

Consolidated Financial Results for the First Quarter Fiscal 2016

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SHARP CORPORATION

July 29, 2016

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- (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, etc.

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I . Financial Results for 1Q Fiscal 2016

Financial Results for 1Q Fiscal 2016

- Net sales in 1Q FY2016 were down 31.5% from the same period last year, due to factors such as sales decline of camera modules and small- and medium-size LCDs for major clients and a shift to a brand licensing business for LCD TVs in the Americas.
- Though net sales were down, deficits were reduced through structural reforms.

(Billions of Yen)

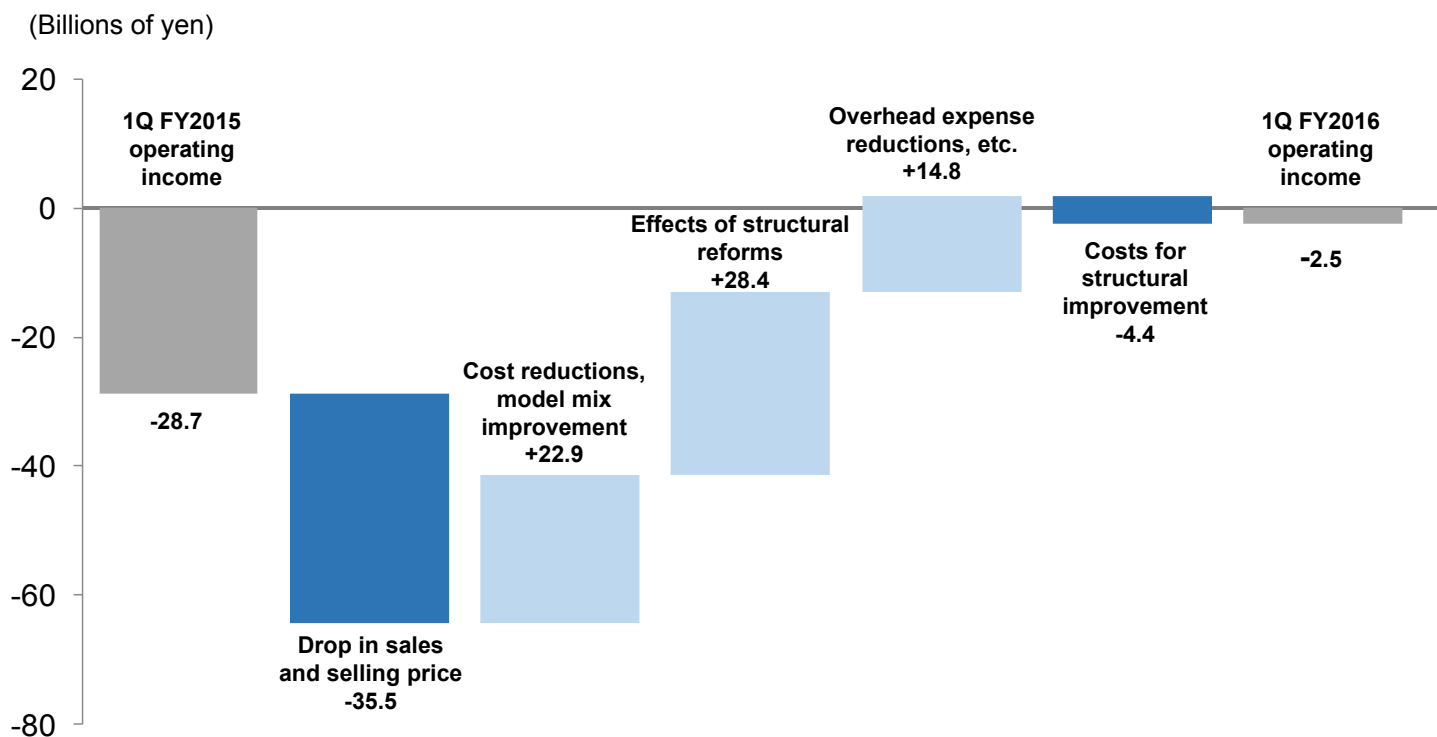
	FY2015	FY2016	
	1Q	1Q	Y on Y
Net Sales	618.3	423.3	-31.5%
Operating Income (margin)	-28.7 (-4.7%)	-2.5 (-0.6%)	-
Profit Attributable to Owners of Parent (margin)	-33.9 (-5.5%)	-27.4 (-6.5%)	-

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- First, let's look at the consolidated financial results for the first quarter (April–June) of fiscal 2016.
- Net sales were 423.3 billion yen, a year-on-year decrease of 31.5%. Operating loss was 2.5 billion yen, and loss attributable to owners of the parent was 27.4 billion yen.
- Though net sales were down considerably compared to the same period last year—owing to factors including the shifting of the LCD TV business to a brand licensing business in the Americas, structural reforms of the LCD TV business in China, and structural reforms of the LCD business—the operating loss was greatly reduced.
- We plan to announce financial forecasts for fiscal 2016 as soon as we are able to make concrete assessments of the synergistic effects expected to arise from the strategic alliance with the Hon Hai Group.

Breakdown of Operating Income (Year-on-Year)



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- This graph shows the year-on-year increase or decrease of operating income and the factors behind the changes.
As you can see, operating income has improved considerably over the previous year.
- The drop in income caused by a decrease in sales and selling prices was compensated for by the following: cost reductions, an improved model mix, and improved profits due to the promotion of structural reforms implemented in fiscal 2015.
- In addition, we reduced overhead expenses and made further structural improvements aimed at boosting competitiveness.

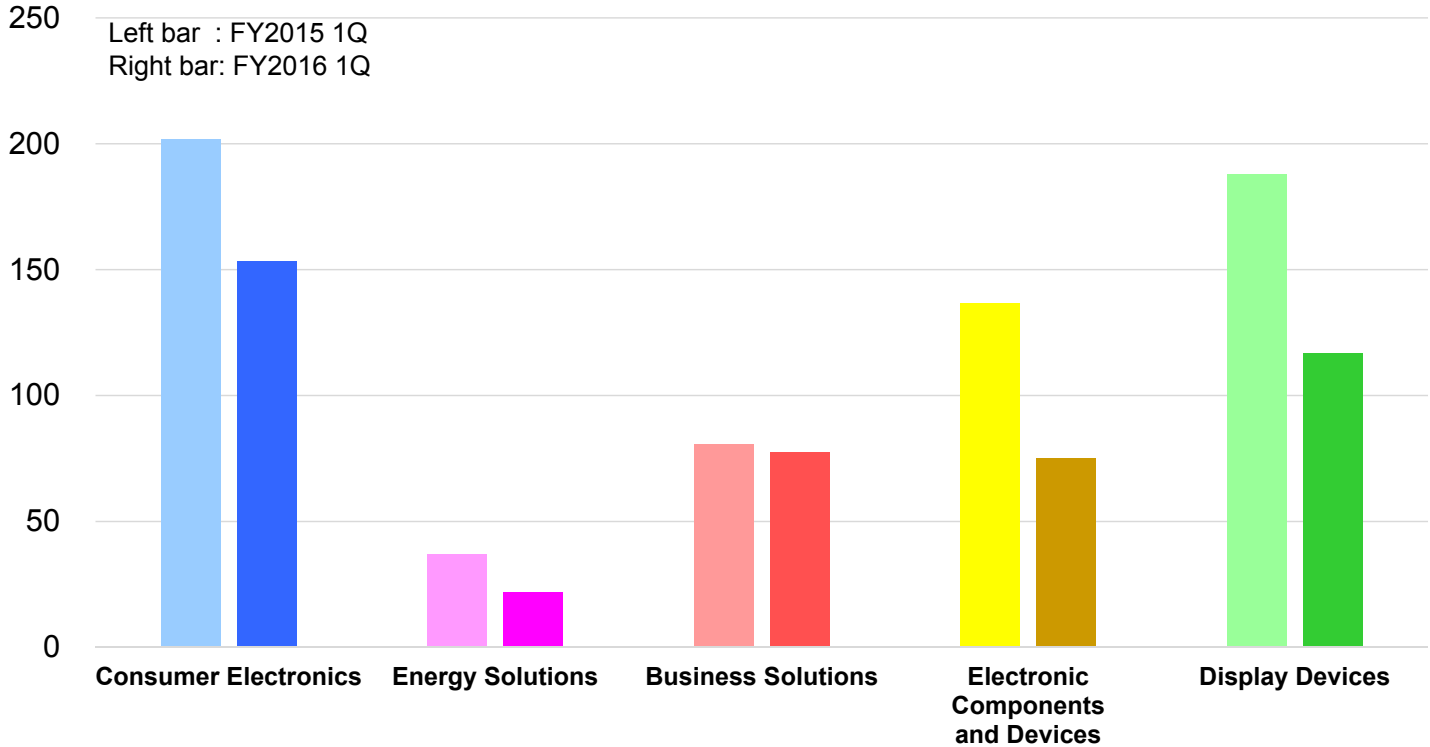
Sales by Segment

(Billions of Yen)

	FY2015	FY2016	
	1Q	1Q	Y on Y
Consumer Electronics	201.9	153.2	-24.1%
Energy Solutions	36.8	21.8	-40.7%
Business Solutions	80.6	77.5	-3.8%
Electronic Components and Devices	136.6	75.0	-45.1%
Display Devices	187.8	117.0	-37.7%
Subtotal	643.9	444.7	-30.9%
Adjustments	-25.6	-21.3	-
Total	618.3	423.3	-31.5%

Sales by Segment

(Billions of Yen)



*Sales include internal sales between segments.

Operating Income by Segment

(Billions of Yen)

	FY2015	FY2016	
	1Q	1Q	Y on Y
Consumer Electronics	-11.7 (-5.8%)	12.5 (8.2%)	-
Energy Solutions	-3.9 (-10.7%)	-6.3 (-28.8%)	-
Business Solutions	6.8 (8.4%)	5.9 (7.7%)	-12.8%
Electronic Components and Devices	2.8 (2.1%)	0.5 (0.7%)	-82.3%
Display Devices	-13.7 (-7.3%)	-10.7 (-9.2%)	-
Subtotal	-19.7 (-3.1%)	1.9 (0.4%)	-
Adjustments	-9.0	-4.4	-
Total	-28.7 (-4.7%)	-2.5 (-0.6%)	-

*Figures within parentheses indicate operating margin.

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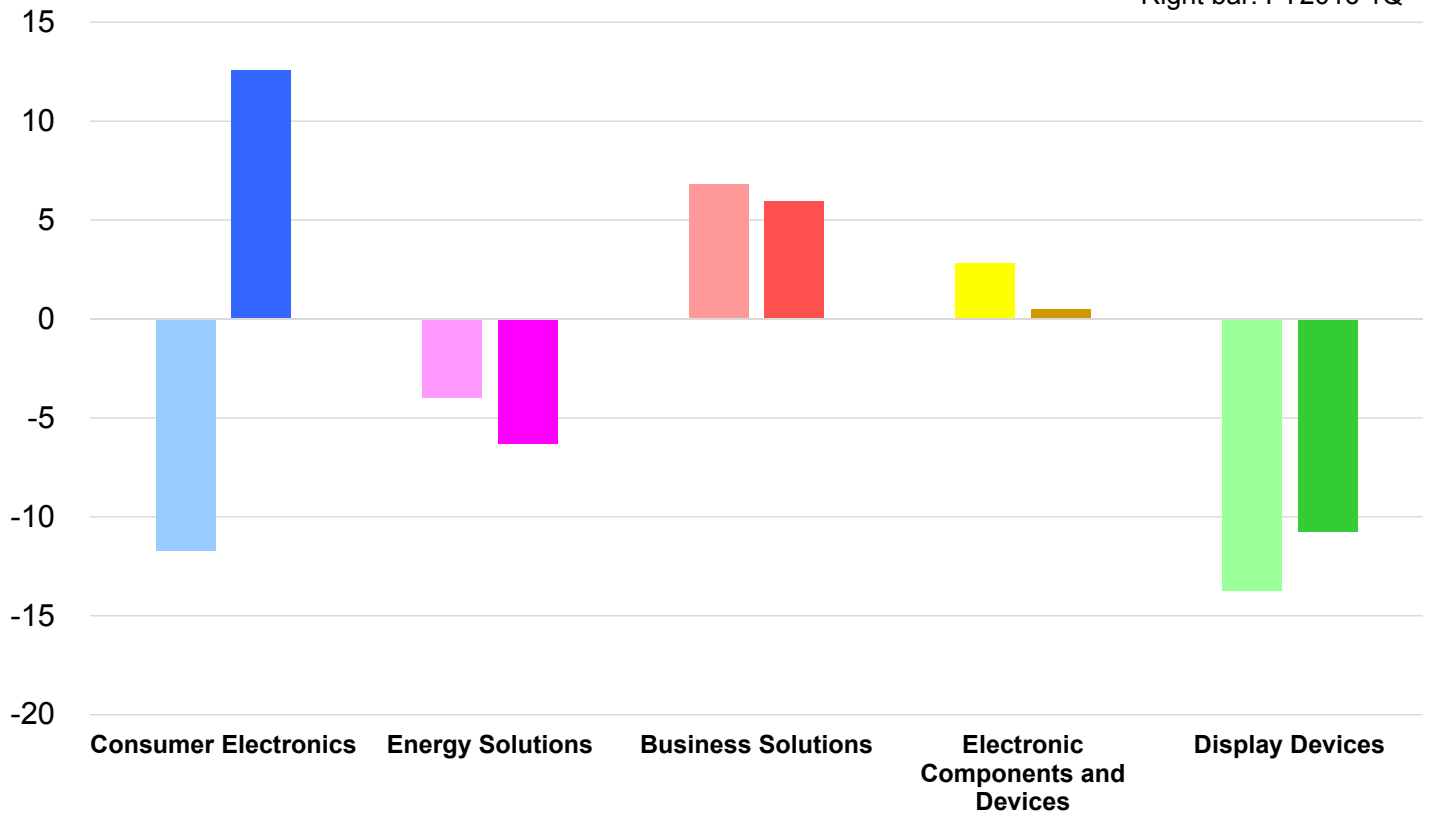
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- As you can see, the structural reforms carried out in fiscal 2015 resulted in a great improvement in operating income for Consumer Electronics.
- The details of sales and operating income for each segment will be given later.

Operating Income by Segment

(Billions of Yen)

Left bar : FY2015 1Q
Right bar: FY2016 1Q



Other Income (Expenses)

(Billions of Yen)

	FY2015	FY2016	
	1Q	1Q	Difference (Y on Y)
Operating Income	-28.7	-2.5	+26.2
Other Income (Expenses)	-1.5	-20.8	-19.2
Equity in earnings of affiliates	+1.7	-	-1.7
Gain on sales of investment securities	+1.7	-	-1.7
Reversal of provision for loss on litigation	+2.0	-	-2.0
Receipt of settlement package	+6.2	-	-6.2
Interest expense	-5.5	-2.4	+3.0
Equity in losses of affiliates	-	-11.0	-11.0
Impairment loss	-6.5	-1.5	+5.0
Pretax Income	-30.3	-23.3	+6.9
Income Taxes, etc.	-3.6	-4.0	-0.4
Profit Attributable to owners of parent	-33.9	-27.4	+6.5

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- The first quarter of fiscal 2016 saw a reduction in the interest expense, but other expenses increased due to factors such as equity in losses of affiliates related to Sakai Display Products Corporation.

Consolidated Balance Sheets

- Cash, time deposits, and restricted cash decreased by 36.0 billion yen from the end of March 2016 to 239.3 billion yen.
- The equity ratio decreased from -2.7% at the end March 2016 to -6.0%.
- Short-term borrowings were replaced with long-term debt, due to the renewal of a syndicated loan.

(Billions of Yen)

	FY2015		FY2016		FY2015		FY2016	
	End of Dec. 2015	End of Mar. 2016	End of Jun. 2016		End of Dec. 2015	End of Mar. 2016	End of Jun. 2016	
Cash, time deposits, and restricted cash	234.5	275.3	239.3	Short-term borrowings	664.6	638.7	172.0	
Notes and accounts receivable	469.3	430.0	327.6	Notes and accounts payable	404.6	312.6	267.3	
Inventories	299.0	184.3	186.2	Other current liabilities	310.2	423.4	381.0	Assumed increase in value of net assets resulting from strategic alliance with Hon Hai
Other current assets	97.9	76.2	78.6	Current Liabilities	1,379.6	1,374.8	820.4	
Current Assets	1,100.8	965.9	831.8	Long-term Liabilities	191.4	227.0	667.9	
Plant and Equipment	368.4	351.2	345.6	Total Liabilities	1,571.0	1,601.8	1,488.4	• Class C shares 99.9
Investments and Other Assets	261.9	253.4	235.9	Net Assets	160.2	-31.2	-75.0	Increase in value of net assets 388.8
Deferred Assets	0.0	0.0	0.0	Total Liabilities and Net Assets	1,731.3	1,570.6	1,413.4	
Total Assets	1,731.3	1,570.6	1,413.4	Equity Ratio	8.6%	-2.7%	-6.0%	

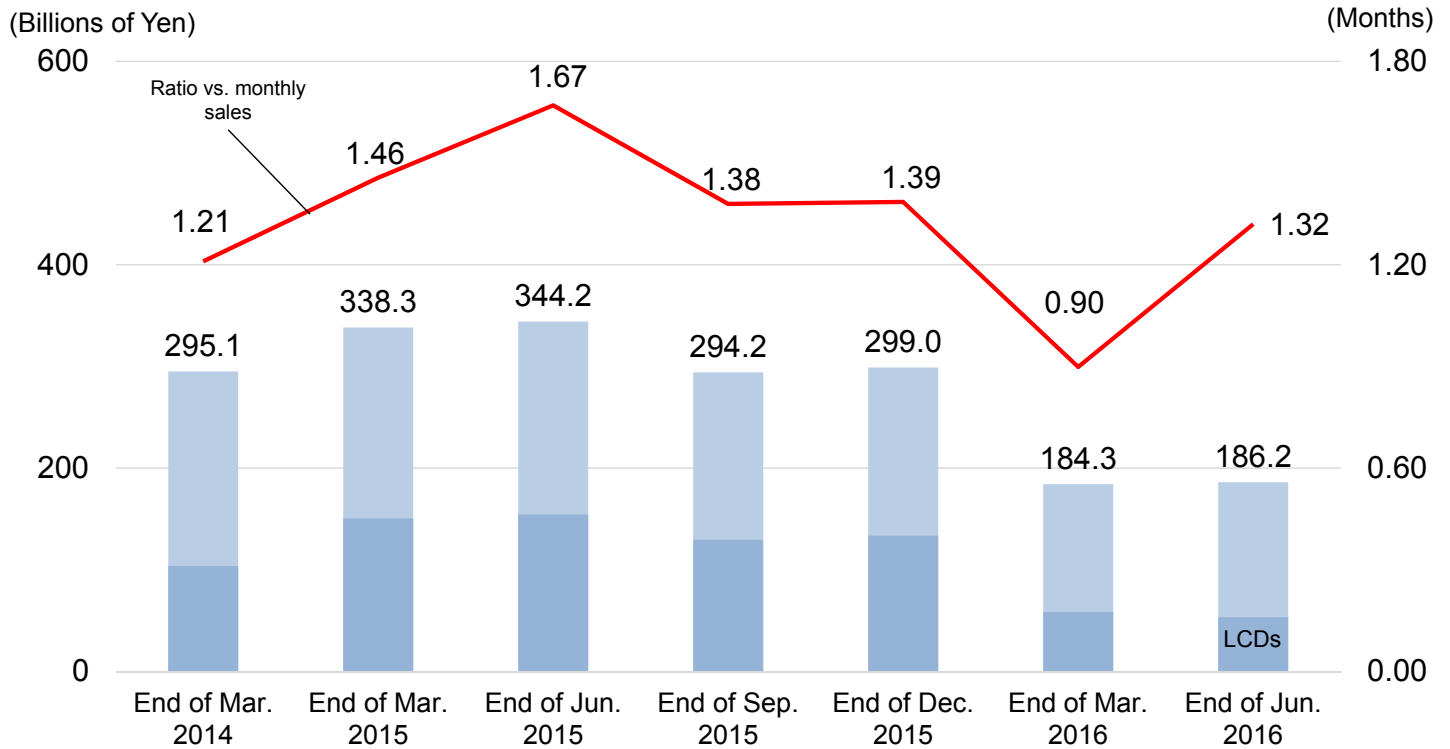
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- Due to factors such as a reduction in retained earnings and foreign currency translation adjustments, we posted negative net assets of 75.0 billion yen at the end of the first quarter of fiscal 2016, a 43.8 billion yen decrease compared to the end of fiscal 2015.
The equity ratio decreased from negative 2.7% at the end of fiscal 2015 to negative 6.0%.
- A renewal of a syndicated loan agreement made the short-term borrowings into long-term debt. This allowed us to stabilize our financial base.

Transition of Inventory

- Inventory was 186.2 billion yen, up 1.9 billion yen compared to the end of March 2016.
- Inventory remained almost unchanged from the end of March 2016, despite a strategic production increase of LCDs, air conditioners, and other products for the high-demand season for the second quarter onwards and summer sales season.

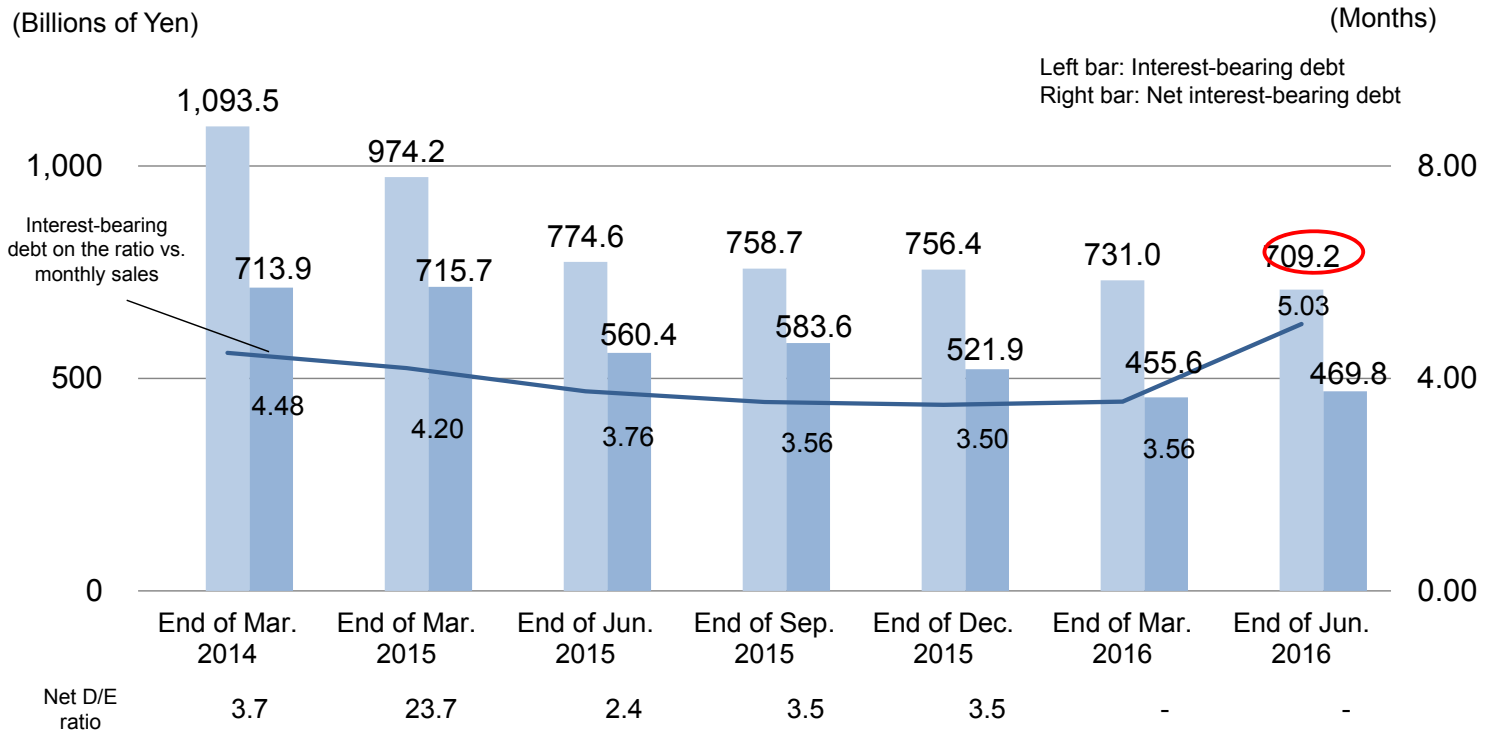


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- Inventory at the end of the first quarter of fiscal 2016 was 186.2 billion yen, which is about the same as at the end of fiscal 2015. The ratio of inventory to monthly sales was up 0.42 months.

Transition of Interest-Bearing Debt

- Interest-bearing debt at the end of June 2016 declined by 21.8 billion yen in comparison to the end of March 2016.
- Net interest-bearing debt* increased from 455.6 billion yen at the end of March 2016 to 469.8 billion yen



*Net interest-bearing debt: interest-bearing debt – cash, time deposits, and restricted cash

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- Interest-bearing debt at the end of the first quarter of fiscal 2016 was 709.2 billion yen, down 21.8 billion yen from the end of fiscal 2015.
Net interest-bearing debt was 469.8 billion yen, up 14.2 billion yen.
- We will pursue improvement in our cash flow through continuous optimization of inventory and effective capital investment.

II . Information by Segment

Consumer Electronics

(Billions of Yen)

	FY2015	FY2016	
	1Q	1Q	Change (Y on Y)
Sales	201.9	153.2	-24.1%
Operating Income	-11.7	12.5	-
(margin)	(-5.8%)	(8.2%)	

*Sales include internal sales between segments

FY2016 1Q Results (Y on Y)

- Sales : 24.1% decrease
- Operating income: 24.2 billion yen increase
- Returning LCD TV business to profitability through structural reforms

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- Sales were down 24.1% year-on-year to 153.2 billion yen. This decline was due to several factors: the shifting of the LCD TV business to a brand licensing business in the Americas; a drop in Chinese LCD TV sales compared to last year's level; and a decline in smartphone sales in Japan due to a sluggish market.
- For operating income, Digital Information Equipment returned to the black. The European and North American LCD TV business successfully shifted to a brand licensing business, while structural improvements were made in China. Communications is also maintaining profitability; it minimized the effect of declining sales by streamlining the organization and the development process. Health and Environmental Equipment is improving profitability through various efforts. These include the release of Plasmacluster-equipped products such as a mosquito-catching air purifier, which was developed and launched in the ASEAN, becoming a hot selling product, followed by markets such as Japan and other Asian countries. The cutting of overhead expenses in Japan and overseas also helped improve profitability.
- Future plans are as follows. In Digital Information Equipment, we will strengthen the 4K and 8K lineup of LCD TVs. In Communications, we will strengthen our mobile phones products to increase our share of the Japanese market. We will also enlarge the proportion of our service business. In Health and Environmental Equipment, we will bring forth local-fit products for Japan, China, and other Asian countries—for example, a Healsio oven that provides recipes downloaded from the cloud. We will keep up our efforts in cutting overhead expenses and improving profitability.

Energy Solutions

(Billions of Yen)

	FY2015	FY2016				
	1Q	1Q	Change (Y on Y)	Costs for structural improvement in 1Q	1Q (Before calculation of costs for structural improvement)	Change (Y on Y)
Sales	36.8	21.8	-40.7%		21.8	-40.7%
Operating Income	-3.9	-6.3	-	Additional valuation reserve for polysilicon	-4.4	-1.8
(margin)	(-10.7%)	(-28.8%)				(-8.4%)

FY2016 1Q Results (Y on Y)

- Sales: 40.7% decrease
- Operating income: 2.3 billion yen decrease
- Allocated an additional valuation reserve for polysilicon to improve the structure and enhance competitiveness

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- Sales were down 40.7% year-on-year to 21.8 billion yen. Contributing factors included lower demand for residential and industrial use products in the Japanese market. For operating loss, as a countermeasure to the profit decrease from the sales decline, we are taking further cost-cutting measures and reducing overhead expenses. We are also allocating an additional valuation reserve for inventory purchase commitments as a means to improve the structure and enhance competitiveness.
- In Japan, we will strive to improve profitability through efforts including stepping up solutions by combining our solar cells, storage batteries, and energy-efficient appliances with an eye to achieving a zero-energy house. Profitability will also be improved by expanding downstream businesses such as repair and maintenance. Overseas, we recently announced that we would participate in the first mega-solar project in Mongolia. We will continue to strengthen our involvement in the EPC sector, with a focus on Asia, in order to expand business.

Business Solutions

(Billions of Yen)

	FY2015	FY2016	
	1Q	1Q	Change (Y on Y)
Sales	80.6	77.5	-3.8%
Operating Income	6.8	5.9	-12.8%
(margin)	(8.4%)	(7.7%)	

*Sales include internal sales between segments

FY2016 1Q Results (Y on Y)	
• Sales:	3.8% decrease
• Operating income:	12.8% decrease

- Sales were down 3.8% year-on-year to 77.5 billion yen. Full-color MFP models released last year had strong sales in the Japanese market; overseas, however, there was a negative impact from a temporary reduction in sales resulting from a channel inventory optimization. Operating income was down 12.8% year-on-year to 5.9 billion yen, despite a reduction in overhead expenses. Nevertheless, Business Solutions remain a stable earnings source despite the effects from slack market conditions.
- Our intention is to expand this segment by utilizing our existing products and our customer base, by developing new products, and expanding solutions businesses centered on MFPs and displays. We will also focus on reducing overall expenses while striving for stable profits.

Electronic Components and Devices

(Billions of Yen)

	FY2015	FY2016	
	1Q	1Q	Change (Y on Y)
Sales	136.6	75.0	-45.1%
Operating Income	2.8	0.5	-82.3%
(margin)	(2.1%)	(0.7%)	

*Sales include internal sales between segments

FY2016 1Q Results (Y on Y)		
• Sales:	45.1% decrease	• Sales growth in lasers, automotive cameras, and sensors
• Operating income:	82.3% decrease	

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- Sales were down 45.1% year-on-year to 75.0 billion yen. Sales of lasers, automotive cameras, and sensors grew, while demand for camera modules from a major smartphone client decreased. As for operating income, we were able to secure a surplus with thorough cost cuts and overhead expense reductions, despite the effect of sales decreases.
- We will improve the model mix and increase profitability by strengthening the camera module business, which includes smartphone and automotive cameras, and by creating viable new businesses centered on sensor technologies.

Display Devices

(Billions of Yen)

	FY2015	FY2016	
	1Q	1Q	Change (Y on Y)
Sales	187.8	117.0	-37.7%
Operating Income	-13.7	-10.7	-
(margin)	(-7.3%)	(-9.2%)	

*Sales include internal sales between segments

FY2016 1Q Results (Y on Y)	
• Sales:	37.7% decrease
• Operating income:	2.9 billion yen improvement

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- Sales were down 37.7% year-on-year to 117.0 billion yen. This was due to holding back on sales of large-size LCDs for commodity-segment TVs as a result of a drop in selling prices resulting from a deterioration in the balance of supply and demand. Another contributing factor was a decline in demand for small- and medium-size LCDs from a major client. Despite a reduction in the operating loss, the figure was still 10.7 billion yen. This figure reflected a decline in the plant utilization rate due to a decrease in sales of large-size LCDs for TVs. Nevertheless, we were able to improve earnings for small- and medium-size LCDs by cutting down on costs.
- Going forward, we will expand business in the medium-size LCD sector for products such as PCs, tablets, and automotive displays that utilize IGZO technology; we will continue the large-size LCD business, focusing on profitability. Regarding OLED displays, we have been conducting technological development and have built up basic technologies. These technologies will be used in concert with TFT technologies for LCDs, which we have cultivated over many years.

III. Strategic Alliance with Hon Hai Group

Strategic Alliance with Hon Hai Group

Following Hon Hai Group's capital injection, a new management structure will push the alliance forward.



Resolution of capital deficit and strengthen financial foundations

Reorganization of virtual companies to boost business efficiency

Maximizing synergies

- 
- ✓ Open up new markets in IoT by offering competitive products and services**
✓ Implement necessary growth investments

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- Sharp obtained approval for the strategic alliance with the Hon Hai Group at the general meetings of shareholders held on June 23. This was a condition that had to be met—after the fiscal 2015 financial announcements—for the Hon Hai Group to inject capital.
- The remaining condition is a clearance under a certain country's competition law.
- Sharp will receive a capital injection immediately after being cleared, and we will push forward with our strategic alliance under a new management structure.

IV. Supplementary Data

- Sharp posted negative figures for this first quarter, but we are committed to stabilizing our business by pushing through structural reforms, establishing a solid partnership with the Hon Hai Group, and strengthening our financial foundations.

Thank you for your attention.

Quarterly Sales by Segment

(Billions of Yen)

	FY2015				FY2016
	1Q	2Q	3Q	4Q	1Q
Consumer Electronics	201.9	233.6	204.2	170.8	153.2
Energy Solutions	36.8	41.8	34.5	43.5	21.8
Business Solutions	80.6	91.7	88.8	93.9	77.5
Electronic Components and Devices	136.6	114.6	146.4	92.3	75.0
Display Devices	187.8	203.3	226.2	154.1	117.0
Subtotal	643.9	685.1	700.3	554.9	444.7
Adjustments	-25.6	-23.7	-36.9	-36.3	-21.3
Total	618.3	661.3	663.3	518.5	423.3

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*Sales include internal sales between segments. 21

Quarterly Operating Income by Segment

(Billions of Yen)

	FY2015				FY2016
	1Q	2Q	3Q	4Q	1Q
Consumer Electronics	-11.7 (-5.8%)	9.7 (4.2%)	7.5 (3.7%)	-27.4 (-16.0%)	12.5 (8.2%)
Energy Solutions	-3.9 (-10.7%)	1.3 (3.2%)	-5.0 (-14.7%)	-10.7 (-24.6%)	-6.3 (-28.8%)
Business Solutions	6.8 (8.4%)	9.9 (10.8%)	7.1 (8.0%)	11.9 (12.7%)	5.9 (7.7%)
Electronic Components and Devices	2.8 (2.1%)	5.1 (4.5%)	1.9 (1.4%)	-8.5 (-9.2%)	0.5 (0.7%)
Display Devices	-13.7 (-7.3%)	-12.7 (-6.3%)	-10.7 (-4.7%)	-91.9 (-59.6%)	-10.7 (-9.2%)
Subtotal	-19.7 (-3.1%)	13.3 (2.0%)	0.8 (0.1%)	-126.6 (-22.8%)	1.9 (0.4%)
Adjustments	-9.0	-9.7	-4.7	-6.2	-4.4
Total	-28.7 (-4.7%)	3.5 (0.5%)	-3.8 (-0.6%)	-132.9 (-25.6%)	-2.5 (-0.6%)

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*Figures within parentheses indicate operating margin. 22

Quarterly Sales of Main Products

(Billions of Yen)

	FY2015				FY2016
	1Q	2Q	3Q	4Q	1Q
LCD TVs	64.1	90.5	81.8	47.7	44.4
Unit (million units)	1.41	1.58	1.72	1.10	1.00
Mobile Phones	44.1	39.4	27.4	35.3	26.5
Unit (million units)	1.01	1.25	0.54	0.89	0.57
Refrigerators	23.0	25.1	21.1	21.4	20.8
Air Conditioners	20.6	15.3	8.2	13.4	16.5
Copiers / Printers	37.2	40.9	25.0	33.7	26.8
Camera Modules	76.0	47.2	75.1	43.6	32.6

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Quarterly Capital Investment and Depreciation, etc.

(Billions of Yen)

	FY2015				FY2016
	1Q	2Q	3Q	4Q	1Q
Capital Investment	9.7	11.1	8.2	16.0	10.2
LCDs	3.8	5.1	4.9	8.9	5.6
Depreciation and Amortization	18.0	15.7	17.0	17.2	13.5
R&D Expenditures	36.3	32.3	33.5	27.9	29.7

(Yen)

	FY2015				FY2016
	1Q	2Q	3Q	4Q	1Q
Exchange Rate					
US Dollar	120.37	121.24	120.51	114.49	107.16
Euro	132.66	134.48	131.46	125.71	120.53

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