# 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, 2019 (or June 26, 2019 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; U.S.-China trade friction, and other trade issues; 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 68.1% in fiscal 2017, 73.0% in fiscal 2018, and 70.0% in fiscal 2019. 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 Businesses, Products, and Clients

The Sharp Group Advance Display Systems segment accounts for nearly 40 percent of group sales. Accordingly, group earnings may be impacted negatively by factors including slowing customer demand for LCD display-related products, falling product prices, or increasing competition due to the emergence of substitute or competitive products, or the emergence of new competitors. Sharp has high dependence on a small number of specific clients for the sales of certain products in our IoT Electronics Devices and Advance Display Systems segments. 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.

### (4) Strategic Alliances and Collaborations

On April 2, 2016, Sharp entered into a share subscription agreement with four companies, namely Hon Hai Precision Industry Co., Ltd. ("Hon Hai Precision Industry"), Foxconn (Far East) Limited ("Foxconn FE"), Foxconn Technology Pte. Ltd. ("Foxconn Technology"), and SIO International Holdings Limited ("SIO"). Under the agreement, Sharp agreed to issue 3,281,950,697 shares of common share at ¥88 per share and 11,363,636 shares of Class C share at ¥8,800 per share, to be purchased by the four companies via third-party allotments. Payment for the purchases under the agreement was completed on August 12, 2016.

The equity investments from these four companies resulted in a significant improvement in Sharp equity ratio. This transaction also allows Sharp to engage in growth investment, which had been necessarily limited due to financial circumstances. Further, Sharp now has the ability to pursue technological, productivity, and cost synergies with our parent company group (including Hon Hai Precision Industry, subsidiaries, and affiliates). However, we cannot guarantee that business synergies between the Sharp Group and the parent company group will occur as envisioned.

Sharp has forged strategic alliances and collaborations with other companies in order to enhance corporate competitiveness, improve profitability, and bolster the development of new technologies and products in various business fields. If, however, any strategic issues with such strategic partners 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.

### (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 impacted negatively by rising raw materials prices, 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 an alternative supplier in a timely manner. Any of these factors could lead to a decline in the quality of Sharp's products, increases in costs, and/or delays in deliveries to customers, which may affect Sharp's business results and financial position.

### (6) Other Factors Affecting 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, 2019, the balance of such debt was equivalent to 34.8% of total assets, and short-term borrowings accounted for 17.2% 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 the 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 profit and profit attributable to owners of parent 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 MUFG Bank, 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. In addition, trade frictions have led to the United States designating certain emerging technologies for export control. This may have an indirect impact on our business due to added constraints in taking said technologies out of the United States or limits on exporting (re-exporting) goods containing more than the allowed ratio of added-value for said technologies from Japan, etc. to third countries.

### (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.

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 or benefit 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 has actively invested 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 other intangible 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 6,600 tons of polysilicon (as March 31, 2019) by the end of 2020 at the longest, 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, 2019 by around ¥2,595 per kilogram). If the market price of polysilicon falls even further, Sharp may incur additional losses.

Sharp also has long-term contractual agreements with multiple suppliers covering the supply of electricity at our Sakai Plant. As of the end of March 2019, the total amounts of future minimum payments of such contracts was ¥21,795 million (remaining terms of 10 years at the longest), and none of the contracts can be canceled prior to maturity. These contracts may affect Sharp's business results or financial position.

### (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.

Such incidents 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) Relations with Parent Company Group

The parent company group, led by Hon Hai Precision Industry, provides outsourced manufacturing services for electronic equipment. The group is engaged in the fields of production, sales, and after-sales services related to IT, telecommunications, automation equipment, optical industry, precision machinery, automobiles, connectors for home appliances, product case, radiators, and network equipment.

Sharp mainly manufactures and sells telecommunications equipment, electrical appliances, and general electronics application equipment and components of the Sharp brand.

Hon Hai Precision Industry is the core company of the parent company group. Hon Hai Precision Industry directly owns 24.5% of Sharp's voting rights, and Foxconn FE, a wholly owned subsidiary of Hon Hai Precision Industry, owns 17.2% of Sharp's voting rights. Therefore, Hon Hai Precision Industry directly or indirectly holds 41.7% of Sharp's voting rights in total. Furthermore, Hon Hai Precision Industry holds more than 20% of the voting rights of Foxconn Technology, while Mr. Terry Gou, Chairman of Hon Hai Precision Industry, substantially controls SIO. Since both companies (Foxconn Technology and SIO) have close relationships with Hon Hai Precision Industry, they fall under the category of entities that exercise their voting rights in the same manner as Hon Hai Precision Industry. The combined voting rights of the two companies, together with voting rights held directly or indirectly by Hon Hai Precision Industry, come to 60.8% of Sharp's total voting rights, meaning they have certain rights as a major shareholder. However, the liquidity and price formation of Sharp's shares, as well as Sharp Group business performance, may be affected if, for example, there is a major change in the holding ratio of Sharp's shares among the four companies mentioned above, or a change in the business strategies of the parent company group (including the parent company, Sharp shareholder SIO, Sakai Display Products Corporation ("SDP"), and companies investing in SIO or SDP in the future).

The parent company group engages mainly in outsourced production of electronic equipment, and it manufactures and sells telecommunications equipment, electrical appliances, and general electronics application equipment and components under the Sharp brand. However, a change in the parent company group's business strategies or competitive relationship with the parent group arising in the future may affect Sharp's performance and financial position.

(1) Human Relations
Sharp had nine directors as of June 26, 2019, four of whom (J.W. Tai, Woo Kwok-Fai, Chung-Cheng Lin, and Wei-Ming Chen) serve concurrently or who are scheduled to serve concurrently as officers at Hon Hai Precision Industry or Hon Hai Precision Industry affiliates.

(2) Business Partners
Business transactions between Sharp and the parent company group include purchases and sales, mainly in China. In addition, Sharp has formed business alliances through the establishment of subsidiaries and affiliates aimed at expanding income from outside Sharp in the intellectual property, logistics, and medical fields.

Important transactions made in the year ended March 2019 are stated on P.58 to P.60.

(3) Independence from Parent Company
Sharp make decisions on important matters, such as management policy and business development, based on independent and self-reliant considerations, and believes that independence and autonomy are preserved.

Sharp strives to grow, develop, and improve its performance in close cooperation with the parent company group, while fully respecting independence between both entities. Sharp recognizes that working together with the parent company group to increase Sharp's operational efficiency and expand its sales and income will benefit the interests of noncontrolling shareholders.

Under its "Related Party Transactions Management Regulations," when starting new transactions with the parent company group, Sharp shall examine the necessity and rationality of the business, as well as appropriateness of the business terms, before making a decision. Proposals involving the Executive Management Committee and transactions involving managers shall be deliberated and decided at board of director meetings at which outside directors are present prior to a final decision.

### (15) 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.

### (16) Climate Change

Sharp's business may be impacted by climate change. Stronger greenhouse gas emissions regulations, increased energy costs associated with potential carbon taxes, stronger policies to reduce greenhouse gas emissions, or other regulations may have an impact on Sharp's business results or financial position.

### (17) Risks Accompanying the Electricity Shortages and Hikes in Electricity Prices

Any possible future restrictions on electricity usage or hikes in electricity prices stemming from electricity shortages arising from natural disasters such as the Great East Japan Earthquake could cause plant operations to be reduced and/or costs to increase, which may affect Sharp's business results and financial position.

### (18) Competition to Secure Skilled Personnel

Exceptional human resources in such fields as technology and management are crucial to Sharp's sustained growth. In the event that Sharp is unable to prevent the departure of existing talent or attract new personnel according to its business policies, or is unable to improve the management skills and business performance of key personnel, its business results and financial position may be affected.

### (19) 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.