	294,371	416,707	—
Device Business	—	880,274	1,109,089	1,189,704	—
Total	—	2,478,586	2,927,186	2,786,256	—
Consumer Electronics	—	—	—	982,350	798,314
Energy Solutions	—	—	—	270,881	155,422
Business Solutions	—	—	—	343,321	348,451
Electronic Components and Devices	—	—	—	416,707	458,022
Display Devices	—	—	—	772,997	701,380
Total	—	—	—	2,786,256	2,461,589
Sales by Region					
Japan	1,181,168	1,007,264	1,150,091	968,449	750,499
The Americas	288,380	355,288	468,473	320,980	281,049
Europe	282,606	174,381	144,804	142,520	136,590
China	483,298	667,933	925,348	1,140,892	1,085,311
Other	220,398	273,720	238,470	213,415	208,140
Total	2,455,850	2,478,586	2,927,186	2,786,256	2,461,589

*2 Effective for the year ended March 31, 2014, the segment classification has been changed. In this regard, Sales by Segment for the year ended March 31, 2013, has been restated based on a new classification.

Effective from the year ended March 2015, the "Solar Cells" product group was renamed as "Energy Solutions."

Effective for the year ended March 31, 2016, the segment classification has been changed. In this regard, Sales by Segment for the year ended March 31, 2015, has been restated based on a new classification.

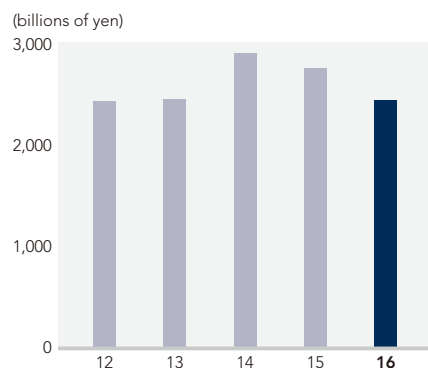
Financial Review

Sharp Corporation and Consolidated Subsidiaries

Operations

Consolidated net sales for the year ended March 31, 2016 amounted to ¥2,461,589 million, down 11.7% from the previous year.

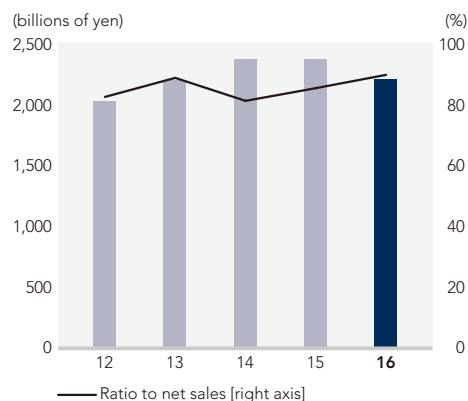
Net Sales



Financial Results

Cost of sales decreased by ¥169,472 million to ¥2,228,277 million, and the cost of sales ratio rose from 86.1% to 90.5%.

Cost of Sales



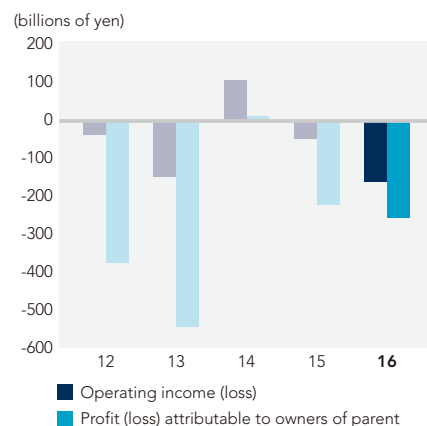
Selling, general and administrative (SG&A) expenses decreased by ¥41,293 million to ¥395,279 million, and the ratio of SG&A expenses against net sales climbed from 15.7% to 16.1%. SG&A expenses included R&D expenditures of ¥30,123 million and employees' salaries and other benefits expenses of ¥105,234 million.

As a result, operating loss amounted to ¥161,967 million, compared with operating loss of ¥48,065 million in the previous year.

Other expenses, net of other income, resulted in a net loss position of ¥69,155 million.

Accordingly, loss before income taxes was ¥231,122 million, compared with ¥188,834 million in the previous year, and loss attributable to owners of parent was ¥255,972 million, compared with ¥222,347 million in the previous year. The net loss per share of common stock was ¥154.64.

Operating Income (Loss)/ Profit (Loss) Attributable to Owners of Parent



Segment Information

Consumer Electronics

Sales in this segment decreased by 17.5% to ¥810,733 million, and the segment loss was ¥21,830 million, compared with segment income of ¥19,083 million in the previous year. Sales of LCD TVs, mobile phones, air purifiers and other products declined.

Energy Solutions

Sales in this segment decreased by 42.1% to ¥156,834 million, and the segment loss was ¥18,425 million, compared with segment loss of ¥62,679 million in the previous year. Sales of solar cells declined.

Sales by Segment

	Yen (millions)	
	2015	2016
Consumer Electronics	¥ 982,793	¥ 810,733
Energy Solutions	270,876	156,834
Business Solutions	343,333	355,196
Electronic Components and Devices	466,637	490,029
Display Devices	907,143	771,548
	2,970,782	2,584,340
Adjustments	(184,256)	(122,751)
Total	2,786,526	2,461,589

Segment Income by Segment

	Yen (millions)	
	2015	2016
Consumer Electronics	¥ 19,083	¥ (21,830)
Energy Solutions	(62,679)	(18,425)
Business Solutions	31,301	35,814
Electronic Components and Devices	676	1,491
Display Devices	594	(129,173)
	(11,025)	(132,123)
Adjustments	(37,040)	(29,844)
Total	(48,065)	(161,967)

Business Solutions

Sales in this segment climbed by 3.5% to ¥355,196 million, and segment income rose by 14.4% to ¥35,814 million. Despite the impact of falling prices, sales of color MFPs increased in the overseas market.

Electronic Components and Devices

Sales in this segment increased by 5.0% to ¥490,029 million, and segment income jumped by 120.6% to ¥1,491 million. Sales of camera modules increased.

Financial Review

Display Devices

Sales in this segment declined by 14.9% to ¥771,548 million, and the segment loss was ¥129,173 million, compared with segment income of ¥594 million in the previous year. Sales of large-size LCDs for TVs and of small- and medium-size LCDs for Chinese smartphones declined.

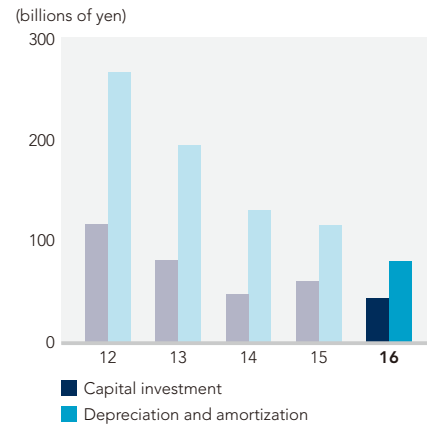
Capital Investment and Depreciation

Capital investment totaled ¥45,240 million, down 27.8% from the previous year. Much of this investment was allocated to production lines for small- and medium-size LCDs to expand the business in medium-size LCDs for PCs, tablets and others.

By business segment, capital investment was ¥10,788 million for the Consumer Electronics, ¥1,162 million for the Energy Solutions, ¥4,553 million for the Business Solutions, ¥1,571 million for the Electronic Components and Devices and ¥22,849 million for the Display Devices. Unallocated capital investment amounted to ¥4,317 million.

Depreciation and amortization declined by 30.2% to ¥81,931 million.

Capital Investment/ Depreciation and Amortization



Assets, Liabilities and Net Assets

Total assets amounted to ¥1,570,672 million, down ¥391,237 million from the previous year.

Assets

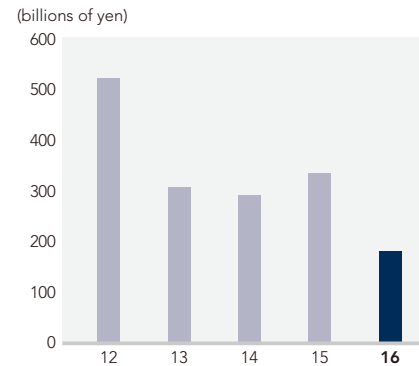
Current assets amounted to ¥965,959 million, down ¥333,236 million. This was due mainly to the decrease in notes and accounts receivable of ¥175,638 million and decrease in cash and cash equivalents of ¥82,678 million. In addition, inventories decreased by ¥153,987 million to ¥184,313 million. Included in inventories, finished products decreased by ¥87,414 million to ¥125,710 million; work in process declined by ¥44,983 million to ¥22,862 million; and raw materials and supplies were down ¥21,590

million to ¥35,741 million.

Property, plant and equipment, at cost less accumulated depreciation, declined by ¥49,387 million to ¥351,205 million.

Investments and other assets amounted to ¥253,508 million, down ¥8,614 million. This was mainly due to the decrease in other assets.

Inventories



Liabilities

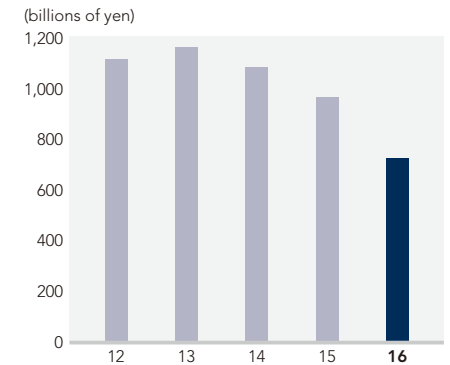
Current liabilities decreased by ¥312,092 million to ¥1,374,862 million. Short-term borrowings decreased by ¥210,191 million to ¥638,756 million. This stemmed from the decrease in bank loans of ¥185,123 million. Notes and accounts payable decreased by ¥155,389 million to ¥312,630 million.

Long-term liabilities decreased by ¥3,419 million to ¥227,021 million. This was due mainly to the decrease in long-term debt of ¥33,063 million. By contrast, there was the increase in net

defined benefit liability of ¥32,064 million.

Interest-bearing debt at year-end stood at ¥731,022 million, down ¥243,254 million from the previous year.

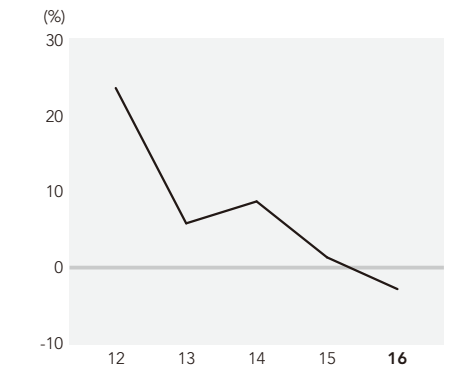
Interest-Bearing Debt



Net Assets

Net assets declined by ¥75,726 million to negative ¥31,211 million. This was due to the decrease in shareholders' equity stemming from the loss attributable to owners of parent. The equity ratio came to negative 2.7%.

Equity Ratio



Financial Review

Cash Flows

Cash and cash equivalents at the end of year stood at ¥149,533 million, down ¥82,678 million from the previous year, as combined cash outflows from operating, investing and financing activities.

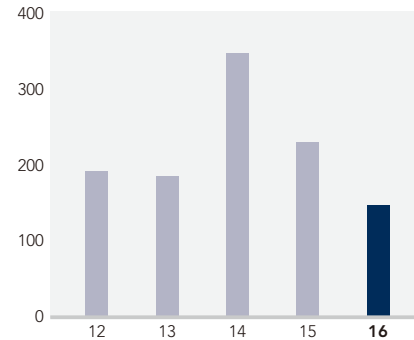
Net cash used in operating activities amounted to ¥18,866 million, compared with net cash provided by operating activities of ¥17,339 million in the previous year. This is mainly due to the increase in loss before income tax and the decrease in payable (increase in the previous year), partially offset by the decrease in inventories (increase in the previous year).

Net cash used in investing activities totaled ¥40,513 million, up ¥24,470 million from the previous year. The main factors included the decrease in proceeds from sales of investments in securities, nonconsolidated subsidiaries and affiliates of ¥29,602.

Net cash used in financing activities was ¥15,360 million, down ¥120,730 million from the previous year. This is mainly due to the decrease in repayment of long-term debt amounting to ¥81,147 million and proceed from issuance of class shares in the amount of ¥224,606 million, offset by the net decrease in short-term borrowings.

Cash and Cash Equivalents

(billions of yen)



- Notes: 1. Effective for the year ended March 31, 2016, the Company has changed its segment classification. Figures for previous year have been adjusted to reflect the new classification.
2. Sales figures by segment shown in "Segment Information" include internal sales and transfers between segments (Consumer Electronics, Energy Solutions, Business Solutions, Electronic Components and Devices, and Display Devices). Segment income (loss) figures are the amounts before adjustment for intersegment trading.
3. Capital investment figures shown in "Capital Investment and Depreciation" include the amount of leased properties.

Consolidated Balance Sheets

Sharp Corporation and Consolidated Subsidiaries as of March 31, 2015 and 2016

	Yen (millions)	
	2015	2016
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 7)	¥ 232,211	¥ 149,533
Time deposits (Note 7)	22,439	25,866
Restricted cash (Note 7)	3,843	—
Restricted withdrawals and restricted cash (Note 7)	—	100,000
Notes and accounts receivable (Note 7) —		
Trade	405,583	279,503
Other	181,196	136,554
Nonconsolidated subsidiaries and affiliates	22,946	19,325
Allowance for doubtful receivables	(4,054)	(5,349)
Inventories (Note 3)	338,300	184,313
Deferred tax assets (Note 4)	16,576	10,966
Other current assets	80,155	65,248
Total current assets	1,299,195	965,959
Property, Plant and Equipment, at Cost (Note 6):		
Land	87,619	85,352
Buildings and structures	658,741	643,926
Machinery, equipment, vehicles and others	1,651,778	1,574,129
Construction in progress	19,896	7,916
	2,418,034	2,311,323
Less accumulated depreciation	(2,017,442)	(1,960,118)
	400,592	351,205
Investments and Other Assets:		
Investments in securities (Notes 2 and 7)	58,556	58,765
Investments in nonconsolidated subsidiaries and affiliates (Note 7)	109,239	107,662
Net defined benefit asset (Note 11)	—	2,221
Deferred tax assets (Note 4)	18,961	16,066
Other assets	75,366	68,794
	262,122	253,508
	¥ 1,961,909	¥ 1,570,672

	Yen (millions)	
	2015	2016
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Short-term borrowings, including current portion of long-term debt (Notes 5 and 7)	¥ 848,947	¥ 638,756
Notes and accounts payable (Note 7) —		
Trade	390,621	263,746
Construction and other	42,672	34,554
Nonconsolidated subsidiaries and affiliates	34,726	14,330
Accrued expenses	229,712	184,558
Income taxes (Note 4)	15,251	6,834
Provision for sales promotion expenses	—	26,120
Valuation reserve for inventory purchase commitments	54,655	57,124
Deposits received	12,491	110,890
Other current liabilities (Note 4)	57,879	37,950
Total current liabilities	1,686,954	1,374,862
Long-term Liabilities:		
Long-term debt (Notes 5 and 7)	125,329	92,266
Net defined benefit liability (Note 11)	85,277	117,341
Deferred tax liabilities (Note 4)	7,727	7,736
Other long-term liabilities	12,107	9,678
Total long-term liabilities	230,440	227,021
Contingent Liabilities (Note 10)		
Net Assets (Note 8):		
Shareholders' equity		
Capital stock:		
Authorized — 5,000,000 thousand shares		
Issued — 1,701,214 thousand shares in 2015 and 1,701,439 thousand shares in 2016	121,885	500
Capital surplus	95,945	222,457
Retained earnings (accumulated deficits)	(87,448)	(123,644)
Less cost of treasury stock:		
10,480 thousand shares in 2015 and 10,536 thousand shares in 2016	(13,893)	(13,899)
	116,489	85,414
Accumulated other comprehensive income		
Net unrealized holding gains on securities	10,569	11,634
Deferred gains (losses) on hedges	780	(843)
Foreign currency translation adjustments	(18,106)	(38,456)
Remeasurements of defined benefit plans	(79,566)	(100,799)
	(86,323)	(128,464)
Non-controlling interests	14,349	11,839
Total net assets	44,515	(31,211)
	¥ 1,961,909	¥ 1,570,672

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Operations

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2015 and 2016

	Yen (millions)	
	2015	2016
Net Sales	¥ 2,786,256	¥ 2,461,589
Cost of Sales	2,397,749	2,228,277
Gross profit	388,507	233,312
Selling, General and Administrative Expenses	436,572	395,279
Operating loss	48,065	161,967
Other Income (Expenses):		
Interest and dividends income	2,870	1,877
Interest expenses	(23,182)	(18,721)
Gain on sales of noncurrent assets	11,119	15,954
Gain on sales of investments in securities	22,946	1,939
Reversal of provision for loss on litigation	19,234	2,046
Receipt of settlement package	—	8,490
Impairment loss (Note 13)	(104,015)	(24,748)
Loss on valuation of investments in securities	(622)	(125)
Restructuring charges (Note 14)	(21,239)	(38,165)
Provision for loss on litigation	(2,140)	(2,038)
Settlement (Note 15)	(14,382)	—
Other, net	(31,358)	(15,664)
	(140,769)	(69,155)
Loss before income taxes	188,834	231,122
Income Taxes (Note 4):		
Current	27,179	18,401
Deferred	4,234	3,663
	31,413	22,064
Net loss	220,247	253,186
Profit attributable to non-controlling interests	2,100	2,786
Loss attributable to owners of parent	¥ 222,347	¥ 255,972

	Yen	
	2015	2016
Per Share of Common Stock (Note 8):		
Net loss	¥ 131.51	¥ 154.64
Diluted net income	—	—
Cash dividends	0.00	0.00

The accompanying notes to the consolidated financial statements are an integral part of these statements. Diluted net losses per share computation for the years ended March 31, 2015 and 2016 are not presented, as residual securities did not exist for the year ended March 31, 2015 and net loss per share is recorded despite the existence of residual securities for the year ended March 31, 2016.

Consolidated Statements of Comprehensive Income

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2015 and 2016

	Yen (millions)	
	2015	2016
Net Loss	¥ (220,247)	¥ (253,186)
Other Comprehensive Income:		
Net unrealized holding gains on securities	3,715	1,066
Deferred gains (losses) on hedges	941	(1,623)
Foreign currency translation adjustments	24,293	(21,393)
Remeasurements of defined benefit plans	29,776	(21,227)
Share of other comprehensive income of affiliates accounted for using equity method	461	(351)
Total other comprehensive income	59,186	(43,528)
Comprehensive Income	(161,061)	(296,714)
Comprehensive income attributable to:		
Owners of parent	(164,776)	(298,114)
Non-controlling interests	3,715	1,400

Consolidated Statements of Changes in Net Assets

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2015 and 2016

	(thousands)	Yen (millions)									
	Number of Shares	Capital stock (Note 8)	Capital surplus (Note 8)	Retained earnings (accumulated deficits) (Note 8)	Treasury stock	Net unrealized holding gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Non-controlling interests	Total
Balance at beginning of fiscal 2015	1,701,214	¥ 121,885	¥ 95,950	¥ 135,096	¥ (13,889)	¥ 6,851	¥ (160)	¥ (41,206)	¥ (109,367)	¥ 12,013	¥ 207,173
Cumulative effects of changes in accounting policies				(197)							(197)
Balance at beginning of fiscal 2015, reflecting change in accounting policies	1,701,214	121,885	95,950	134,899	(13,889)	6,851	(160)	(41,206)	(109,367)	12,013	206,976
Net loss attributable to owners of parent				(222,347)							(222,347)
Purchase of treasury stock					(10)						(10)
Disposal of treasury stock			(5)		6						1
Net changes of items other than shareholders' equity						3,718	940	23,100	29,801	2,336	59,895
Balance at end of fiscal 2015	1,701,214	¥ 121,885	¥ 95,945	¥ (87,448)	¥ (13,893)	¥ 10,569	¥ 780	¥ (18,106)	¥ (79,566)	¥ 14,349	¥ 44,515

	(thousands)	Yen (millions)									
	Number of Shares	Capital stock (Note 8)	Capital surplus (Note 8)	Retained earnings (accumulated deficits) (Note 8)	Treasury stock	Net unrealized holding gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Non-controlling interests	Total
Balance at beginning of fiscal 2016	1,701,214	¥ 121,885	¥ 95,945	¥ (87,448)	¥ (13,893)	¥ 10,569	¥ 780	¥ (18,106)	¥ (79,566)	¥ 14,349	¥ 44,515
Issuance of new shares	225	112,500	112,500								225,000
Transfer to capital surplus from capital stock		(233,885)	233,885								—
Deficit disposition			(219,781)	219,781							—
Net loss attributable to owners of parent				(255,972)							(255,972)
Change of scope of equity method				(5)							(5)
Purchase of shares of consolidated subsidiaries			(90)								(90)
Purchase of treasury stock					(9)						(9)
Disposal of treasury stock			(2)		3						1
Net changes of items other than shareholders' equity						1,065	(1,623)	(20,350)	(21,233)	(2,510)	(44,651)
Balance at end of fiscal 2016	1,701,439	¥ 500	¥ 222,457	¥ (123,644)	¥ (13,899)	¥ 11,634	¥ (843)	¥ (38,456)	¥ (100,799)	¥ 11,839	¥ (31,211)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2015 and 2016

	Yen (millions)	
	2015	2016
Cash Flows from Operating Activities:		
Income (loss) before income taxes	¥ (188,834)	¥ (231,122)
Adjustments to reconcile income (loss) before income taxes to net cash (used in) provided by operating activities—		
Depreciation and amortization of properties and intangibles	109,324	76,724
Interest and dividend income	(2,870)	(1,877)
Interest expenses	23,182	18,721
Gain on sales and retirement of noncurrent assets, net	(8,324)	(13,964)
Impairment loss	104,015	24,748
Gain on sales of investment securities, net	(22,532)	(1,939)
Restructuring charges	21,239	38,165
Provision for loss on litigation	2,140	2,038
Reversal of provision for loss on litigation	(19,234)	(2,046)
Settlement	14,382	—
Receipt of settlement package	—	(8,490)
Decrease in notes and accounts receivable	33,409	139,028
Decrease (increase) in inventories	(30,858)	137,503
Increase (decrease) in payables	19,136	(121,230)
Increase in valuation reserve for inventory purchase commitments	54,655	2,469
Increase in provision for sales promotion expenses	—	28,352
Other, net	(18,801)	(49,364)
Total	90,029	37,716
Interest and dividends income received	4,371	2,978
Interest expenses paid	(23,221)	(18,770)
Special extra retirement payments paid	—	(22,566)
Settlement package received	—	8,145
Settlement package paid	(2,585)	(2,983)
Settlement paid	(13,202)	—
Income taxes paid	(38,053)	(23,386)
Net cash (used in) provided by operating activities	17,339	(18,866)

	Yen (millions)	
	2015	2016
Cash Flows from Investing Activities:		
Purchase of time deposits	(22,961)	(26,241)
Proceeds from redemption of time deposits	20,161	22,394
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(2,437)	—
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	17,633	3,789
Purchase of property, plant and equipment	(49,710)	(46,364)
Proceeds from sales of property, plant and equipment	18,072	24,183
Proceeds from sales of investments in securities, nonconsolidated subsidiaries and affiliates	30,326	724
Other, net	(27,127)	(18,998)
Net cash used in investing activities	(16,043)	(40,513)
Cash Flows from Financing Activities:		
Proceeds from deposits received	—	100,000
Deposits of restricted withdrawals and restricted cash	—	(100,000)
Deposits of restricted cash	(1,999)	—
Proceeds from withdrawal of restricted cash	3,442	3,843
Net increase (decrease) in short-term borrowings	6,453	(176,937)
Proceeds from long-term debt	5,282	4,135
Repayments of long-term debt	(148,646)	(67,499)
Proceed from issuance of class shares	—	224,606
Other, net	(622)	(3,508)
Net cash used in financing activities	(136,090)	(15,360)
Effect of Exchange Rate Change on Cash and Cash Equivalents	16,371	(7,939)
Net Decrease in Cash and Cash Equivalents	(118,423)	(82,678)
Cash and Cash Equivalents at Beginning of Year	350,634	232,211
Cash and Cash Equivalents at End of Year	¥ 232,211	¥ 149,533

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to the Consolidated Financial Statements

Sharp Corporation and Consolidated Subsidiaries

1. Summary of Significant Accounting and Reporting Policies

(a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Sharp Corporation (“the Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”).

The financial statements of the Company's overseas consolidated subsidiaries for consolidation purposes have been prepared in conformity with IFRS or generally accepted accounting principles in the United States of America (“US GAAP”), with adjustments for the specified four items where applicable according to Practical Issues Task Force No. 18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”.

The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosures) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the Japanese language statutory consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 78 significant companies over which the Company has power of control through majority voting right or the existence of certain other conditions evidencing control by the Company. Investments in 1 nonconsolidated subsidiary and 19 affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method.

In the elimination of investments in the consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Material intercompany balances, transactions and unrealized profits have been eliminated in consolidation.

(c) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The resulting translation gains and losses are recognized in the consolidated statements of operations.

Financial statements of overseas subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet date for all assets and liabilities, at the historical date for net assets accounts, and at the average rates prevailing during the year for income and expense accounts. The resulting foreign currency translation adjustments are shown as a separate component of net assets.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits on demand placed with banks and highly liquid investments with insignificant risk of change in value which have maturities of three months or less from the date of acquisition.

(e) Investments in securities

Investments in securities consist principally of marketable and nonmarketable equity securities.

The Company and its domestic consolidated subsidiaries categorize those securities as “other securities,” which, in principle, include all securities other than trading securities and held-to-maturity securities.

Other securities with available fair market values are stated at fair market value, which is calculated as the average of market prices during the last month of the fiscal year. Unrealized holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed principally using gross average cost.

Other securities with no available fair market values are stated at gross average cost.

If the fair market value of other securities declines significantly, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as loss in the period of decline. If the net asset value of other securities with no available fair market values declines significantly, the securities are written down to the net asset value through a charge to income. In these cases, the fair market value or the net asset value is carried forward to the next year.

Notes to the Consolidated Financial Statements

(f) Inventories

Inventories held by the Company and its domestic consolidated subsidiaries are primarily measured at moving average cost. For balance sheet valuation, in the event that an impairment is determined, inventory impairment is computed using net realizable value. For overseas consolidated subsidiaries, inventories are measured at the lower of moving average cost and net realizable value.

(g) Depreciation and amortization

For the Company and its domestic consolidated subsidiaries, depreciation of plant and equipment other than lease assets is computed using the declining-balance method, except for machinery and equipment at the LCD plants in Mie and Kameyama and buildings (excluding attached structures) acquired by the Company and its domestic consolidated subsidiaries on or after April 1, 1998; all of which are depreciated using the straight-line method over the estimated useful life of the asset. Properties at overseas consolidated subsidiaries are depreciated using the straight-line method.

Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Amortization of intangible assets other than lease assets is computed using the straight-line method.

Software is included in other assets. Software used by the Company is amortized using the straight-line method over the estimated useful life of principally 5 years, and software embedded in products is amortized over the forecasted sales quantity.

Depreciation of leased assets under non-ownership-transfer finance lease transactions is computed using the straight-line method, using the lease period as the depreciable life and the residual value as zero. Lease payments are recognized as expenses for non-ownership-transfer finance lease transactions of the Company and its domestic consolidated subsidiaries commenced on or before March 31, 2008.

(h) Accrued bonuses

The Company and its consolidated subsidiaries accrue estimated amounts of employees' bonuses based on the estimated amounts to be paid in the subsequent period.

(i) Provision for Sales Promotion Expense

The reserve for payment of sales promotion expenses is set aside based on estimated amounts to be paid to agencies and dealers in the subsequent period. Provision for sales promotion expense is recorded from the year ended March 31, 2016, as there is a high possibility of payment to be required for sales

promotion expenses to agencies and dealer. This is mainly due to the change in the transaction policies in the fourth quarter of the year ended March 31, 2016 as a result of a significant decline in sales in the Company's sales subsidiary in China.

(j) Provision for loss on litigation

The Company accrues estimated amounts for possible future loss on litigation in amounts considered necessary.

(k) Provision for restructuring charges

The estimated amounts of restructuring are recognized as provision in order to provide for expenses for possible future loss due to structural reform.

(l) Valuation reserve for inventory purchase commitments

Regarding long-term contracts for purchasing raw materials over a long time frame, the amounts of difference between contracted price and current market price are set aside as allowance for contract loss in order to provide for future possible loss in case the market price of materials decline significantly from the contracted price and fulfillment of the contract causes a loss in production and sale business.

(m) Income taxes

The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

(n) Retirement benefits

The Company and its domestic consolidated subsidiaries have primarily a trustee non-contributory defined benefit pension plan for their employees to supplement a governmental welfare pension plan. Certain overseas consolidated subsidiaries primarily have defined contribution pension plans and lump-sum retirement benefit plans.

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated to each service year based on the plan's benefit formula.

Past service costs are amortized primarily using the straight-line method over the average of the estimated remaining service years (14 years) commencing from the current period. Actuarial gains and

Notes to the Consolidated Financial Statements

losses are primarily amortized using the straight-line method over the average of the estimated remaining service years (14 years) commencing from the following period.

(o) Research and development expenses

Research and development expenses are charged to income as incurred. The research and development expenses charged to income amounted to ¥141,042 million and ¥130,120 million for the years ended March 31, 2015 and 2016, respectively.

(p) Derivative financial instruments

The Company and some of its consolidated subsidiaries use derivative financial instruments, including foreign exchange forward contracts in order to hedge the risk exposure arising from fluctuations in foreign currency exchange rates associated with assets and liabilities denominated in foreign currencies.

All derivative financial instruments are stated at fair value and recorded on the balance sheets. The deferred method is used for recognizing gains and losses on hedging instruments and the hedged items. When foreign exchange forward contracts meet certain conditions, the hedged items are stated at the forward exchange contract rates.

Derivative financial instruments are used based on internal policies and procedures on risk management. The risks of fluctuations in foreign currency exchange rates have been assumed to be completely hedged over the period of hedging contracts as the major conditions of the hedging instruments and the hedged items are consistent. Accordingly, an evaluation of the effectiveness of the hedging contracts is not required.

The credit risk of such derivatives is assessed as being low because the counterparties of these transactions have good credit ratings with financial institutions.

(q) Method and Period for Amortization of Goodwill

Goodwill for which the effective term is possible to be estimated is amortized evenly over the estimated term, while the other is amortized evenly over 5 years. However, if the amount is minor, the entire amount is amortized during the period of which the goodwill arises.

(r) Changes in accounting policies

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business

Combinations" (ASBJ Statement No.21, September 13, 2013, hereinafter "Statement No.21"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013, hereinafter "Statement No.22"), and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013, hereinafter "Statement No.7") (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control, and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combinations took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

In the consolidated statements of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in scope of consolidation are included in "Cash flows from operating activities."

There is an immaterial impact on the consolidated financial statements for the current fiscal year.

(s) Change in accounting estimates

Historically, the Company used to write down the book value of inventories when a certain period of time has passed after the acquisition of the inventories. As a rule, this write-down was performed on a regular basis using a uniform rate. However, considering rapidly declining prices, the slow movement of the inventories, and other factors, the Company has decided to change the length of time and uniform rate used to write down the book value of the inventories. This change more properly reflects the decline in

Notes to the Consolidated Financial Statements

the inventory's profitability in the company's financial condition and operating results. The effect of this change in accounting estimates was to increase cost of sales, operating loss and loss before income taxes by ¥47,068 million, respectively for the current fiscal year.

(t) Reclassifications

Certain account balances in the financial statements and accompanying footnotes for the year ended March 31, 2015 have been reclassified to conform to the presentation for the current fiscal year.

2. Investments in Securities

The following is a summary of other securities with available fair market values as of March 31, 2015 and 2016:

	Yen (millions)			
	2016			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair market value
Equity securities	¥ 16,967	¥ 15,559	¥ (1)	¥ 32,525
	¥ 16,967	¥ 15,559	¥ (1)	¥ 32,525

	Yen (millions)			
	2015			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair market value
Equity securities	¥ 15,850	¥ 15,898	¥ (301)	¥ 31,447
	¥ 15,850	¥ 15,898	¥ (301)	¥ 31,447

Non-listed stocks (¥27,109 million and ¥26,240 million for the years ended March 31, 2015 and 2016, respectively) are not included in the above table because such stocks do not have market prices and the market value cannot be calculated.

The proceeds from sales of other securities were ¥16,083 million and ¥263 million for the years ended March 31, 2015 and 2016, respectively. The gross realized gains on those sales were ¥5,992 million and ¥144 million, respectively. The gross realized losses on those sales were zero, respectively.

3. Inventories

Inventories as of March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Finished products	¥ 213,124	¥ 125,710
Work in process	67,845	22,862
Raw materials and supplies	57,331	35,741
	¥ 338,300	¥ 184,313

For the years ended March 31, 2015 and 2016, the inventories written off were ¥24,092 million and ¥69,377 million, respectively.

4. Income Taxes

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 35.5% for the years ended March 31, 2015 and approximately 32.8% for the year ended March 31, 2016.

The Company and its wholly owned domestic subsidiaries have adopted the consolidated tax return system of Japan.

The differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2015 and 2016 are not disclosed because a loss before income taxes was recorded.

Notes to the Consolidated Financial Statements

Significant components of deferred tax assets and deferred tax liabilities as of March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Deferred tax assets:		
Inventories	¥ 47,420	¥ 64,643
Accrued expenses	23,184	21,245
Accrued bonuses	3,950	2,881
Provision for sales promotion expenses	—	6,530
Valuation reserve for inventory purchase commitments	17,927	17,480
Net defined benefit liability	27,379	36,159
Buildings and structures	25,767	26,423
Machinery, equipment and vehicles	13,611	15,031
Software	4,494	7,023
Long-term prepaid expenses	21,624	18,324
Loss carried forward	291,067	311,573
Other	40,701	37,976
Gross deferred tax assets	517,124	565,288
Valuation allowance	(479,297)	(533,446)
Total deferred tax assets	37,827	31,842
Deferred tax liabilities:		
Retained earnings appropriated for tax allowable reserves	(2,294)	(2,146)
Net unrealized holding gains on securities	(5,059)	(5,173)
Other	(3,205)	(5,673)
Total deferred tax liabilities	(10,558)	(12,992)
Net deferred tax assets	¥ 27,269	¥ 18,850

Net deferred tax assets as of March 31, 2015 and 2016 were included in the consolidated balance sheets as follows:

	Yen (millions)	
	2015	2016
Deferred tax assets (Current Assets)	¥ 16,576	¥ 10,966
Deferred tax assets (Investments and Other Assets)	18,961	16,066
Other current liabilities	(541)	(446)
Deferred tax liabilities (Long-term Liabilities)	(7,727)	(7,736)
Net deferred tax assets	¥ 27,269	¥ 18,850

Remeasurement of deferred tax assets and liabilities due to a change in income tax rate

According to the promulgation of “Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and “Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) on March 29, 2016, the corporate tax rate will change from the fiscal year beginning on or after April 1, 2016.

As a result, the effective statutory tax rates, which are used to measure deferred tax assets and deferred tax liabilities will be reduced to 30.6% from 32.0% for temporary differences that are expected to be reversed in the fiscal years beginning on April 1, 2016 and April 1, 2017, and to 30.4% from 32.0% for temporary differences that are expected to be reversed in the fiscal year beginning on or after April 1, 2018.

This change had an immaterial impact on financial statements for the years ended March 31, 2016.

5. Short-term Borrowings and Long-term Debt

Short-term borrowings including current portion of long-term debt as of March 31, 2015 and 2016 consisted of the following:

	Yen (millions)	
	2015	2016
Bank loans	¥ 637,915	¥ 452,792
Current portion of long-term debt	211,032	185,964
	¥ 848,947	¥ 638,756

The weighted average interest rates of short-term borrowings as of March 31, 2015 and 2016 were 2.2% and 2.3%, respectively.

Long-term debt as of March 31, 2015 and 2016 consisted of the following:

	Yen (millions)	
	2014	2015
0.9%—3.9% loans principally from banks, due 2015 to 2020	¥ 255,581	¥ 200,052
2.068% unsecured straight bonds, due 2019	10,000	10,000
1.141% unsecured straight bonds, due 2016	20,000	20,000
1.604% unsecured straight bonds, due 2019	30,000	30,000
Lease obligations	20,780	18,178
	336,361	278,230
Less—Current portion included in short-term borrowings	(211,032)	(185,964)
	¥ 125,329	¥ 92,266

Notes to the Consolidated Financial Statements

The aggregate annual maturities of long-term debt as of March 31, 2016 were as follows:

Years ending March 31	Yen (millions)
2018	¥ 24,826
2019	33,024
2020	32,134
2021	431
2022 and thereafter	1,851
	¥ 92,266

6. Leases

Finance leases

With regards to non-ownership-transfer finance lease transactions commenced on or before March 31, 2008, lease payments are recognized as expenses.

Information relating to non-ownership-transfer finance lease transactions commenced on or before March 31, 2008, as of, and for the years ended March 31, 2015 and 2016 were as follows:

As lessee

(1) Future minimum lease payments

	Yen (millions)	
	2015	2016
Future minimum lease payments:		
Due within one year	¥ 80	¥ 22
Due after one year	23	1
	¥ 103	¥ 23

(2) Lease payments

	Yen (millions)	
	2015	2016
Lease payments	¥ 331	¥ 80

Operating leases

(a) As lessee

Future minimum lease payments for only non-cancelable contracts as of March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Due within one year	¥ 4,088	¥ 2,434
Due after one year	10,112	7,332
	¥ 14,200	¥ 9,766

(b) As lessor

Future minimum lease receipts for only non-cancelable contracts as of March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Due within one year	¥ 1,579	¥ 1,509
Due after one year	1,831	1,960
	¥ 3,410	¥ 3,469

7. Financial Instruments

(a) Qualitative information on financial instruments

(1) Policies for financial instruments

The Company and its consolidated subsidiaries obtain necessary funds mainly through bank loans and issuing bonds according to its capital investment plan for its main business of manufacturing and distributing electronic communication equipment, electronic equipment, electronic application equipment and electronic components.

Short-term operating funds are obtained through bank loans.

Transactions involving such financial instruments are conducted with creditworthy financial institutions.

The Company utilizes derivative transactions for minimizing risk and not for speculative or dealing purposes.

Notes to the Consolidated Financial Statements

(2) Description and risks of financial instruments

Notes and accounts receivable are exposed to customer credit risk. Some notes and accounts receivable are denominated in foreign currencies because the Company conducts business globally and, therefore, are exposed to foreign currency risk. Notes and accounts payable (excluding other accounts payable) are due within one year. Some notes and accounts payable arising from the import of raw materials are denominated in foreign currencies and, therefore, are exposed to foreign currency risk. The Company makes use of forward exchange contracts to hedge the foreign currency risk exposure on the net position of foreign currency denominated notes and accounts receivable and notes and accounts payable.

Other securities are held for the long term to develop better business alliances and relationships with the Company's customers and suppliers. Other securities are exposed to market price fluctuation risk. Long-term borrowings (included in long-term debt) and bonds (included in short-term borrowings and long-term debt) are mainly for capital investments. The longest repayments and redemption date for bonds is four and a quarter years from March 31, 2016.

Derivative transactions consist primarily of forward exchange contracts and are used to hedge the foreign currency risk exposure.

For hedging instruments, hedged items, hedging policies and assessment methods of effectiveness of hedging instruments, see "(p) Derivative financial instruments" in "1.Summary of Significant Accounting and Reporting Policies".

(3) Risk management of financial instruments

[1] Management of credit risk

For notes and accounts receivable, the Company periodically reviews the status of its key customers, monitoring their respective payment deadlines and remaining outstanding balances.

The Company strives to recognize and reduce irrecoverable risks, due to deteriorating financial conditions or other factors at an early stage. The Company's consolidated subsidiaries also follow the same monitoring and administration process.

[2] Management of market risk

The Company decides basic policies for derivative transactions at the Foreign Exchange Administration Committee meeting which is held monthly and the Finance Administration Committee meeting which is required by the Company's internal procedure.

The Finance Unit of Business Administration Group executes transactions and reports the result of such transactions to the Accounting Unit of Business Administration Group on a daily basis.

The Accounting Unit has set up a specialized section for transaction results and position management and reports the result of transactions to the Executive officer of Accounting and Finance, Business Administration Group on a daily basis.

In addition, the Finance Unit reports the result of transactions to the Foreign Exchange Administration Committee and the Finance Administration Committee on a periodic basis. Its consolidated subsidiaries also manage forward foreign exchange transactions in accordance with the rules established by the Company and report the content of such transactions to the Company on a monthly basis.

For other securities and investments in capital, the Company regularly monitors prices and the issuer's financial position, and continually reviews the possession by taking these indices as well as the relationship with the issuers into consideration.

[3] Management of liquidity risk in financing activities

The Finance Unit manages liquidity risk by making and updating financial plans based on reports from each section and maintains ready liquidity.

(*) The Business Administration Group has been changed into the Accounting and Finance Group as of April 6, 2016

(4) Supplementary explanation of fair value of financial instruments

The fair value of financial instruments is based on the quoted market price in the active market, but in case a market price is not available, the fair value is reasonably estimated. As variable factors are incorporated in the determination of this reasonably estimated price, it may vary depending on different assumptions. The contract amount itself does not indicate the market risk related to the derivative transaction.

(b) Fair values of financial instruments

The consolidated balance sheet amounts, fair values and differences between the two as of March 31, 2015 and 2016 are included in the tables below. Financial instruments for which fair values are considered to be too difficult to be estimated are not included in the tables. Refer to (Note 2) for the details of such financial instruments.

Notes to the Consolidated Financial Statements

	Yen (millions)		
	Consolidated Balance Sheet Amount	Fair Value	Difference
			2016
(1) Cash and cash equivalents, Time deposits, and Restricted withdrawals and restricted cash	¥ 275,399	¥ 275,399	¥ —
(2) Notes and accounts receivable	435,382	434,868	(514)
(3) Investments in securities			
1) Shares of nonconsolidated subsidiaries and affiliates	212	1,632	1,420
2) Other securities	32,525	32,525	—
Total Assets	743,518	744,424	906
(4) Notes and accounts payable (excluding other accounts payable)	278,687	278,687	—
(5) Bank loans and Current portion of long-term borrowings (included in short-term borrowings)	612,593	612,593	—
(6) Deposits received	110,890	110,890	—
(7) Straight bonds (included in short-term borrowings and long-term debt)	60,000	55,243	(4,757)
(8) Long-term borrowings (included in long-term debt)	40,251	41,641	1,390
Total Liabilities	1,102,421	1,099,054	(3,367)
(9) Derivative transactions*	756	2,261	1,505

	Yen (millions)		
	Consolidated Balance Sheet Amount	Fair Value	Difference
			2015
(1) Cash and cash equivalents, Time deposits, and Restricted cash	¥ 258,493	¥ 258,493	¥ —
(2) Notes and accounts receivable	609,725	608,741	(984)
(3) Investments in securities			
1) Shares of nonconsolidated subsidiaries and affiliates	475	2,632	2,157
2) Other securities	31,447	31,447	—
Total Assets	900,140	901,313	1,173
(4) Notes and accounts payable (excluding other accounts payable)	423,883	423,883	—
(5) Bank loans and Current portion of long-term borrowings (included in short-term borrowings)	840,026	840,026	—
(6) Straight bonds (included in short-term borrowings and long-term debt)	60,000	53,122	(6,878)
(7) Long-term borrowings (included in long-term debt)	53,470	55,144	1,674
Total Liabilities	1,377,379	1,372,175	(5,204)
(8) Derivative transactions*	4,018	1,404	(2,614)

*Net receivables and payables arising from derivative transactions. Net payables are indicated by “()”.

(Note 1) Methods of calculating the fair value of financial instruments and matters related to securities and derivative transactions

(1) Cash and cash equivalents, Time deposits, Restricted cash, and Restricted withdrawals and restricted cash

The fair value of time deposits, Restricted cash, and Restricted withdrawals and restricted cash approximates their book value due to their short maturity periods.

(2) Notes and accounts receivable

The fair value of notes and accounts receivable due within a year approximates their book value. The fair value of notes and accounts receivable with long maturity periods is discounted using a rate which reflects both the period until maturity and credit risk.

(3) Investments in securities

The fair value of investments in securities is based on the average quoted market price during the last month of the fiscal year.

(4) Notes and accounts payable (excluding other accounts payable)

The fair value of notes and accounts payable (excluding other accounts payable) approximates their book value due to their short maturity periods.

(5) Bank loans and current portion of long-term borrowings (included in short-term borrowings)

The fair value of bank loans and current portion of long-term borrowings approximates their book value due to their short maturity periods.

(6) Deposits received

The fair value of deposits received approximates their book value due to their short maturity periods.

(7) Straight bonds (included in short-term borrowings and long-term debt)

The fair value of marketable straight bonds is determined by the over-the-counter market price.

(8) Long-term borrowings (included in long-term debt)

The fair value of long-term borrowings is determined by the total amount of the principal and interest using the rate which would apply if similar borrowings were newly made.

(9) Derivative transactions

The fair value of forward exchange contracts are based on forward exchange rate.

Notes to the Consolidated Financial Statements

(Note 2) Financial instruments of which fair values are considered to be too difficult to be estimated are unlisted stocks of ¥110,240 million as of March 31, 2015 and ¥108,923 million as of March 31, 2016 and other investments of ¥25,633 million as of March 31, 2015 and ¥24,764 million as of March 31, 2016. Since there are no quoted market prices and it is too difficult to estimate the fair values, they are not included in “(3) Investments in securities.”

(Note 3) Maturity analysis for Cash and cash equivalents, Time deposits, and Restricted cash, and Notes and accounts receivable.

	Yen (millions)	
	Due in one year or less	Due after one year
		2016
Cash and cash equivalents, Time deposits, Restricted cash, and Restricted withdrawals and restricted cash	¥ 275,399	¥ —
Notes and accounts receivable	406,929	28,453
Total	¥ 682,328	¥ 28,453

	Yen (millions)	
	Due in one year or less	Due after one year
		2015
Cash and cash equivalents, Time deposits, and Restricted cash	¥ 258,493	¥ —
Notes and accounts receivable	582,335	27,390
Total	¥ 840,828	¥ 27,390

8. Net Assets and Per Share Data

Under the Japanese Corporate Law (“the Law”), the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of capital stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings (accumulated deficits) in the accompanying consolidated balance sheets.

As of March 31, 2016, the total amount of legal earnings reserve and additional paid-in capital exceeded 25% of the capital stock, therefore, no additional provision is required.

Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By resolution of the shareholders’ meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

Year end cash dividends are approved by the shareholders after the end of each fiscal year, and semiannual interim cash dividends are declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each fiscal year or interim six-month period. In accordance with the Law, final cash dividends and the related appropriations of retained earnings have not been reflected in the financial statements at the end of such fiscal year. However, cash dividends per share shown in the accompanying consolidated statements of operations reflect dividends applicable to the respective period.

At the annual shareholders’ meeting held on June 23, 2016 a resolution of no dividend to shareholders of record as of March 31, 2016 was approved.

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each period.

Notes to the Consolidated Financial Statements

9. Collateral Assets and Liabilities secured by the Collateral

Collateral assets and liabilities secured by the collateral as of March 31, 2015 and 2016 were as follows:

(1) Collateral Assets

	Yen (millions)	
	2015	2016
Time deposits	¥ 23,429	¥ 25,958
Notes and accounts receivable		
Trade	60,674	50,891
Nonconsolidated subsidiaries and affiliates	8,677	8,543
Inventories	214,763	87,217
Land	83,075	81,908
Buildings and structures	162,561	156,500
Machinery and equipment	13,610	12,438
Investments in securities	28,735	30,409
	¥ 595,524	¥ 453,864

(2) Liabilities secured by the Collateral

	Yen (millions)	
	2015	2016
Short-term borrowings	¥ 477,648	¥ 433,998
Long-term debt	1,044	—
	¥ 478,692	¥ 433,998

Time deposits of ¥21,335 million as of March 31, 2015 and ¥23,913 million as of March 31, 2016 were pledged as collateral for opening a standby letter of credit.

In addition, certain shares of the consolidated subsidiaries which were subject to elimination through inter-company transactions were pledged as collateral of short-term borrowings.

10. Contingent Liabilities

(1) Guarantee Liabilities

	Yen (millions)	
	2015	2016
Loans guaranteed	¥ 17,161	¥ 11,866
Trade payables guaranteed	53	—
	¥ 17,214	¥ 11,866

(2) Matters related to inventory purchase commitments on raw materials (polysilicon) for solar cells

A valuation reserve for inventory purchase commitments is set aside with respect to purchase contracts for raw materials (polysilicon) for solar cells. Some of the purchase contracts for raw materials (polysilicon) at the year-end prohibit their resale. Therefore, potential future losses may occur if raw materials (polysilicon) are no longer used. The aggregate amount of the purchase contracts prohibiting resale of raw materials after deducting the valuation reserve for inventory purchase commitments were ¥38,795 million as of March 31, 2015 and ¥19,437 million as of March 31, 2016.

(3) Matters related to long-term electricity and others supply contracts at a production base

The Company entered into long-term contracts with several suppliers with respect to electricity and others necessary to produce solar cells at Sakai Factory. The total amount of future minimum payments under such contracts as of March 31, 2015 and 2016 were respectively ¥43,915 million (the remaining term was from 2.5 years to 14 years) and ¥38,064 million (the remaining term are from 1.5 years to 12.75 years). Each contract shall not be terminated before expiration.

Although such long-term electricity and other supply contracts give the company 480 mega-watt production capacity of solar cells per year, the actual production quantity currently sits at around 160 mega-watt per year. Such long-term contracts have caused more expensive production cost in the Energy Solution Business. However, it is difficult to estimate the amount of loss related to such contracts because the prevailing market price of electricity and others at Sakai Factory, procurement costs of electricity and others not depending on such contracts, and appropriate production costs based on such market price and procurement costs cannot be determined.

Notes to the Consolidated Financial Statements

(4) Others

As of March 31, 2016, in relation to the TFT-LCD business, the Company and some of its subsidiaries were subject to investigations being conducted by the Directorate General for Competition of the European Commission etc., and civil lawsuits seeking monetary damages resulting from alleged anticompetitive behavior have been filed against the Company and some of its subsidiaries in North America, etc.

11. Retirement Benefits

Reconciliations of the defined benefit obligations of the Company and its consolidated subsidiaries as of March 31, 2015 and 2016 consisted of the following:

	Yen (millions)	
	2015	2016
Defined benefit obligation at beginning of year	¥ 375,724	¥ 389,851
Cumulative effect of change in accounting policies	240	—
Service cost	11,979	11,796
Interest cost	7,027	6,939
Actuarial loss (gain)	6,248	26,223
Benefits paid	(15,720)	(69,880)
Other	27	(2,066)
Foreign currency exchange rate changes	4,326	(3,822)
Defined benefit obligation at end of year	¥ 389,851	¥ 359,041

Reconciliations of the fair value of plan assets of the Company and its consolidated subsidiaries as of March 31, 2015 and 2016 consisted of the following:

	Yen (millions)	
	2015	2016
Fair value of plan assets at beginning of year	¥ 274,341	¥ 304,574
Expected return on plan assets	8,938	9,538
Actuarial gain (loss)	17,668	(10,262)
Employer contribution	15,813	14,503
Benefits paid	(15,484)	(69,365)
Other	(112)	(1,098)
Foreign currency exchange rate changes	3,410	(3,969)
Fair value of plan assets at end of year	¥ 304,574	¥ 243,921

Reconciliations of the defined benefit obligation and the fair value of the plan assets and the amount recognized in the consolidated balance sheets as of March 31, 2015 and 2016 consisted of the following:

	Yen (millions)	
	2015	2016
Funded defined benefit obligation at end of year	¥ 383,728	¥ 352,758
Fair value of plan assets at end of year	(304,574)	(243,921)
Funded status at end of year	79,154	108,837
Unfunded defined benefit obligation at end of year	6,123	6,283
Total net defined benefit liability (asset)	¥ 85,277	¥ 115,120
Net defined benefit liability	85,277	117,341
Net defined benefit asset	—	(2,221)
Total net defined benefit liability (asset)	¥ 85,277	¥ 115,120

Expenses for net defined benefit liability of the Company and its consolidated subsidiaries for the years ended March 31, 2015 and 2016 consisted of the following:

	Yen (millions)	
	2015	2016
Service cost	¥ 11,979	¥ 11,796
Interest cost	7,027	6,939
Expected return on plan assets	(8,938)	(9,538)
Amortization of net actuarial loss	21,818	21,088
Amortization of past service cost	(4,553)	(4,553)
Other	153	516
Total expenses for net defined benefit liability	¥ 27,486	¥ 26,248

Other than the total expenses for net defined benefit liability, the Company and its domestic subsidiaries recorded expenses for the voluntary retirement program in the amount of ¥24,080 million as restructuring charges for the year ended March 31, 2016.

Notes to the Consolidated Financial Statements

Amounts recognized in remeasurements of defined benefit plans (other comprehensive income) for the years ended March 31, 2015 and 2016 before the effect of income taxes consisted of the following:

	Yen (millions)	
	2015	2016
Past service cost	¥ (4,519)	¥ (4,523)
Net actuarial gain (loss)	31,604	(14,216)
Total	¥ 27,085	¥ (18,739)

Amounts recognized in remeasurements of defined benefit plans (accumulated other comprehensive income) as of March 31, 2015 and 2016 before the effect of income taxes consisted of the following:

	Yen (millions)	
	2015	2016
Unrecognized past service cost	¥ (11,983)	¥ (7,460)
Unrecognized net actuarial loss	100,346	114,562
Total	¥ 88,363	¥ 107,102

Classification of the fair value of plan assets of the Company and its consolidated subsidiaries as of March 31, 2015 and 2016 consisted of the following:

	2015	2016
Bonds	31%	27%
Equity securities	26%	18%
Cash and cash equivalents	1%	9%
Life insurance company general accounts	17%	16%
Alternatives	23%	25%
Other	2%	5%
Total	100%	100%

Alternatives mainly consisted of investment in hedge funds.

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

The Long-term expected rate of return used by the Company and its consolidated subsidiaries for the years ended March 31, 2015 and 2016 was mainly 3.0%.

Discount rate

The discount rate used by the Company and its consolidated subsidiaries was mainly 1.5% for the year ended March 31, 2015 and mainly 0.5% for the year ended March 31, 2016.

In addition, the cost recognized for the defined contribution pension plans was ¥1,131 million for the year ended March 31, 2015 and ¥1,099 million for the year ended March 31, 2016.

12. Segment Information

General information about reportable segments

The Company's chief operating decision maker is its Board of Directors. The Company's reportable segments are components of the Group that engage in business activities, whose operating results are regularly reviewed by the Board of Directors when making resource allocation and performance assessment decisions, and for which discrete financial information is available.

In order to realize a quick response and competitive organization against customer needs and changes in the market, the Group adopted a virtual company system based on five business segments on October 1, 2015. Each virtual company develops a comprehensive strategy for the organization, handling products and services under its organization, expanding its business activities. Hence, the Group is organized by the virtual company based segments. Those five reportable segments are Consumer Electronics, Energy Solutions, Business Solutions, Electronic Components and Devices, and Display Devices.

In the cumulative second quarter, the Group's reportable segments were Product Business and Device Business. However, from the cumulative third quarter, by the adoption of the virtual company system it has changed to five classifications of Consumer Electronics, Energy Solutions, Business Solutions, Electronic Components and Devices, and Display Devices. As major changes, products previously classified as Product Business basically becomes included in Consumer Electronics, Energy Solutions, and Business Solutions. Device Business products basically becomes included in Electronic Components and Devices and Display Devices.

The segment information of the previous fiscal year is described as the five classification under the new segmentation. By the adoption of the virtual company system, "information for income or loss,

Notes to the Consolidated Financial Statements

segment assets and other material items” of each reportable segment, are summarized by each virtual company. However, since the Company does not have the figures by each virtual company for the previous fiscal year and the cumulative second quarter, we have estimated these amounts by calculating totals for the products produced by each company.

Basis of measurement of reported segment income or loss, segment assets and other material items

The accounting policies for the reportable segments are consistent with the Company’s accounting policies used in the preparation of its consolidated financial statements. Intersegment sales and income (loss) are recognized based on current market prices.

Segment income or loss is determined as operating income less basic research and development costs and administrative expenses related to the Company’s corporate headquarters.

Depreciable assets of the Company’s R&D groups and administration and distribution groups of the Company’s headquarters which are not directly allocated to product groups are not allocated to reportable segments. On the other hand, depreciation and amortization of these assets are allocated to reportable segments based mainly on sales of each reportable segment.

As stated in “(s) Change in accounting estimates” in “1. Summary of Significant Accounting and Reporting Policies”, historically, the Company used to write down the book value of inventories when a certain period of time has passed after the acquisition of the inventories. As a rule, this write-down was performed on a regular basis using a uniform rate. However, considering rapidly declining prices, the slow movement of the inventories, and other factors, the Company has decided to change the length of time and uniform rate used to write down the book value of the inventories. This change more properly reflects the decline in the inventory’s profitability in the company’s financial condition and operating results.

The effect of this change in accounting estimates was to increase segment losses by ¥6,749 million for Electronic Components and Devices, and ¥40,319 million for Display Devices for the current fiscal year.

Information about reported segment income or loss, segment assets and other material items

Segment information as of and for the years ended March 31, 2015 and 2016 was as follows:

	Yen (millions)	
	2015	2016
Net Sales:		
Consumer Electronics:		
Customers	¥ 982,350	¥ 798,314
Intersegment	443	12,419
Total	982,793	810,733
Energy Solutions:		
Customers	270,881	155,422
Intersegment	(5)	1,412
Total	270,876	156,834
Business Solutions:		
Customers	343,321	348,451
Intersegment	12	6,745
Total	343,333	355,196
Electronic Components and Devices:		
Customers	416,707	458,022
Intersegment	49,930	32,007
Total	466,637	490,029
Display Devices:		
Customers	772,997	701,380
Intersegment	134,146	70,168
Total	907,143	771,548
Eliminations	(184,526)	(122,751)
Consolidated Net Sales	¥ 2,786,256	¥ 2,461,589
Segment Income (Loss):		
Consumer Electronics	¥ 19,083	¥ (21,830)
Energy Solutions	(62,679)	(18,425)
Business Solutions	31,301	35,814
Electronic Components and Devices	676	1,491
Display Devices	594	(129,173)
Adjustments	(37,040)	(29,844)
Consolidated operating (loss) income	¥ (48,065)	¥ (161,967)
Segment Assets:		
Consumer Electronics	¥ 450,991	¥ 342,064
Energy Solutions	174,120	85,689
Business Solutions	153,288	168,273
Electronic Components and Devices	152,351	94,164
Display Devices	545,793	436,862
Adjustments	485,366	443,620
Consolidated Assets	¥ 1,961,909	¥ 1,570,672

Notes to the Consolidated Financial Statements

	Yen (millions)	
	2015	2016
Other Material Items		
Depreciation and Amortization:		
Consumer Electronics	¥ 32,028	¥ 29,651
Energy Solutions	3,799	675
Business Solutions	13,912	14,477
Electronic Components and Devices	7,315	4,670
Display Devices	49,904	24,052
Adjustments	4,680	3,856
The amount presented in Consolidated Financial Statements	¥ 111,638	¥ 77,381
Amortization of Goodwill:		
Consumer Electronics	¥ 135	¥ —
Energy Solutions	678	—
Business Solutions	1,729	1,807
Electronic Components and Devices	—	—
Display Devices	—	—
Adjustments	11	—
The amount presented in Consolidated Financial Statements	¥ 2,553	¥ 1,807
Investments in Nonconsolidated Subsidiaries and Affiliates accounted for using the equity methods:		
Consumer Electronics	¥ 4,205	¥ 3,539
Energy Solutions	68	66
Business Solutions	13	—
Electronic Components and Devices	—	—
Display Devices	72,507	70,832
Adjustments	31,098	31,930
The amount presented in Consolidated Financial Statements	¥ 107,891	¥ 106,367
Increase in Property, Plant, Equipment and Intangible Assets:		
Consumer Electronics	¥ 31,859	¥ 22,795
Energy Solutions	5,151	1,616
Business Solutions	15,787	12,232
Electronic Components and Devices	2,677	1,833
Display Devices	34,841	24,572
Adjustments	8,169	9,466
The amount presented in Consolidated Financial Statements	¥ 98,484	¥ 72,514

Adjustments of segment income or loss were ¥(37,040) million and ¥(29,844) million for the years ended March 31, 2015 and 2016, respectively, and comprised elimination of intersegment transactions and corporate expenses not allocated to each reportable segment.

The elimination of intersegment transactions was ¥73 million and ¥(89) million, respectively. Corporate expenses not allocated to each reportable segment were ¥(37,223) million and ¥(29,079) million for the years ended March 31, 2015 and 2016, respectively.

Corporate expenses were mainly attributable to basic R&D expenses and expenses related to the administrative groups of the Company's headquarters.

Adjustments of segment assets were ¥485,366 million and ¥443,620 million as of March 31, 2015 and 2016, respectively, and comprised elimination of intersegment transactions and corporate assets not allocated to each reportable segment.

The elimination of intersegment transactions was ¥(11,287) million and ¥(10,413) million, respectively. Corporate assets not allocated to each reportable segment were ¥496,653 million and ¥454,033 million as of March 31, 2015 and 2016, respectively.

Corporate assets not allocated to each reportable segment were attributable mainly to cash and cash equivalents, the Company's investments in securities, and depreciable assets related to the Company's R&D groups as well as the administrative and distribution groups of the Company's headquarters.

Adjustments of investments in nonconsolidated subsidiaries and affiliates accounted for using the equity method were ¥31,098 million and ¥31,930 million as of March 31, 2015 and 2016, respectively, and mainly comprised investments in Sharp Finance Corporation.

Adjustments of increase in property, plant, equipment and intangible assets were ¥8,169 million and ¥9,466 million for the years ended March 31, 2015 and 2016, respectively, and mainly comprised increase in the Company's R&D groups, the administrative and distribution groups of the Company's headquarters.

Depreciation and amortization includes the amortization of long-term prepaid expenses.

Increase in property, plant, equipment and intangible assets includes the increase in long-term prepaid expenses.

Notes to the Consolidated Financial Statements

Related information

Net Sales by product/service for the years ended March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Net Sales to outside customers:		
LCDs	¥ 772,997	¥ 704,018
CCD/CMOS	334,672	394,707
LCD Color TVs	370,046	284,206
Others	1,308,541	1,078,658
Total	¥ 2,786,256	¥ 2,461,589

Net Sales by region/country for the years ended March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Net Sales:		
Japan	¥ 968,449	¥ 750,499
China	1,140,892	1,085,311
Others	676,915	625,779
Total	¥ 2,786,256	¥ 2,461,589

Net Sales are classified according to regions or countries where customers are located.

Property, Plant and Equipment by region/country as of March 31 2015 and 2016 were as follows::

	Yen (millions)	
	2015	2016
Property, Plant and Equipment, at cost less accumulated depreciation:		
Japan	¥ 305,936	¥ 280,087
China	48,023	37,090
Others	46,633	34,028
Total	¥ 400,592	¥ 351,205

Impairment loss on fixed assets by reportable segment

Impairment loss on fixed assets by reportable segment for the years ended March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Impairment Loss:		
Consumer Electronics	¥ 7,498	¥ 3,095
Energy Solutions	11,094	2,762
Business Solutions	—	278
Electronic Components and Devices	7,646	2,251
Display Devices	77,777	15,397
Corporate Assets and Elimination	—	965
Total	¥ 104,015	¥ 24,748

Amortization of goodwill and unamortized balance by reportable segment

Amortization of goodwill and the unamortized balance by reportable segment as of and for the years ended March 31, 2015 and 2016 were as follows:

	Yen (millions)	
	2015	2016
Amortization of Goodwill:		
Consumer Electronics	¥ 135	¥ —
Energy Solutions	678	—
Business Solutions	1,729	1,807
Electronic Components and Devices	—	—
Display Devices	—	—
Corporate Assets and Elimination	11	—
Total	¥ 2,553	¥ 1,807

Balance at end of year:

Consumer Electronics	¥ —	¥ —
Energy Solutions	—	—
Business Solutions	4,170	2,256
Electronic Components and Devices	—	—
Display Devices	—	—
Corporate Assets and Elimination	—	—
Total	¥ 4,170	¥ 2,256

Notes to the Consolidated Financial Statements

13. Impairment Loss

(Impairment Loss)

With regards to accounting for impairment assets, the Company and its consolidated subsidiaries identify cash generating units in consideration of business characteristics and business operations. Idle assets are identified as respective cash generating units.

The Company and its consolidated subsidiaries recognized an impairment loss of ¥3,892 million for Digital Information Appliance Division due to the decreasing profitability for the year ended March 31, 2015. Details were as follows: ¥973 million for molds; ¥2,596 million for long-term prepaid expenses; and ¥323 million for others. The estimated recoverable amount was evaluated at zero in accordance with use value due to the unlikelihood of cash flow in the future.

The Company and its consolidated subsidiaries recognized an impairment loss of ¥9,267 million for Energy System Solutions Division due to the decreasing profitability for the year ended March 31, 2015. Details were as follows: ¥5,344 million for buildings and structures; ¥1,229 million for machinery, equipment and vehicles; ¥2,547 million for lease assets; and ¥147 million for others. The estimated recoverable amount for buildings and land was determined by the net realizable value based on appraisal valuations. The net realizable value for the other assets was evaluated at zero.

The Company and its consolidated subsidiaries recognized an impairment loss of ¥77,709 million for Display Device Business due to the decreasing profitability for the year ended March 31, 2015. Details were as follows: ¥41,503 million for buildings and structures; ¥22,798 million for machinery, equipment and vehicles; ¥12,508 million for long-term prepaid expenses; and ¥900 million for others. The estimated recoverable amount for buildings, machinery and equipment and land was determined by the net realizable value based on appraisal valuations. The net realizable value for the other assets was evaluated at zero.

The Company and its consolidated subsidiaries recognized an impairment loss of ¥6,293 million for Electronic Components and Devices Business due to scheduled review and concentration of production system for the year ended March 31, 2015. Details were as follows: ¥3,078 million for buildings and structures; ¥3,066 million for machinery, equipment and vehicles; and ¥149 million for others. The estimated recoverable amount for buildings and land was determined by the net realizable value based on appraisal valuations. The net realizable value for the other assets was evaluated at zero.

The consolidated subsidiaries in U.S.A, Mexico, Malaysia, China and others recognized an impairment

loss of ¥3,690 million due to the decreasing profitability for the year ended March 31, 2015. Details were as follows: ¥1,851 million for buildings and structures; ¥1,367 million for machinery, equipment and vehicles; and ¥472 million for others. The estimated recoverable amount was determined by the net realizable value based on appraisal valuations and others.

The Company and its consolidated subsidiaries recognized an impairment loss of ¥1,337 million for the unemployed assets located at Electronic Components and Devices Business due to the unlikelihood of use in the future for the year ended March 31, 2015. Details were as follows: ¥1,286 million for buildings; and ¥51 million for land. The estimated recoverable amount for buildings and land was determined by the net realizable value based on appraisal valuations.

In addition, the consolidated subsidiaries in U.S.A recognized an impairment loss of ¥1,827 million for goodwill due to the unlikelihood of an estimated profitability for the year ended March 31, 2015.

The Company recognized an impairment loss of ¥563 million for Consumer Electronics (Digital information Appliance) due to the decreasing profitability for the year ended March 31, 2016. Details were as follows: ¥68 million for molds; ¥424 million for long-term prepaid expenses; and ¥71 million for others. The estimated recoverable amount for buildings and land was determined by the net realizable value based on the estate appraisal valuation. The net realizable value for the other assets was evaluated at zero.

The Company recognized an impairment loss of ¥2,761 million for Energy Solutions due to the decreasing profitability for the year ended March 31, 2016. Details were as follows: ¥668 million for buildings and structures; ¥397 million for machinery, equipment and vehicles; ¥1,102 million for software; ¥594 million for others. The estimated recoverable amount for buildings and land was determined by the net realizable value based on the estate appraisal valuation. The net realizable value for the other assets was evaluated at zero.

The Company recognized an impairment loss of ¥3 million for Electronic Devices Business due to scheduled review and concentration of production system for the year ended March 31, 2016. Details were as follows: ¥2 million for buildings and structures; ¥1 million for others. The estimated recoverable amount for buildings and land was determined by the net realizable value based on the estate appraisal valuation. The net realizable value for the other assets was evaluated at zero.

The Company recognized an impairment loss of ¥12,320 million for Display Device Business due to the decreasing profitability for the year ended March 31, 2016. Details were as follows: ¥4,078 million for buildings and structures; ¥4,401 million for machinery, equipment and vehicles; ¥2,342 million for photo masks; ¥1,499 million for others. The estimated recoverable amount for buildings, machinery and

Notes to the Consolidated Financial Statements

equipment, and land was determined by the net realizable value based on the estate appraisal valuation. The net realizable value for the other assets was evaluated at zero.

The Company recognized an impairment loss of ¥1,169 million for some unemployed shared assets due to no usage in the future for the year ended March 31, 2016. Details were as follows: ¥1,168 million for buildings and structures and ¥1 million for others. The net realizable value was evaluated at zero.

The consolidated subsidiaries in U.S.A and Mexico recognized an impairment loss of ¥2,552 million due to the planned sales (sold) for the year ended March 31, 2016. Details were as follows: ¥2,037 million for buildings and structures and ¥515 million for others. The estimated recoverable amount was determined by the net realizable value based on the estate appraisal valuation and others.

The consolidated subsidiaries in China, Indonesia and Malaysia recognized an impairment loss of ¥5,380 million for their unemployed assets due to no usage in the future for the year ended March 31, 2016. Details were as follows: ¥5,216 million for machinery, equipment and vehicles and ¥164 million for others. The estimated recoverable amount was determined at zero, as cash flow could not be expected.

14. Restructuring Charges

Details of the restructuring charges for the year ended March 31, 2015 were as follows:

- (a) Employee termination payments associated with personnel rationalization, transition to a new value chain and others, contract termination penalties, additional costs on product warranties due to the restructuring reform of the appliance business in Europe (¥9,212 million)
- (b) Loss associated with transfer of equity interests of Sharp Manufacturing Poland, which is a subsidiary of the Company located in Poland and production bases of LCD TVs (¥5,476 million)
- (c) Costs of exiting from a part of the research and development project for the LCD TV business (¥3,338 million)
- (d) Mainly employee termination payments due to the restructuring reform of the overseas LCD TV business (¥3,213 million)

Details of the restructuring charges for the year ended March 31, 2016 were as follows:

- (a) Cost of voluntary retirement of employees of the Company and its major consolidated subsidiaries in Japan (¥24,080 million)
- (b) Severance costs and assets disposal losses due to the restructuring reform of LCD TVs business in the U.S.A. and Mexico (¥6,820 million)
- (c) Inventory devaluation due to the restructuring reform of Electronic Device and Components (¥6,121 million)
- (d) Cost of termination of business in a subsidiary in South America (¥1,144 million)

15. Settlement

For the year ended March 31, 2015, regarding thin-film solar cells produced by 3Sun s. r. l., an overseas affiliated company to which the equity method is applied, the Company recognized a loss due to a settlement payment in the amount of ¥14,382 million to Enel Green Power S. p. A. for certain consideration for undertaking to purchase from the Company thin-film solar cells the Company was originally responsible for purchasing based on a long-term supply contract.

Notes to the Consolidated Financial Statements

16. Transactions with Related Parties

Principal Transactions with related parties for the year ended March 31, 2015 were as follows:

Yen (millions)	
Category	Associated company
Company name	Sakai Display Products Corporation
Location	Sakai-ku, Sakai city
Capital stock	15,000
Details of business	Development, manufacture and sale of device business components
Holding or held ratio	Direct holding: 39.9%
Relation of related party	Manufacture of the Company's products
Detail of transaction	Purchases of products
Transaction amount	150,077
Account	Accounts payable
Balance at the end of the term	28,165

Notes: 1. Consumption tax is not included in the transaction amount but included in the balance at the end of the fiscal year.
2. Transaction amounts are determined by price negotiations after taking market conditions into account.

Principal transactions with related parties for the year ended March 31, 2016 were as follows:

Yen (millions)	
Category	A company whose majority shares were owned by the company's directors and its close relatives
Company name	Japan Industrial Solutions Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital stock	100
Details of business	Investment business, etc.
Holding or held ratio	—
Relation of related party	Notes: 1
Detail of transaction	Issuance of new shares through the third-party allotment
Transaction amount	25,000
Account	—
Balance at the end of the term	—

Notes: 1. Mr. Saito, who was the Company's outside director, served as the representative director of Japan Industrial Solutions Co., Ltd.
2. The Company entered into a subscription agreement to issue Class B shares of 1 million yen per share with Japan Industrial Solutions Fund I, whose general partner is Japan Industrial Solutions Co., Ltd. This agreement was entered into before Mr. Saito was appointed to the Company's outside director, and after that, the payment was made after it was approved by special resolution related to the issuance of the Class B shares at the shareholders' meeting. Therefore, no special interest existed between Mr. Saito and the Company at the time of the agreement. This transaction amount was determined by special resolution at the shareholders' meeting, based on the value-analysis of this Class Share which was evaluated by the "II Tree Model" of ordinary value-calculation-model of Deloitte Tohmatsu Financial Advisory, which was independent evaluation organization from the Company.

Notes to the Consolidated Financial Statements

Significant affiliated company for the year ended March 31, 2016 is Sharp Finance Corporation and its summarized financial information was as followings:

	Yen (millions)
	2016
Total current assets	¥ 495,176
Total noncurrent assets	10,379
Total current liabilities	388,715
Total noncurrent liabilities	49,469
Total net assets	¥ 67,371
Net sales	¥ 81,504
Income before income taxes	8,956
Profit	¥ 5,925

17. Significant Subsequent Events

1. Issuance of new shares through third-party allotments

The Company adopted a resolution and an amended resolution regarding the issuance of new shares (common shares and Class C Shares) through third-party allotment at the Board of Directors meeting held on February 25 and March 30, 2016. Accordingly, the Company signed a share subscription agreement with the planned allottees regarding the above on April 2, 2016.

The item on the agenda regarding the new shares issuance was approved at the 122nd ordinary general meeting of shareholders of the Company held on June 23, 2016 (the "Ordinary General Meeting of Shareholders") and the general meeting of class shareholders by holders of the common shares, the general meeting of class shareholders by holders of the Class A Shares, and the general meeting of class shareholders by holders of the Class B Shares (the "General Meeting of Class Shareholders") held on June 23, 2016.

The overview of the new shares issuances are as follows.

(1) Common shares

(i) Number of new shares to be issued	3,281,950,697 shares
(ii) Issued price	88 yen per share
(iii) Amount of procurement fund	288,811,661,336 yen
(iv) Stated capital	44 yen per share
(v) Offering or allotment method (planned allottees)	Allotted by means of third-party allotment: To Hon Hai Precision Industry Co., Ltd. 1,300,000,000 shares To Foxconn (Far East) Limited 915,550,697 shares To Foxconn Technology Pte. Ltd. 646,400,000 shares To SIO International Holdings Limited 420,000,000 shares
(vi) Schedule of issuance	Ordinary General Meeting of Shareholders: June 23, 2016 Payment period: From June 28, 2016 to October 5, 2016
(vii) Others	The payments are subject to the securities registration statement pursuant to the Financial Instruments and Exchange Act, acquisition of permits, licenses, or the like from relevant authorities of the relevant countries, including permission of notification or the like regarding business combination from competition authorities of the relevant countries, required in order to execute the Capital Increase Through Third-Party Allotment, and an approval (via special resolution) of the item on the agenda regarding the issuance of common shares at the Ordinary General Meeting of Shareholders and the General Meeting of Class Shareholders.

Notes to the Consolidated Financial Statements

(2) Class C Shares

(i) Number of new shares to be issued	11,363,636 shares
(ii) Issued price	8,800 yen per share
(iii) Amount of procurement fund	99,999,996,800 yen
(iv) Stated capital	4,400 yen per share
(v) Offering or allotment method (planned allottees)	Allotted by means of third-party allotment: To Hon Hai Precision Industry Co., Ltd. 11,363,636 shares
(vi) Schedule of issuance	Ordinary General Meeting of Shareholders: June 23, 2016 Payment period: From June 28, 2016 to October 5, 2016
(vii) Others	It is prescribed that the payment priority of dividends from surplus and distribution of residual assets for Class C Shares is the same as that for the common shares, and that the amounts of payment of the dividends and distribution are the amounts multiplied by prescribed acquisition ratios. Class C Shares have no voting rights. Assignments of Class C Shares are restricted. Class C Shares are subject to call in consideration for common shares. The payments are subject to the securities registration statement pursuant to the Financial Instruments and Exchange Act, acquisition of permits, licenses, or the like from relevant authorities of the relevant countries, including notifications, permits, or the like regarding business combination from competition authorities of the relevant countries, required in order to execute the Capital Increase Through Third-Party Allotment, and an approval (via special resolution) of the items on the agenda regarding the issuance of Class C Shares and the revision of the articles of incorporation required due this issuance at the Ordinary General Meeting of Shareholders and the General Meetings of Class Shareholders.

(3) Intended use of funds procured

Intended Use of Proceeds	Amount (millions of yen)	Timing of use as intended
(i) Upgrading technology and commencement of mass production for the commercialization of OLED business	200,000	July 2016 through June 2019
(ii) Investment in regard to Display Devices Company for higher definition, improvement of yield rate, R&D of next-era technology, increase in production volume, and rationalization targeted mainly at medium-sized products	60,000	July 2016 through September 2018
(iii) Investment in regard to Consumer Electronics Company for R&D, dies, and molds to realize a transformation of business model for IoT business expansion, for R&D, dies, and molds to expand the business in emerging countries, for increase in production volume and rationalization	40,000	July 2016 through September 2018
(iv) Investment in regard to Energy Solutions Company for R&D and expansion of sales distribution to realize a transformation from existing business to solution business	8,000	July 2016 through September 2018
(v) Investment in regard to Electronic Components and Devices Company for R&D, expansion of sales distribution, increase in production volume, and rationalization targeted for growing businesses including automotive, industrials, and IoT	10,000	July 2016 through September 2018
(vi) Investment in regard to Business Solutions Company for expansion of sales distribution of existing MFP business, R&D for growing business such as robotics or solution business, increase in production volume, and rationalization	40,000	July 2016 through September 2018
(vii) Advertising investment and other related expenses for brand value enhancement for targeted areas such as Japan, Asia, and China, and investment and other related expenses for element technology development and fundamental R&D for new business	26,527	July 2016 through June 2019

Notes to the Consolidated Financial Statements

2. Novation of the Current Syndicated Loan Agreements

The Company agreed on April 26, 2016, with each lender bank of the syndicated loans to novate the contract terms of the current syndicated loans, whose contracts were renewed or concluded on June 25, 2013, and whose term was extended on March 30, 2016.

The overview of the novation agreements is as follows.

- (1) Arranger and agent
Mizuho Bank, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- (2) Effective Date of novation
April 28, 2016
- (3) Details of novation
Excluding some of the contracts, the interest rates will decrease from the existing contract, and the term is 10 years from the implementation date of the contract novation.
- (4) Purpose of Loan
Working capital
- (5) Effects of novation
7.2 billion yen reduction of borrowing costs is forecasted in the fiscal year ending March 31, 2017.

3. Decreases in Capital Stock and Capital Reserve

The Company resolved on the Board of Directors meeting held on May 12, 2016, the decreases in the amounts of capital stock and capital reserve (the Decrease in Capital Stock etc.) and the transfer of the decreased amount to other capital surplus.

The overview of the Decrease in Capital Stock etc. is as follows.

- (1) Objective
As indicated in "1. Issuance of new shares through third-party allotment", after the issuance of new shares through third-party allotments, the Company's capital stock and capital reserve will each increase by 194,405,829,068 yen.
However, as indicated in "4. Buyback of Class B Shares" below, for the purpose of buying back Class B Shares and reducing the burden of the class shares' preferred dividends and the buyback premium to be paid by the Company when the Company exercises the call option, to improve the financial structure at an early stage, the Company has decided to conduct the Decrease in Capital Stock etc. and transfer the decreased amount to other capital surplus, which constitutes the distributable amount.
- (2) Amount of capital stock to be decreased
189,905,829,068 yen
- (3) Amount of capital reserve to be decreased
193,280,829,068 yen
- (4) Method of the Decreases in Capital Stock, etc.
After the Decreases in Capital Stock, etc. are conducted as above based on the provisions of Article 447, paragraphs 1 and 3 and Article 448, paragraphs 1 and 3 of the Companies Act, the amount of Capital Stock reduced will be transferred to other capital surplus.

Notes to the Consolidated Financial Statements

(5) Schedule of the Decreases in Capital Stock, etc.

May 12, 2016	Resolution at the Board of Directors meeting regarding the Decreases in Capital Stock, etc.
May 27, 2016	Public notice regarding statements of objection by creditors
June 27, 2016	Final due date for statements of objection by creditors
On or after June 29, 2016	Effective date of the Decreases in Capital Stock, etc. The Company adopted a resolution regarding a change of the effective date to one when all the allottees regarding the new shares issuance complete payment of funds.

4. Buyback of Class B Shares

The Company adopted the resolution regarding the buyback of all Class B shares in exchange for cash consideration at the Board of Directors meeting held on May 12, 2016.

The overview of the Class B shares buyback is as follows.

(1) Reason and method for the buyback

For the purpose of reducing the burden of the class shares' preferred dividends and the buyback premium to be paid by the Company when the Company exercises the call option, based on Article 6-3, paragraph 6, of the Company's articles of incorporation, the Company will buy back all Class B Shares held by Japan Industrial Solutions Fund I (JIS). The subscription agreement about Class B Shares will be terminated as of June 23, 2016 upon agreement with JIS.

(2) Total number of shares to be bought back

25,000 shares

(3) Buyback date

August 8, 2016, or the effective date of the Capital Increase Through Third-Party Allotment, whichever comes later.

(4) Consideration of the buyback of the shares

The amount obtained by multiplying the total amount of 112% of the amount equal to the amount to be paid in per Class B Share (1,000,000 yen), and the amount equal to accumulated unpaid dividends and daily prorated unpaid preferred dividend amount for the Class B Shares specified in the Company's articles of incorporation, by the total number of Class B Shares to be bought back.

The buyback consideration will be 29,954,602,500 yen (1,198,184.1 yen per share) if the shares are bought back on August 8, 2016.

(5) Others

To obtain the distributable amount necessary for the buyback, it is necessary that the Capital Increase Through Third-Party Allotment comes into effect, and the Decreases in Capital Stock, etc., indicated in "3. Decreases in Capital Stock and Capital Reserve" above, come into effect.

5. Allotment of Stock Options (Share Options)

The Company passed a resolution at the Board of Directors meeting held on May 12, 2016, to submit a proposal at the Ordinary General Meeting of Shareholders, that the Company be authorized to allot Share Options as stock options to Directors, Executive Officers and employees ("Officers and Employees") of the Company and its subsidiaries and affiliates (the "Group"), to delegate to its Board of Directors the determination of the subscription requirements of such Share Options.

The item on the agenda regarding the allotment of stock options (share options) was approved at the Ordinary General Meeting of Shareholders on June 23, 2016.

The overview of the allotment of stock options (Share Options) is as follows.

(1) Purpose of adopting a stock option plan

The Company has decided to implement a stock option plan and will issue Share Options as one of the types of remuneration for Officers and Employees of the Group. This will help the Company retain and recruit human resources required for the Company's revitalization and growth, and will serve as an incentive to increase their motivation to participate in the Group's business management and contribute to higher performance, as well as the increased corporate value of the Company.

Notes to the Consolidated Financial Statements

(2) Class and number of shares to be issued upon exercise of Share Options

The class of shares to be issued upon the exercise of Share Options shall be common stock of the Company, and the number of shares to be issued shall not exceed 192,000,000.

If the Company splits its common stock or consolidates its common stock, the number of shares to be issued upon the exercise of Share Options shall be adjusted.

(3) Total number of Share Options to be issued

No more than 192,000 units of Share Options shall be issued.

One thousand shares shall be issued per unit of Share Options; provided that, in the event of any adjustment of the number of shares stipulated in (2) above, the number of shares to be issued per unit of Share Options shall be adjusted accordingly.

The date of allotment of Share Options shall be determined by the Board of Directors, and the Board of Directors may allot the Share Options multiple times within the scope of the aforementioned limit.

(4) Cash payment for Share Options allotted

No cash payment is required for Share Options allotted.

(5) Amount payable upon the exercise of Share Options

The amount payable upon the exercise of Share Options shall be the Exercise Price per share stipulated in the Share Options, multiplied by the number of shares to be issued upon the exercise of the Share Options.

The Exercise Price shall be the closing price on the Tokyo Stock Exchange on the day immediately prior to the date of the resolution by the Board of Directors of the Company determining the terms of the Share Options or the closing price on the date of the allotment of the Share Option, whichever is higher.

If the Company splits its common stock or consolidates its common stock after the issuance of Share Options, the Exercise Value shall be adjusted.

(6) Exercise period of Share Options

The exercise period shall be from the date on which two years have passed from the date of allotment of the Share Options to the date on which seven years have passed from the date of allotment of the Share Options. If the final day of the exercise period falls on a holiday of the Company, the final day shall be the working day immediately preceding the final day.

Independent Auditor's Report

To the Board of Directors of Sharp Corporation:

We have audited the accompanying consolidated financial statements of Sharp Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016, and 2015, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sharp Corporation and its consolidated subsidiaries as at March 31, 2016, and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 17 "Significant Subsequent Events" to the consolidated financial statements as follows;

- (1) On April 2, 2016, the Company signed a share subscription agreement with the planned allottees regarding the issuance of new shares (common shares and Class C Shares) through third-party allotment. On June 23, 2016, the item on the agenda regarding the new share issuance was approved at the Ordinary General Meeting of Shareholders, the general meeting of class shareholders by holders of the common shares, the general meeting of class shareholders by holders of the Class A Shares, and the general meeting of class shareholders by holders of the Class B Shares.
- (2) On April 26, 2016, the Company agreed with each lender bank of the syndicated loans to novate the contract terms of the current syndicated loan which was extended on March 31, 2016.

KPMG AZSA LLC

June 23, 2016

Osaka, Japan

Consolidated Subsidiaries*

Domestic:

Sharp Electronics Marketing Corporation
 Sharp Manufacturing Systems Corporation
 Sharp Engineering Corporation
 Sharp Business Solutions Corporation
 Sharp Energy Solutions Corporation
 Sharp Trading Corporation
 Sharp Business Computer Software Inc.
 Sharp Yonago Corporation
 Sharp Mie Corporation
 iDeep Solutions Corporation
 Sharp Support & Service Corporation

Overseas:

<Countries and Areas>

Sharp Electronics Corporation <New Jersey, U.S.A.>
 Sharp Laboratories of America, Inc. <Washington, U.S.A.>
 Sharp Electronics of Canada Ltd. <Ontario, Canada>
 Sharp Corporation Mexico, S.A. de C.V. <Mexico City, Mexico>
 Sharp Brasil Comércio e Distribuição de Artigos Eletrônicos Ltda. <San Paulo, Brazil>
 Sharp Electronics (Europe) GmbH <Hamburg, Germany>
 Sharp Devices (Europe) GmbH <Munich, Germany>
 Sharp Business Systems Deutschland GmbH <Cologne, Germany>
 Sharp Electronics (Europe) Ltd. <London, U.K.>
 Sharp Business Systems UK PLC <Wakefield, U.K.>
 Sharp Laboratories of Europe, Ltd. <Oxford, U.K.>
 Sharp International Finance (U.K.) Plc. <Middlesex, U.K.>
 Sharp Electronics (Schweiz) AG <Rüschlikon, Switzerland>
 Sharp Business Systems Sverige AB <Bromma, Sweden>
 Sharp Manufacturing France S.A. <Soulitz, France>
 Sharp Business Systems France SAS <Toulouse, France>
 Sharp Electronics (Italia) S.p.A. <Milano, Italy>
 Sharp Electronics Benelux B.V. <Houten, The Netherlands>
 Sharp Electronics Russia LLC. <Moscow, Russia>
 Sharp Electronic Components (Taiwan) Corporation <Taipei, Taiwan>
 Sharp (Phils.) Corporation <Manila, Philippines>
 Sharp-Roxy Sales (Singapore) Pte., Ltd. <Singapore>

Sharp Electronics (Singapore) Pte., Ltd. <Singapore>
 Sharp Manufacturing Corporation (M) Sdn. Bhd. <Johor, Malaysia>
 Sharp Electronics (Malaysia) Sdn. Bhd. <Selangor, Malaysia>
 Sharp Appliances (Thailand) Ltd. <Chachoengsao, Thailand>
 Sharp Manufacturing (Thailand) Co., Ltd. <Nakornpathom, Thailand>
 Sharp Business Systems (India) Private Ltd. <New Delhi, India>
 Shanghai Sharp Electronics Co., Ltd. <Shanghai, China>
 Sharp Office Equipments (Changshu) Co., Ltd. <Changshu, China>
 Wuxi Sharp Electronic Components Co., Ltd. <Wuxi, China>
 Nanjing Sharp Electronics Co., Ltd. <Nanjing, China>
 Sharp Electronics (Shanghai) Co., Ltd. <Shanghai, China>
 Sharp Electronics Sales (China) Co., Ltd. <Shanghai, China>
 Sharp Electronics Research & Development (Nanjing) Co., Ltd. <Nanjing, China>
 Sharp Laboratories of China Co., Ltd. <Shanghai, China>
 Sharp (China) Investment Co., Ltd. <Beijing, China>
 P.T. Sharp Electronics Indonesia <Jakarta, Indonesia>
 P.T. Sharp Semiconductor Indonesia <West Java, Indonesia>
 Sharp Electronics (Vietnam) Company Limited <Ho Chi Minh City, Vietnam>
 Sharp Corporation of Australia Pty., Ltd. <New South Wales, Australia>
 Sharp Corporation of New Zealand Ltd. <Auckland, New Zealand>
 Sharp Middle East FZE <Dubai, U.A.E.>

* In addition to the companies listed above, there are 24 consolidated subsidiaries.

Investor Information

(As of March 31, 2016)

Shareholders

	Number of shares issued	Number of shareholders
Common share	1,701,214,887	218,954
Class A share	200,000	2
Class B share	25,000	1

Principal Shareholders (Common shares)

	Number of shares held	Percentage of total shares (%)
Nippon Life Insurance Company	47,317,384	2.78
Meiji Yasuda Life Insurance Company	45,781,000	2.69
Mizuho Bank, Ltd.	41,910,469	2.46
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	41,678,116	2.45
Makita Corporation	35,842,000	2.11
Samsung Electronics Japan Co., Ltd.	35,804,000	2.10
Japan Trustee Services Bank, Ltd. (Trust Account)	31,317,000	1.84
Sharp Employees' Stockholding Association	29,807,847	1.75
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	26,395,161	1.55
BNY FOR GCM CLIENT ACCOUNTS (E) BD	26,279,353	1.54

Notes: 1. Percentage of total shares is calculated by the number of shares issued including 10,536,390 treasury shares.
2. Aside from the above, a total of 6,000,000 shares in Mizuho Bank, Ltd. have been set up as trust assets related to the employee pension trust.

Investor Relations

Sharp Corporation Accounting and Finance Group Investor Relations

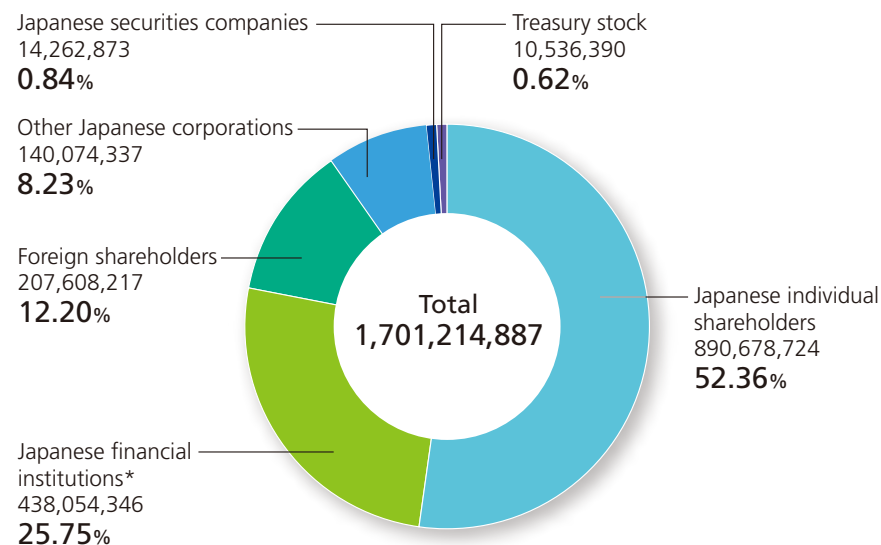
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Websites: [Japanese http://www.sharp.co.jp/corporate/ir/index.html](http://www.sharp.co.jp/corporate/ir/index.html)
[English http://sharp-world.com/corporate/ir/index.html](http://sharp-world.com/corporate/ir/index.html)

Share Distribution (Proportion of total issued shares)



* A total of 47,494,000 shares (2.79%) in investment trusts and pension trust funds are included in shares held by Japanese financial institutions.