

SHARP

Be Original.

Sowing seeds for the future

Annual Report 2020

For the year ended March 31, 2020

Business Philosophy, Business Creed

Business Philosophy

We do not seek merely to expand our business volume. Rather, we are dedicated to the use of our unique, innovative technology to contribute to the culture, benefits and welfare of people throughout the world.

It is the intention of our corporation to grow hand-in-hand with our employees, encouraging and aiding them to reach their full potential and improve their standard of living.

Our future prosperity is directly linked to the prosperity of our customers, dealers and shareholders ...indeed, the entire Sharp family.

Business Creed

Sharp Corporation is dedicated to two principal ideals:

"Sincerity and Creativity"

By committing ourselves to these ideals, we can derive genuine satisfaction from our work, while making a meaningful contribution to society.

Sincerity is a virtue fundamental to humanity ... always be sincere.

Harmony brings strength ... trust each other and work together.

Politeness is a merit ... always be courteous and respectful.

Creativity promotes progress ... remain constantly aware of the need to innovate and improve.

Courage is the basis of a rewarding life ... accept every challenge with a positive attitude.

Corporate Motto

Be Original.

From the beginning, Sharp has been driven by originality.

We originate technologies that enhance lifestyles,

Inspire innovations that support individual expression,

And create products that let you be you.

There is only one Sharp.

There is only one you.

Be Original.

SHARP

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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, business 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 Japanese 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.

Top Message

We will continue to contribute to the safety and security of the international community in good faith and through our unique technologies

On September 15, we celebrated the 108th anniversary of our founding. Once again, we want to thank you, every one of our stakeholders, for your support of Sharp.

Since the beginning of 2020, we have faced unprecedented changes in our environment, including the threat of the global COVID-19 pandemic on human health and the significant impact of the pandemic on the economy. In the midst of these circumstances, Sharp has looked back to the founding spirit of our company and business philosophy, part of which states that we will contribute to the culture, benefits and welfare of people throughout the world in good faith and through our unique technologies. True to these words, we will leverage our business activities to help quickly establish new normal lifestyles in the with-COVID-19 and post-COVID-19 eras, enabling all people to live in safety and security.

Specifically, the Sharp business vision is *Changing the World with 8K+5G and AIoT*. Here, we are engaged in creating innovative solutions in collaboration with many different companies, focusing on 8K, 5G, AI, IoT, robotics, and other advanced technologies. As we pursue these initiatives, we will develop a series of new ideas to capture demand for needs that have expanded in the wake of the COVID-19 pandemic. Demand related to staying at home, telework, and education and medical IT are just a few examples. Here, we will be proactive in building social infrastructure for a new era.

As part of our contribution to society in response to COVID-19, we responded to a request from the Japanese government to produce PPE masks. In just one month, we began mass production in late March using the clean rooms at our Mie plant (Mie Prefecture, Japan). Sharp's quick response and willingness to enter a new field was highly regarded by many observers, and numerous customers now use our masks enthusiastically.

Our new mask production and sales efforts attracted a great deal of attention. But Sharp has a history of contributing to healthy living through air conditioners that feature our unique Plasmacluster technology, recognized by public institutions in Japan and around the world for its impact on controlling virus propagation, mold sterilization, and more. Our Healsio superheated steam oven and other healthy cooking appliances are more examples of our contribution to healthy living. We intend to strengthen these initiatives further in the future. At the same time, we will expand into the medical and nursing care business fields, quickly launching new, uniquely Sharp solutions one after the other that contribute to a healthier, happier society.

In addition to these initiatives, Sharp will also contribute to achieving the SDGs through our business activities. We will work to achieve the Sharp Eco Vision 2050, our long-term environmental vision, having defined goals in the areas of climate change, resource recycling, and safety and security. Here, we will generate clean energy in excess of energy consumed and minimize the environmental impact of our global business activities.

As a signatory to the United Nations Global Compact*, Sharp supports the ten principles related to human rights, labor, the environment, and anti-corruption. We are advancing measures to address global issues that include respect for human rights and responsible mineral sourcing.

With shareholder approval at the June 2020 ordinary general meeting of shareholders, Sharp revised our management structure, transitioning to a CEO-COO format. Going forward under this new business management framework, we will work as one united Sharp to engage in quickly building our 8K+5G Ecosystem and AIoT World to achieve sustainable growth. And we will also contribute to the further development of the international community.

September 2020

*Signed in June 2009



J.W. Tai
Chairman & CEO



Katsuaki Nomura
President & COO

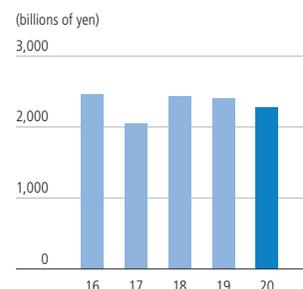
Financial and Non-Financial Highlights

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31

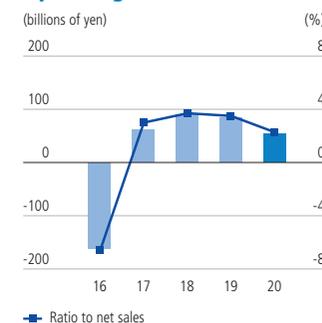
	Yen (millions)				
	2016	2017	2018	2019	2020
Net Sales	¥ 2,461,589	¥ 2,050,639	¥ 2,427,271	¥ 2,400,072	¥ 2,271,248
Domestic sales	750,499	654,012	656,144	719,424	786,859
Overseas sales	1,711,090	1,396,627	1,771,127	1,680,647	1,484,388
Operating Profit (Loss)	(161,967)	62,454	90,125	84,140	52,773
Profit (Loss) before Income Taxes	(231,122)	(587)	89,416	75,587	38,334
Profit (Loss) Attributable to Owners of Parent	(255,972)	(24,877)	70,225	74,226	20,958
Net Assets	(31,211)	307,801	401,713	372,471	295,138
Total Assets	1,570,672	1,773,682	1,908,461	1,866,349	1,832,349
Capital Investment	45,240	77,733	119,356	55,996	60,216
R&D Expenditures	130,120	106,107	100,536	108,545	100,591
Per Share Data					
Income (loss) per share (yen)	(154.64)	(68.56)	106.07	116.80	34.31
Cash dividends per share (yen)	—	—	10.00	20.00	18.00
Net assets per share (yen)	(161.79)	154.12	267.48	392.56	450.70
Return on Equity (ROE)	—	(19.8%)	20.9%	20.4%	6.7%
Number of Outstanding Shares (Common Shares) (thousands of shares)	1,690,678	4,972,609	497,249	531,311	531,307
Number of Employees	43,511	41,898	47,171	54,156	52,876
Ratio of Disabled Employees	2.32%	2.39%	2.47%	2.45%	2.43%
Greenhouse Gas Emissions (thousand tons CO ₂)	1,114	1,016	940	1,077	974

- (Notes) 1. Sharp has applied ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting (February 16, 2018) from the year ended March 31, 2019. The figures for the year ended March 31, 2018 have been reclassified by applying the accounting standard.
2. The amount of leased properties is included in capital investment.
3. Income (loss) per share is calculated by dividing profit (loss) attributable to owners of parent by the weighted average number of shares outstanding during the relevant period. For the years ended March 31, 2017, 2018, 2019 and 2020, since the dividend priority of the Class C shares is equal to that of the common shares, the number of Class C shares, after considering the conversion rate to common shares, is included in the number of shares outstanding for purposes of calculating the weighted average number of shares during the relevant period.
4. Number of outstanding shares (common shares) is shown by deducting the treasury shares.
5. Sharp carried out a share consolidation of common shares as well as Class C shares at a ratio of 10 shares to 1 share on October 1, 2017. The figures for the income (loss) per share and net assets per share are calculated on the assumption that Sharp conducted this consolidation at the beginning of the year ended March 31, 2017.
6. Of the 200,000 Class A shares issued, Sharp acquired and canceled 92,000 shares on January 30, 2019 and 108,000 shares on June 21, 2019. The effects of the said acquisition and cancellation of treasury stock are taken into consideration in the income per share for the years ended March 31, 2019 and 2020.
7. Ratio of disabled employees includes data for Sharp, one special subsidiary, and seven group companies as of June 1 for each fiscal year.

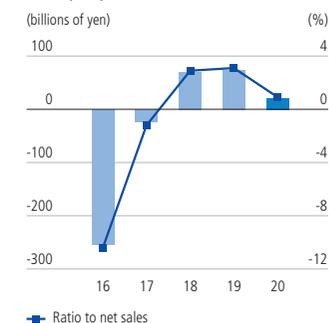
Net Sales



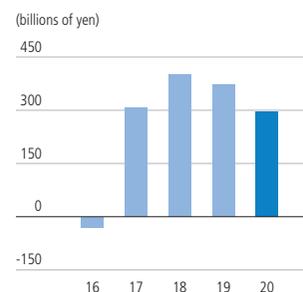
Operating Profit (Loss)



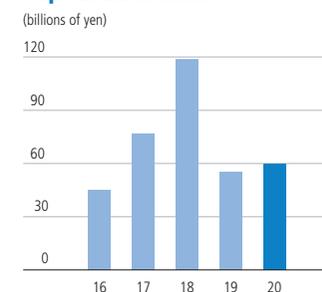
Profit (Loss) Attributable to Owners of Parent



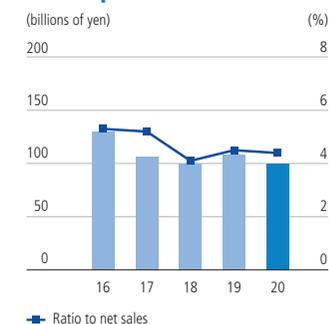
Net Assets



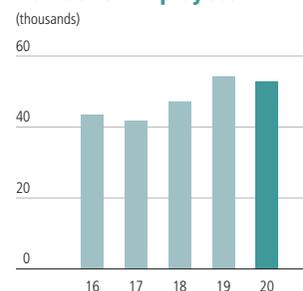
Capital Investment



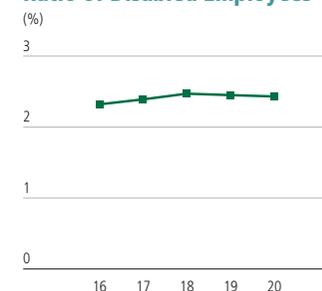
R&D Expenditures



Number of Employees

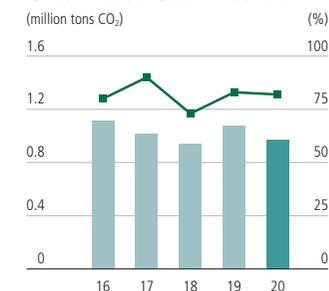


Ratio of Disabled Employees



Please refer to P.14, Social Initiatives.

Greenhouse Gas Emissions



Energy Intensity (%)
(Baseline: Fiscal year ended March 31, 2013)
Please refer to P.13, Environmental Initiatives.

Fiscal 2019 Review

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31

Fiscal 2019 Earnings

The world economy was in an extremely severe state through the end of the fiscal year, in part due to the global COVID-19 pandemic.

Amid these circumstances, Sharp has as a unified company pursued transformation in seeking to realize our business vision of Changing the World with 8K+5G and AIoT. We have created unique products, devices, and technologies centered on 8K+5G and AIoT, strengthened our related services and solutions businesses, and established a global five-axis model. At the same time, we are improving our management structure and have been able to secure final net profit.

Sharp fiscal 2019 net sales amounted to ¥2,271.2 billion, a 5.4% decrease year-on-year as our Smart Life and 8K Ecosystem segments saw lower sales despite sales growth in ICT. Though Smart Life reported higher segment income, this figure was lower in the 8K Ecosystem and ICT segments leading to a 37.3% year-on-year decrease in operating profit to ¥52.7 billion. Ordinary profit amounted to ¥55.5 billion, a 19.5% decrease year-on-year, while profit attributable to owners of parent fell 71.8% to ¥20.9 billion, partly owing to recording loss on valuation of investment securities of ¥16.1 billion. Negative impact from COVID-19 was approximately ¥178.0 billion on net sales, and approximately ¥36.0 billion on operating profit.

Further, we purchased and canceled all 108,000 outstanding Class A shares, which entail dilution risk, preferred dividends, and other considerations, to improve our equity qualitatively.

Based on a comprehensive consideration of our financial situation and future business development, we paid a dividend of ¥18 per share of common stock.

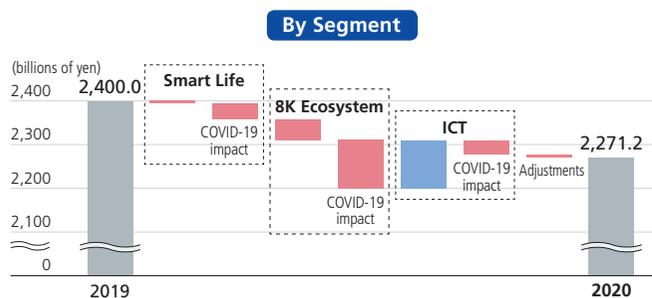
World economy in an extremely severe state through the end of the fiscal year, partly due to COVID-19

Sharp, as a unified company, pursues transformation

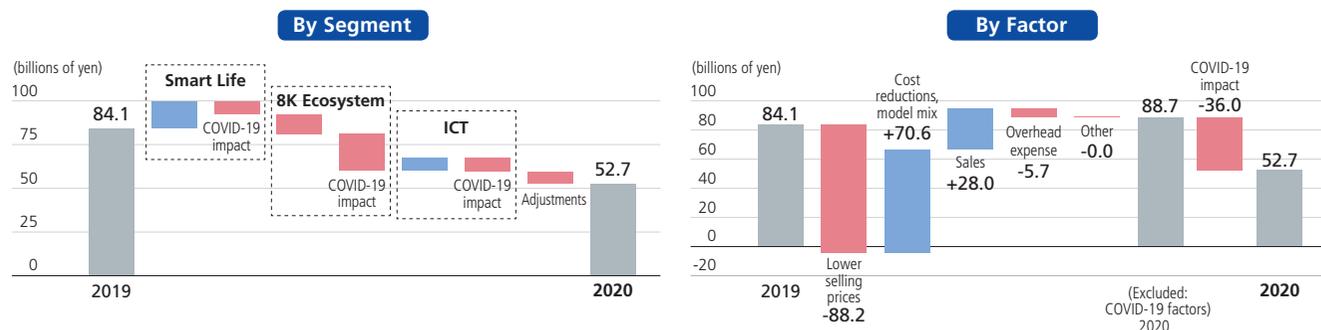
Secures final net profit for the full year

Purchased and canceled all outstanding Class A shares, improving equity qualitatively

Analysis of Changes in Net Sales



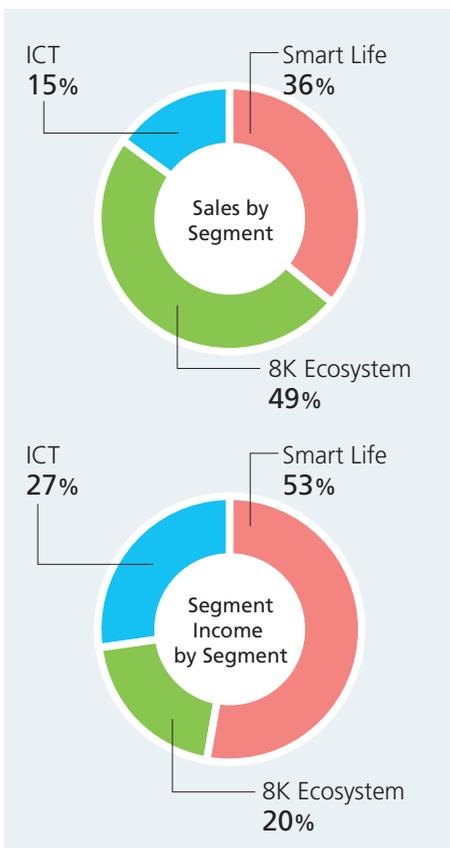
Analysis of Changes in Operating Profit



AIoT is a registered trademark of Sharp Corporation.

Fiscal 2019 Review

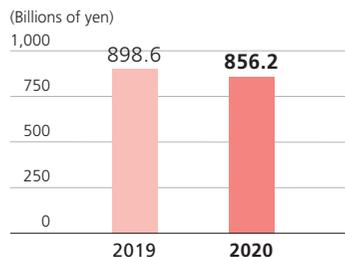
Sales, Segment Income by Segment



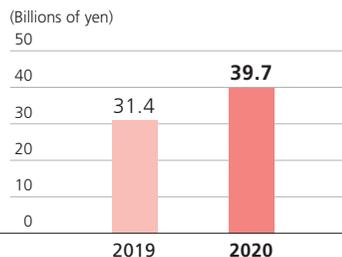
- Sales figures include internal sales between segments. The percentage of sales in pie charts has been calculated accordingly.
- Segment income figures are amounts before adjustment for inter-segment trading. The percentage of segment income in pie charts has been calculated accordingly.
- Effective for the consolidated fiscal year ended March 31, 2020, the Company has changed its segment classification. Figures for the consolidated fiscal year ended March 31, 2019 have been adjusted to reflect the new classification.

Smart Life

Sales



Segment Income



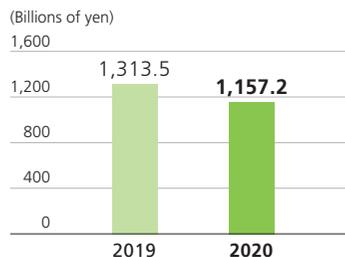
Refrigerators, superheated steam ovens, microwave ovens, small cooking appliances, air conditioners, washing machines, vacuum cleaners, air purifiers, electric fans, dehumidifiers, humidifiers, electric heater, Plasmacluster Ion generators, beauty appliances, electronic dictionaries, calculators, telephones, network control units, solar cells, storage batteries, camera modules, sensor modules, proximity sensors, dust sensors, wafer foundries, CMOS/CCD sensors, laser diodes

Fiscal 2019 Performance

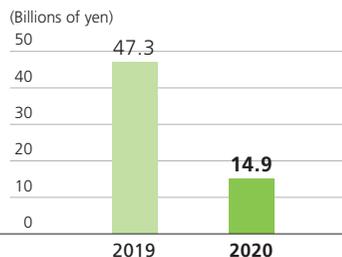
Although sales increased for white goods such as air conditioners, refrigerators, and washing machines, sales of devices decreased due to impact from COVID-19 and other factors, resulting in a decrease in Smart Life sales. Segment income increased due in part to cost reduction measures.

8K Ecosystem

Sales



Segment Income



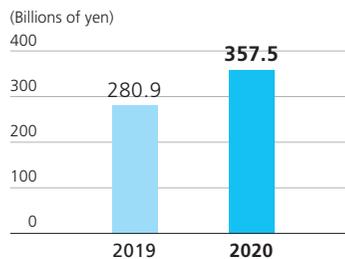
LCD color televisions, Blu-ray Disc recorders, audio equipment, display modules, automotive cameras, Digital MFPs (multi-function printers), information displays, commercial projectors, POS systems, FA equipment, options and consumables, software

Fiscal 2019 Performance

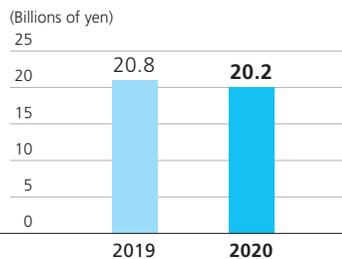
Though displays for PCs and tablets saw growth, sales declined for LCD TVs and displays for use in smartphones and automobiles, resulting in decreased 8K Ecosystem sales. Falling sales and other factors resulted in decreased segment income.

ICT

Sales



Segment Income



Mobile phones, personal computers

Fiscal 2019 Performance

Though sales in mobile communication business fell, positive impacts such as from addition of Dynabook Inc. as a consolidated subsidiary led to increased sales in ICT. Falling sales in mobile communication business resulted in decreased segment income.

Analyst Discussion

Making Sharp a Company with Sustainable Growth that Contributes to Society



Nomura was appointed President and COO on June 29, 2020, and a new CEO-COO system was launched to steer management alongside Chairman and CEO Tai. With these changes, we have invited Mr. Yasuo Nakane of Mizuho Securities Co., Ltd. to discuss the future management of Sharp.

1. Nomura's Appointment as President

■ **Mr. Nakane** I've often heard you speak at financial results briefings, but I haven't had much opportunity to actually speak to you about yourself until now. Why don't you start by telling us about your work history at Sharp?

■ **Nomura** I joined Sharp Corporation in 1981. Initially, I was in charge of production management, computers, and accounting at the Electronic Components Group, and in 1984 I was transferred to the Accounting Department at the IC Group. After that, in 2003, I participated in the Kameyama Plant launch project and

became involved in the LCD business.

As of 2006, I also worked in the Audio-Visual Systems Group, which handled TVs. I think that the executives at that time were mindful that it would be better I gain experience not only in device-related departments, but also product-related departments.

Furthermore, since I became the General Manager of the AVC LCD Group in 2007, I have been entrusted with duties on the business side as well.

I became Director and Executive Officer at headquarters in 2010, and in June 2012 I took the role of Chairman at what is now Sakai Display Products Corporation (SDP). After that, I returned to Sharp in April 2016 and served in management as Vice President.

■ **Mr. Nakane** Your company closed with significant losses in fiscal 2011 and was unable to fully reverse that underperformance during the period from fiscal 2012 to 2015. Could you analyze the situation at that time and tell us what lessons you took from it?

■ **Nomura** I was Chairman of affiliate company SDP beginning in fiscal 2012, so while I didn't have visibility on all aspects, I think there were problems with the organization and structure.

For example, device businesses require a different kind of PSI management than what is required in the product businesses, and not everyone is going to have knowledge or experience in that area. If there was a system in place where auditors, management, operating departments, and financial departments work together, management players share information sufficiently amongst each other, and we were able to mutually cover each other, there wouldn't be an issue. However, I feel that there was a situation where the organization was unable to cope well because of a lack of sufficient communication, despite having highly-capable talent in these various areas.

■ **Mr. Nakane** How has the system as it is today changed based on the lessons from the past? Have you been able to overcome those challenges?

■ **Nomura** Because we have promoted various organizational and institutional reforms, we have a system with clear roles for supervision, decision-making, and business execution, allowing appropriate, prompt decision-making.

For example, in order to promptly make decisions, we have changed our Executive Management Meeting, which at the time was a monthly meeting, so that the necessary players can meet at necessary times, whenever those times may be.

In June 2020, we also revised our system where the President and Vice Presidents were responsible for the business groups.

Analyst Discussion



Now, the CEO and COO take care of building company-wide strategy, and five Senior Executive Managing Officers specialize in building business and regional strategies. This clear delineation of roles and responsibilities led to clarity as to where we must cover each other.

As we advanced these initiatives, we also saw that daily communication was naturally becoming more vitalized.

2. The Important Things in Management

■ **Mr. Nakane** What is important for you as a Sharp manager? Please tell us what you are paying particular attention to at the moment.

■ **Nomura** Since I joined the company, I have always cherished its Business Philosophy and Business Creed. Currently, I am paying particular attention to factors like the balance between business and finances, as well as minority shareholders.

■ **Mr. Nakane** Could you tell us a little more concretely about the Business Philosophy and Business Creed, including what you consider especially important?

■ **Nomura** There is of course the idea of co-existing and prospering alongside society and our stakeholders, which is expressed

in our Business Philosophy, which says, among other things, that we will “contribute to the culture, benefits and welfare of people throughout the world.” However, I have considered the words of “Sincerity and Creativity “ from the Business Creed to be of special importance.

Sincerity is important for the sales departments that serve as contact points to our customers, as well as broadly for all employees. Creativity is essential for our engineers, including those in planning and development departments, as well as our employees as a whole, when they create something new.

I want us to be able to share these ideas and build an environment where people can work with a self-starting, aspirational attitude.

■ **Mr. Nakane** I hope that your company’s next medium-term management plan will incorporate a strategy emphasizing profit growth. However, your financials are still recovering. I feel the balance between growing profit and improving your financial structure is extremely important.

■ **Nomura** Our financial aspects are not yet robust, and we must continue to improve. On the other hand, we must make appropriate investments, such as M&A, to jump ahead. We would like to re-attain investment-grade ratings as we continue to make necessary investments. Returning to an investment-grade rating would expand our financing options and open up greater possibilities on the business side. This will likely take some time. I’m not sure if this can be done while I am President, but I would like to see this through as quickly as possible.

■ **Mr. Nakane** Please tell us what should be taken into consideration when attempting to strike a balance between the two, and what your basic approach is to M&A.

■ **Nomura** We will conduct M&A in instances where it will assuredly contribute to business performance, including making up for shortfalls. For example, we have entered into a contract with NEC Corporation to make its subsidiary, NEC Display Solutions, Ltd., a subsidiary of our own. This was done to complement deployment regions and other business aspects for our Business Solutions business.

We will also strive to improve working capital. Since we are managing this in line with our business plan, this is still not excessive; however, I think spinning off our device businesses will enable more detailed management.

In addition, we must think about how we handle Class C shares. These are not preferred shares and are built into EPS, meaning that though there will be no impact on business performance or financials, I think there are concerns over potentially deteriorated supply and demand from any conversion to common stock, which is dampening stock prices.

■ **Mr. Nakane** Four companies, including Hon Hai Precision Industry Co., Ltd., are major shareholders who own about 60% of common stock. Therefore, all external investors, whether they be corporations or individuals, are minority shareholders. What are your thoughts on those minority shareholders?

Mr. Yasuo Nakane Mizuho Securities Co., Ltd. Global Head of Technology Research

Graduated from Sophia University in 1991. Joined Mizuho Securities in 2015 after working at Daiwa Institute of Research (Tokyo/Taipei) and Deutsche Securities. Responsible for the consumer electronics sector, display-related industries in general, and the electronics sector in Asia. Has ranked at the top of Nikkei Veritas’s analyst rankings in the Consumer Electronics and AV Equipment sector for five consecutive years.



Analyst Discussion

■ **Nomura** We have established and manage our Regulations on Related Party Transactions so that transactions with our parent company, Hon Hai Precision Industry Co., Ltd., and its group companies will not adversely affect Sharp's financial position and operating results. We conduct the same internal procedures as we would for ordinary transactions, with transactions verified for their necessity, rationale, and validity of conditions. All of this is confirmed by the Board of Directors.

The opinions that we gain from our diversely-oriented minority shareholders are also extremely valuable. I am constantly thinking about how we can increase the opportunity to exchange opinions with them. We hold management briefings after Ordinary General Meetings of Shareholders, and proactively participate in conferences for institutional investors. I would also like to engage in discussions with securities analysts as much as possible.

■ **Mr. Nakane** I was worried that there would be a deterioration in disclosure when Sharp received investment from Hon Hai. However, I feel that information disclosure in the last few years has improved. This also gives an impression of Sharp's independence within the Hon Hai Group, which I think is a desirable state.



3. The Desired Corporate State

■ **Mr. Nakane** Recently you have often said that Sharp is a *brand company*. Sharp's businesses can be divided into two categories: brand businesses centered on finished products, and device businesses such as the display business. Let's reconfirm the basic approach toward each of these two.

■ **Nomura** Sharp has brand businesses, which cover products, services, solutions, and so on, as well as device businesses. In the future, we will allocate more resources to strengthen our brand businesses. Advanced devices are of course essential for this. Since device businesses require significant investment on an ongoing basis tracking the evolution of technology, we will spin these off and seek to acquire external funding.

■ **Mr. Nakane** How will you increase brand value?

■ **Nomura** We would like to increase brand value as a company contributing to society.

With COVID-19, our lives have changed significantly. For instance, wearing masks in the city has become a foregone conclusion and working from home has become commonplace. We likely can't completely go back to the way things were before, and a number of new social issues will no doubt emerge in the era of the new normal.

Sharp will utilize its resources to solve social issues. One of these resources is our Plasmacluster technology. Amid increasing awareness toward the environment and cleanliness, we will proactively promote its effects and provide safety and peace of mind. We will also strengthen our Smart Life services, such as our Heal-sio Deli meal kit delivery service, COCORO OFFICE, educational solutions, and membership businesses.

In addition to Plasmacluster technology, I think we have



strengths in sensor technology, communication technology, robot technology, as well as 8K + 5G-related equipment and AIoT-compatible equipment that have already been widely deployed.

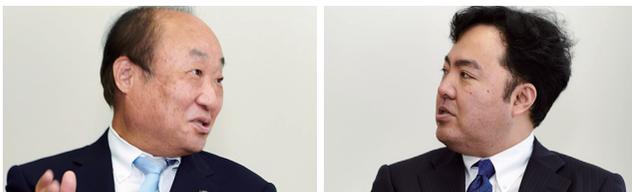
■ **Mr. Nakane** While Sharp has been putting out a lot of extremely original products, there are many instances where Sharp products fall short, in a market they created, overtaken by late-comers with greater corporate scale than Sharp.

■ **Nomura** Unfortunately, there have been such cases in the past. At present, we can maximally leverage our cooperative relationship with the Hon Hai Group and supply the unique products we've created to the market without missing opportunities.

The basic structure is that Sharp conducts research, development, design, and sales, while the Hon Hai Group is used for production and procurement. However, we are flexible in how we operate this structure depending on region and value. In China, the Hon Hai Group is also used for design and other processes, while in nations in ASEAN and elsewhere, Sharp manufactures white goods, televisions, and others.

■ **Mr. Nakane** Let's talk about geopolitical risk. The trend of trade frictions between the United States and China is one that

Analyst Discussion



demands constant attention, and impact may become severe for companies who do business in both countries. How will Sharp deal with this situation?

■ **Nomura** At this point, there has been no major impact on business performance, but we are closely watching trends in the United States and China. Sharp manufactures at its own plants in Thailand and Indonesia as well as at the Hon Hai Group's bases in China. The company also has a new plant in Vietnam that was launched this year. We believe that we can respond flexibly by reviewing the items produced at each base.

■ **Mr. Nakane** In the product businesses, you are also working to expand your B2B (corporate) business. As a slight contrast to B2C (consumer), your B2B business is limited to a small scope still, with the exclusion of copiers, multi-function printers, and some other areas. This B2B side does not seem to have strengths on the sales side.

■ **Nomura** We have a B2B sales department under Business Solutions, which handles multi-function printers and signage. With the expansion of our personal computer business and the development of COCORO OFFICE, the sales department will need more power than ever before. Therefore, we are shifting personnel and taking other actions to strengthen it.

■ **Mr. Nakane** The device (e.g. display, semiconductor, electronic components) businesses have already been spun off as wholly-owned subsidiaries. I believe you are also considering the acquisition of external funding as needed. I believe this is a rational strategy from the perspective of distributing management resources. On the other hand, I think that if these are working on the devices necessary for improving brand value and differentiating finished products, they should maintain their positions as consolidated subsidiaries.

■ **Nomura** Moving forward, I don't know what will come out of the discussions we'll have with a variety of companies. However, I don't think it is a strange idea to think that the devices necessary to increase brand value should be created by Sharp itself and/or and its consolidated subsidiaries.

■ **Mr. Nakane** Please tell us your approach to recruiting and cultivating human resources.

■ **Nomura** We look ahead to the future, hiring about 300 new graduates each year. In addition, our organization has a biased age demographic with few in their 30s and 40s; therefore, we also re-hire former employees and recruit mid-career employees after determining what kind of talent we need. Talent with experience working in other companies tend to enliven the workplace. We also welcome those who have experienced both Sharp and other companies who can come back to us and evaluate how we work at Sharp.

4. Concluding Remarks

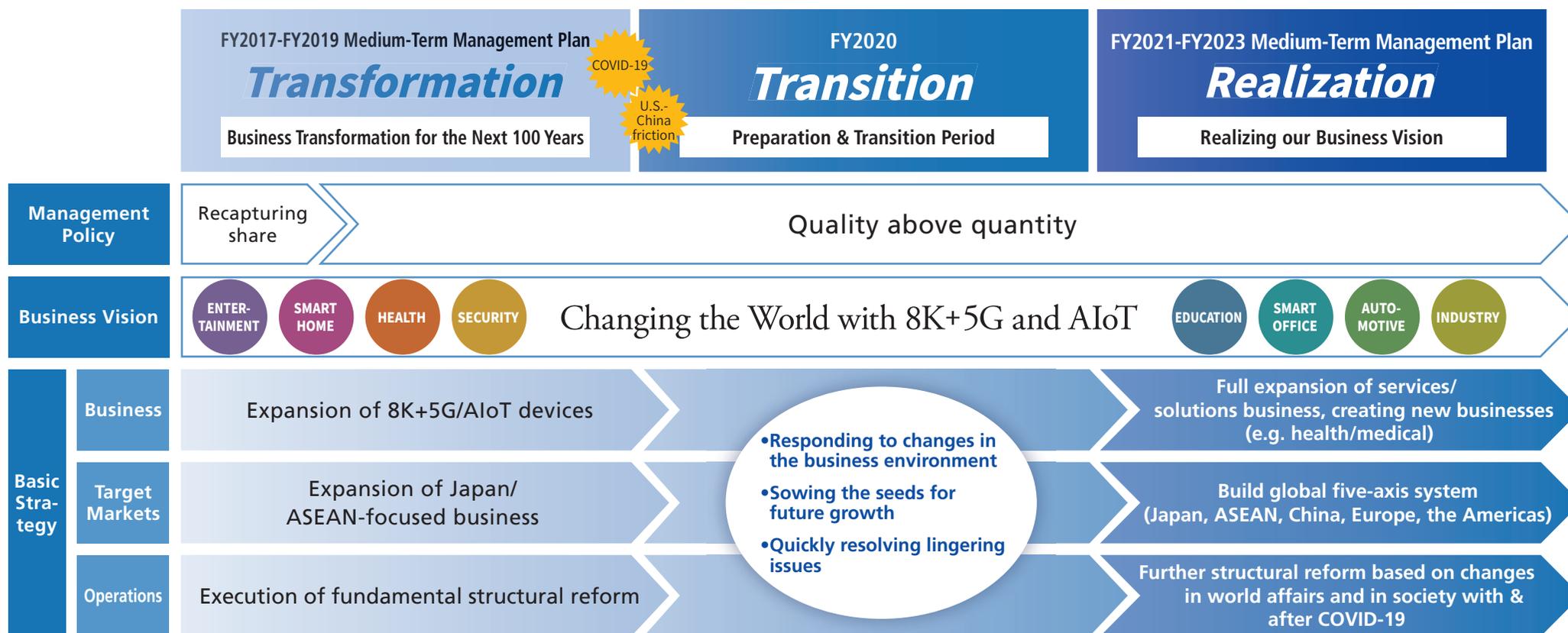
■ **Mr. Nakane** We've been able to hear about profit growth and financial improvement, your approach to device businesses and minority shareholders, and other points of interest for me. I

would like Sharp to be an activist subsidiary. As an analyst, I cover both Sharp and Hon Hai Precision. From my standpoint, I strongly feel that Sharp and the Hon Hai Group, each with strengths not found in its counterpart, could have a very good complementary relationship with expectations for great synergistic effects if they are successful in building a collaborative mechanism. It would be beneficial for both sides if young people gained the experience of collaborating with the Hon Hai Group, an experience only available at Sharp, and exerted a positive impact on the management of the Hon Hai Group.

■ **Nomura** Thank you for your valuable opinions. We remain keenly aware that we are tasked with engaging all of our shareholders in discussions, and absorbing their opinions from a myriad of perspectives. We would be grateful to receive the frank opinions and suggestions of as many shareholders, investors, and securities analysts as possible.



Future Initiatives



In order to realize its business vision, Sharp will collaborate with a range of partners to build our 8K+5G Ecosystem and AIoT World, generating a series of new value offerings unique to Sharp. At the core of these are innovative proprietary technologies in realms such as 8K, 5G, AI, IoT, and robotics.

The business environment has been violently shaken up from such factors as the COVID-19 pandemic and U.S.-China trade frictions. Therefore, we have positioned fiscal 2020 as our period of *Transition* seeking to respond to changes in the business environment, sow the seeds for future growth, and quickly resolve lingering issues. For example, in response to stay-at-home demand, we will strengthen development for Healsio Hot Cook, Healsio Deli, and high-value-added TVs (e.g. 8K/4K models). We will also actively promote Plasmacluster-equipped products in keeping with heightening awareness of cleanliness and the environment. In addition, we are providing large-size touch panel displays, PCs, tablets, and other products in a timely manner with the expansion of telework, digitization

of work processes, and advancement of educational ICT (e.g. as in the GIGA School Program) in Japan and overseas. Accordingly, we will steadily capture display demand driven by these changes. We will also focus on efforts such as developing COCORO OFFICE and unmanned solutions. Further, in regard to the supply chain, we will conduct detailed analyses of impacts from business environment changes on our procurement, production, sales, and other processes, rebuilding a structure more resilient to business risks.

In fiscal 2021 and beyond, we will advance a full-scale *Realization* of our business vision. By realizing innovation in various business fields such as Smart Home, Smart Office, Entertainment, Education, Health, Security, Industry, and Automotive, we will achieve both sustainable business expansion and resolution of international social issues.

Sustainability

Basic Approach to CSR

Since our inception, Sharp has pursued our founding spirit, to contribute to the culture, benefits, and welfare of people throughout the world and a business philosophy stating that we expect mutual prosperity with all who cooperate with Sharp. Our basic approach to CSR is to answer the expectations of society and our stakeholders, aiming for the sustainable development of both Sharp and society.

To embody this business philosophy and business creed*1, we established the Sharp Group

Charter of Corporate Behavior as a code of conduct for group companies and the Sharp Code of Conduct*2 for all officers and employees. These are the group's basic policy for CSR and we are working to ensure its rigorous understanding.

*1 See below for more about our business philosophy and business creed.

<https://global.sharp/corporate/info/philosophy/>

*2 See below for more about Sharp Group Charter of Corporate Behavior and Sharp Code of Conduct.

<https://global.sharp/corporate/info/charter/>

Sustainability Policies and Promotion Structure

In August 2016, Sharp identified initiatives we believe to be particularly important in reducing our impact on society and the environment. We defined these initiatives as our Social and Environmental Responsibility (SER), establishing an SER policy.

SER Policy

- (1) Value the rights of employees and ensure their health and safety.
- (2) Fulfill environmental responsibilities in business activities and manufacturing processes.
- (3) Build and operate an SER management system based on international standards, regulations, and client requests.

In addition, as of fiscal 2018, our medium and long-term visions have taken up the purpose of contributing to the achievement of the SDGs (Sustainable Development Goals), adopted by the

United Nations in September 2015. These visions have adopted the dual concepts of *solving social issues through innovation in business and technology* and *reducing the impact of our business activities on society and the environment through promoting measures according to SER Policy*. In this way, we will continue to support ESG*3 investment and target contribution to the achievement of the SDGs, working under the basic strategy of *promoting sustainability management*.

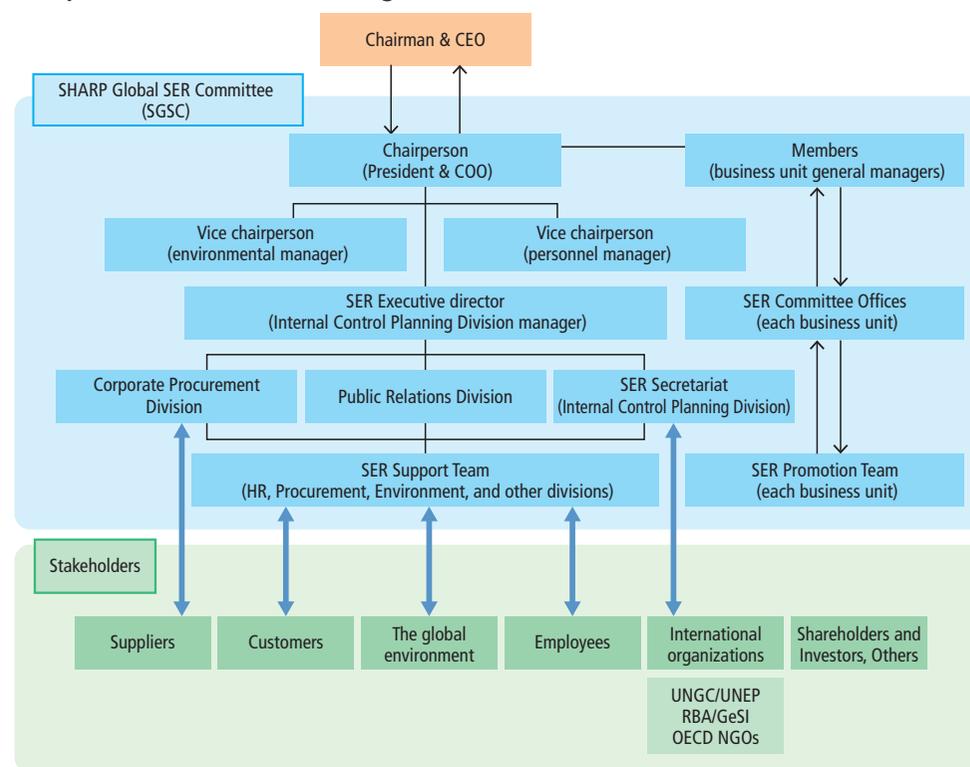
*3 Environment, Social, Governance



To reduce these policies to actionable measures managed via the PDCA cycle, Sharp launched the SHARP Global SER Committee in 2016, comprised of senior executives, headquarters functional divisions (e.g. environment/HR/procurement) and

companies and business units. This committee deliberates and promotes SER measures and the thorough implementation of policies and visions, and conducts such activities as sharing the latest global trends related to social issues.

Sharp Global SER Committee Organization Chart



(As of July 2020)

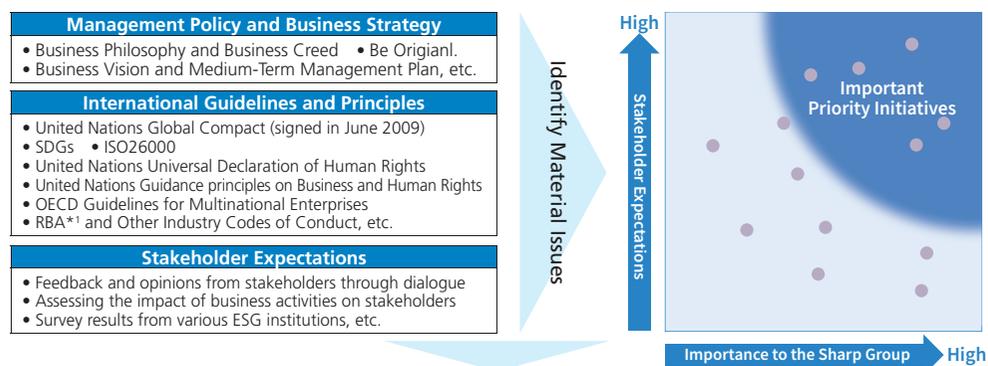
Sustainability

Materiality

Aiming to contribute to goals that solve global social issues, we identify materialities in the Sharp Group from a medium- to long-term perspective, and strive to promote sustainability management.

In identifying material issues, we map important issues from the two-axis perspective of importance to society (stakeholder expectations) and importance

to the Sharp Group. Accordingly, we have identified top-priority issues. In addition, with *strengthening governance* at the foundation of all of our corporate activities, we have arranged material issues under the two perspectives of *solving social issues through innovation* and *reducing the impact of our business activities on society and the environment*.



Solving Social Issues through Innovation	Reduce our impact of our business activities on society and the environment
<p>Building an 8K+5G Ecosystem</p> <p>Offer solutions in medical, security, inspection systems, infrastructure maintenance and other fields through ultra-high-definition 8K</p> <p>Expand People-Oriented AIoT</p> <p>Offer a safe, convenient, comfortable smart life through AI- and IoT-compatible devices across a range of scenarios</p> <p>ICT Utilization</p> <p>Offer remote factory support systems, meeting solutions, and education solutions through computing</p>	<p>Human Rights and Labor</p> <ul style="list-style-type: none"> Employee health and safety Harassment prevention Respect for human rights <p>Environment</p> <p>Initiatives for SHARP Eco Vision 2050, Our Long-Term Environmental Vision*2</p> <ul style="list-style-type: none"> Climate change (achieving carbon-free society) Resource recycling (achieving a circular economy) Safety and security (careful and detailed management of chemical substances) <p>Supply Chain Management</p> <ul style="list-style-type: none"> ESG risk management throughout the supply chain Responsible mineral procurement
Stronger Governance	
Corporate governance, risk management, compliance, information security, etc.	

*1 Responsible Business Alliance. Founded in 2004 by a group of leading electronics companies including Hewlett-Packard, IBM, and Dell, the RBA, formerly the Electronic Industry Citizenship Coalition (EICC), has a code of conduct covering the social, environmental, and ethical responsibilities in the global supply chain of its members in the electronics and a wide range of other industries.

*2 Please refer to P.12, Environmental Initiatives.

Identified material issues are reduced to measurable and specific measures and monitored.

Each year, we formulate company-wide SER priority policy guidelines in the interest of reducing the impact of our business activities on society and the environment. Each company and business unit selects important issues from these guidelines, engaging in and self-evaluating their progress in SER measures (goals, KPIs, scope, action plan, etc.) on a quarterly basis.

Further, to solve social issues through innovation, we have as of fiscal 2019 established a medium- and long-term vision for contributing

to the SDGs through each of our companies and business units, reporting and confirming our progress*3 here.

Besides confirming the status of initiatives at company-wide meetings, we have also established annual targets for strengthening governance for each major field of emphasis at each supervising department.

*3 See the following link for more about the progress of our medium- and long-term vision.
<https://global.sharp/corporate/eco/sdgs/>

Fiscal 2019 SER Policy Guidelines

SER Measures	Scope	Target SDGs
Restrict long working hours that can lead to health problems	All employees in Japan	3, 8, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20
Prevent harassment	All employees in Japan	5, 8, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20
Respect for human rights at overseas bases	All employees at overseas bases	8, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20
Compliance with and efficient response to laws and regulations related to conflict minerals (national/international)	Applicable business units	16, 20
Conduct internal production plant SER performance surveys and audits based on international SER standards (RBA Code of Conduct)	All production sites in Japan Consolidated manufacturing subsidiaries	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20
Restructure supplier SER management system	Suppliers	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20
Reduce and recycle waste	All production sites	6, 12, 13, 14, 15, 16, 17, 18, 19, 20
Suppress greenhouse gas emissions associated with business activities (More efficient use of energy)	All production sites	7, 13, 14, 15, 17, 18, 19, 20
Suppress greenhouse gas emissions associated with product use (make Sharp products more energy-efficient)	Product-related business units	7, 12, 13, 14, 15, 17, 18, 19, 20
Comply with EU RoHS Directive*4, WEEE Directive*5, and REACH*6	All business units	3, 6, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20

*4 RoHS: Restriction of Hazardous Substances. An EU directive on the restriction on the use of certain hazardous substances in electrical and electronic equipment.

*5 WEEE: Waste Electrical and Electronic Equipment. An EU directive on waste electrical and electronic equipment.

*6 REACH: Registration, Evaluation, Authorization, and Restriction of Chemicals. A set of EU regulations on the registration, evaluation, authorization, and restriction of chemicals.

Environmental Initiatives

The SHARP Eco Vision 2050, Our Long-Term Environmental Vision

Global environmental issues such as climate change, resource depletion, and the problems presented by plastic waste are becoming more serious and are recognized as important issues among the international community. Under these circumstances, global movements aimed at resolving social issues are accelerating, such those designed to respond to Sustainable Development Goals (SDGs) and Paris Agreement*¹, as well as initiatives to realize a *circular economy**².

In 2019, Sharp established its long-term environmental vision SHARP Eco Vision 2050 based on its principal environmental philosophy of “Creating an Environmentally Conscious Company with Sincerity and Creativity”, which was established in 1992. Our aim is to realize a sustainable global environment by setting long-term goals for 2050 in the three areas of climate change, resource recycling,

and safety and security.

Furthermore, in order to realize our long-term environmental vision, we are formulating “medium-term environmental goals” that set specific initiatives and quantitative goals for each area.

Sharp is engaged in initiatives to solve social issues and sustainably raise corporate value. We are doing so by working more closely with our stakeholders through corporate and environmental conservation activities aimed at realizing our long-term environmental vision.

*1 An international framework for the prevention of global warming, ratified at the 21st Conference of the Parties of the UNFCCC (COP21), held in Paris in 2015.

*2 An economic system in which discarded products and raw materials are considered as new resources and in which resources are circulated without generating waste products.

Long-Term Environmental Targets

Toward achieving the SHARP Eco Vision 2050, we have defined long term goals in the three following areas to generate clean energy in excess of energy consumed and minimize the environmental impact of corporate activities on the global environment.

Climate Change



Throughout our history, Sharp has endeavored to reduce the energy we use as an organization, while making more energy-efficiency products to help reduce the amount of energy consumed in the home and by society.

As our founder, Tokuji Hayakawa, said, “Everything we produce uses electricity. As we become a bigger company, we will be responsible for using more electricity, so I propose that we also begin making electricity.” Following this course, Sharp began development of solar batteries, striving to popularize solar energy for more than 50 years.

As a company that makes products that use electricity, we must take responsibility for the environmental impact of this electricity usage.

Sharp set two goals to achieve by the year 2050 as we strive further to reduce energy consumption and generate clean energy, contributing to a carbon-free society.

Goals

- Generate clean energy in excess of the energy consumed throughout our supply chain
- Achieve net zero CO₂ emissions due to our own business activities

Resource Recycling



Sharp has created new products that offer a variety of value to the world. At the same time, we have used many of the world's resources.

Our desire is to continue to offer a variety of value to our stakeholders amid the constraints of limited resources.

Sharp intends to reach new levels of effective resource use, maximizing value from minimal resources and constructing a circular economy. We have defined two goals to achieve by the year 2050 in efforts to create a recycling-oriented society.

Goals

- Eliminate the use of new mined resources* in products
- Eliminate final disposal of waste products generated through our business activities

*Excludes those items not suitable for recycling from an environmental standpoint

Safety and Security



Sharp factories use a variety of chemical substances in the product manufacturing process. Our products also contain a variety of chemical substances. Chemical substances include substances that have a negative impact on the human body, the environment, and ecosystems. Accordingly, these chemicals must be managed in a careful and detailed manner.

Sharp corporate activities must not do harm to human health, the global environment, or ecosystems.

Sharp follows current international standards, as well as our own standards oriented toward the future, for the strict management of these relevant chemical substances. We are striving to eliminate any chemicals that harm human health, the global environment, or ecosystems.

Goals

- Conduct proper management of chemical substances to protect human health, the global environment, and ecosystems

Environmental Initiatives

Disclosure of Information regarding Climate Change

Sharp will expand its disclosure of information regarding climate change in accordance with the TCFD* framework.

1. Governance

Sharp established the Sharp Global SER Committee as an organization dedicated to promoting company-wide initiatives such as those related to climate change. This committee works to promote specific initiatives as well as introduce further improvements and new measures.

2. Strategy

We recognize the risks and opportunities presented by climate change to Sharp's business are as follows.

Type		Relation to Sharp's business	
Risks	Transition	Policies/regulations	Increased business costs and workloads due to policy changes, stricter regulations (such as large increases in carbon tax rates), or stricter energy-saving standards imposed on products. [Countermeasures] We will constantly strive to understand regulatory trends while thoroughly complying with existing regulations and standards, as well as participate in policy making opportunities, etc.
	Physical change	Acute	Business continuity risks caused by production delays and losses in sales opportunities due to stoppages of production site operations or disruptions in material procurement resulting from increased/intensified natural disasters such as typhoons and flooding. [Countermeasures] Reinforcements will be carried out at sites where the risk of flood damage exists. Measures will also be taken to secure multiple suppliers and prepare disaster response manuals.
Opportunities	Transition	Products/services	Expand use of solar power generation systems and storage battery systems that assist in mitigating and adapting to climate change. Expand business for AIoT technology, devices and related products to meet increased demand for energy-saving products.
	Physical change	Products/services	As a measure for responding to natural disasters, expand socially innovative businesses that enable efficient management of energy conservation and energy creation through combinations with AIoT technology.

3. Risk management

Based on the Business Risk Management Guidelines which defines the basic concept of business risk management, Sharp manages and assesses climate-related risks by positioning them as "specific risks" which have an especially large impact on management.

4. Indicators/goals

In our long-term environmental vision for 2050 entitled "SHARP Eco Vision 2050," we have set long-term goals to reduce greenhouse gas emissions, particularly in the area of climate change. These goals include "achieving net zero CO₂ emissions due to our own business activities" and "generating clean energy in excess of the energy consumed throughout our supply chain."

*Climate-related financial disclosure task force formed by the Financial Stability Board (international body that works toward financial systems stability) in 2017.

Suppress Greenhouse Gas Emissions Associated with Business Activities

Sharp suppresses greenhouse gas emissions associated with our business activities, contributing to a carbon-free society. Greenhouse gas emission levels from Sharp Group business activities in fiscal 2019 decreased by 9.6% from the previous year to 974,000 t-CO₂ by transferring production to more efficient factories and consolidating production sites. Our improvement rate of energy intensity was 18% compared to a fiscal 2012 baseline*.

*Please refer to P.2, Greenhouse gas emissions.

Social Initiatives

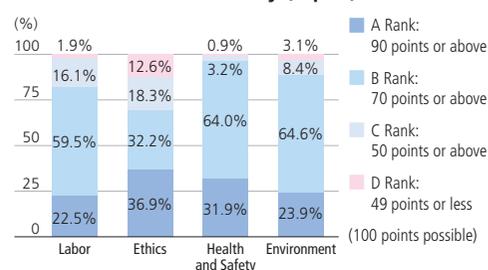
Promoting CSR across the Entire Supply Chain -Fair and Impartial Procurement Activities-

Sharp has created and published our Sharp Supply-Chain CSR Deployment Guidebook, which conforms to the RBA Code of Conduct. Our Basic Parts Purchase Agreement also includes articles requiring suppliers to comply with CSR initiatives based on our guidebook.

Sharp conducts a CSR/green procurement survey, which is based on a format conforming to the RBA self-assessment questionnaire. Manufacturing facilities receiving low scores are asked to submit an improvement plan. Through communications of this type and others with suppliers, Sharp strives to raise the level of CSR engagement throughout our supply chain.

Sharp will continue to be active in pursuing CSR initiatives throughout our global entire supply chain.

Assessment Distribution of CSR/ Green Procurement Survey (Japan)



Number of Factories Responding to CSR Survey (Cumulative since fiscal 2017)

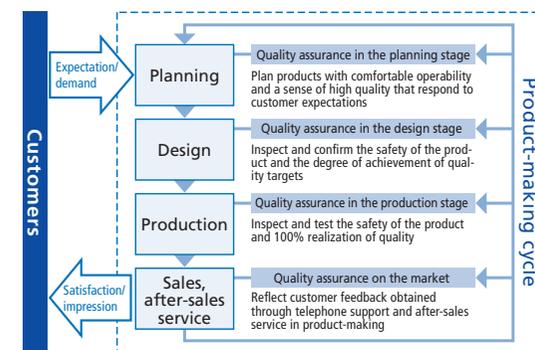
Country/Region	No. of Factories
Japan	1,438
Korea	37
China	157
Hong Kong	39
Thailand	263
Indonesia	233
Malaysia	329
Philippines	72
Vietnam	4
Total	2,572

Ensuring Quality and Safety

To gain customer trust and improve satisfaction, Sharp responds to customer needs and demands, offering high-quality products and services that are safe, reliable, and environmentally conscious.

Quality Assurance System

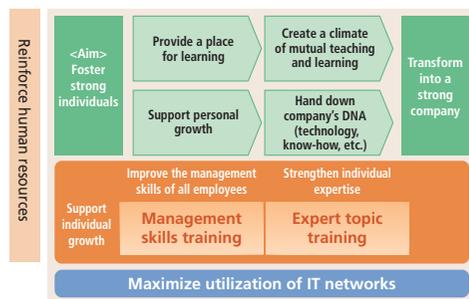
Sharp specifies the quality levels we promise to customers, thereby ensuring all employees in every department involved in product planning, design, production, sales, and after-sales service continue to strive for improved quality.



Social Initiatives

Human Resource Development

Sharp strives create a learning environment in which any individual has access to self-driven learning tools related to both basic and expert knowledge related to their work. In this way, we foster professionals who are well versed in their businesses. We aim to transform into a strong company through human resource development and enhancement to foster strong individuals, creating a climate of mutual teaching and learning through sustained personnel, education, and training systems.



Diversity Management

Sharp's approach to diversity is clearly stated in its Business Philosophy: "It is the intention of our corporation to grow hand-in-hand with our employees, encouraging and aiding them to reach their full potential and improve their standard of living." Through mutual respect of individual employee personalities, we aim to create new value, leading to the proposal of services and development of new lifestyle products that we, alongside our customers, will use to build the stepping stones toward our future.

Diversity management is a human resources strategy for utilizing a diverse range of employees; it is also a business strategy.

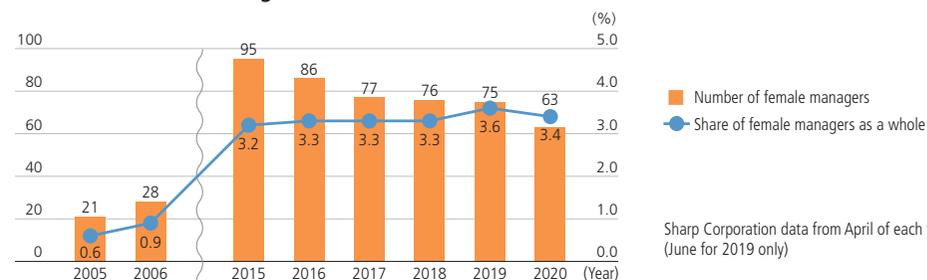
For years, Sharp has striven to expand the roles of women in the workplace and promote female employees to managers. In April 2020, the share of women in manager positions was 3.4%, a nearly six-fold increase compared to the 0.6% share in 2005, the year Sharp launched a program to promote more women to managerial positions.

Ever since Sharp founder Tokuji Hayakawa established the *accumulation of community service* as one of the Five Accumulations of Competency*, Sharp has been actively involved in social service and welfare. As of June 1, 2020, the Sharp Group employed approximately 320 disabled persons. The percentage of disabled employees among all employees was 2.46%, well over the 2.2% rate mandated by law (as stated in the Act on Employment Promotion etc., of Persons with Disabilities).



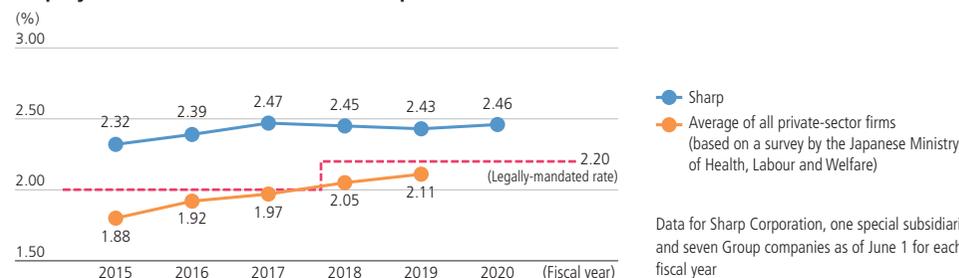
*Accumulation of trust, accumulation of capital, accumulation of community service, accumulation of human resources, and accumulation of trading partners

Number of Female Managers



Sharp Corporation data from April of each year (June for 2019 only)

Employment Rate of the Disabled in Japan



Data for Sharp Corporation, one special subsidiaries, and seven Group companies as of June 1 for each fiscal year

ESG Indexes

As of June 2020, Sharp has been included in the following ESG indexes.

- FTSE4Good Developed Index
- FTSE Blossom Japan Index
- MSCI ESG Leaders Indexes
- MSCI Japan ESG Select Leaders Indexes



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Corporate Governance

Basic Concepts

Sharp's business philosophy contains this statement: "Our future prosperity is directly linked to the prosperity of our customers, dealers and shareholders... indeed, the entire Sharp family." Under this philosophy, Sharp's basic concept concerning corporate governance is to maximize corporate value through swift and accurate management that preserves transparency, objectivity and soundness.

Based on this stance, Sharp appoints outside directors who have deep insight and a wealth of experience in the fields of social and economic trends, management, and so forth. In the institutional design of the company, we have chosen to become a company with an audit & supervisory committee. This format increases the agility of

our decision-making, while strengthening oversight of the execution of duties.

With regard to the execution of business, Sharp separates the supervisory and decision-making functions from the business execution functions through the introduction of the Executive Officers System. This system enables the prompt, efficient, and consistent conduct of business. Sharp has also organized its business structure by decentralizing management to clarify the profit responsibilities of each business unit. In this way we have been strengthening our individual businesses and operations, exercising control through the Chairman's Office and the Business Strategy Planning Office, organizations within our headquarters.

Status of Corporate Governance System

Sharp's corporate governance system comprises the Board of Directors, which supervises directors' execution of duties, and the Audit & Supervisory Committee, which audits the directors' execution of duties, together with Executive Officers System which separates the supervisory and decision-making functions from the business execution functions.

Meetings of the Board of Directors of Sharp Corporation are as a rule held on a monthly basis to make decisions on matters stipulated by law and management-related matters of importance, as well as to supervise the state of business execution. The Company also has an Internal Control Committee, the Compensation Committee, and the Nominating Committee. These committees serve as advisory bodies to the Board of Directors.

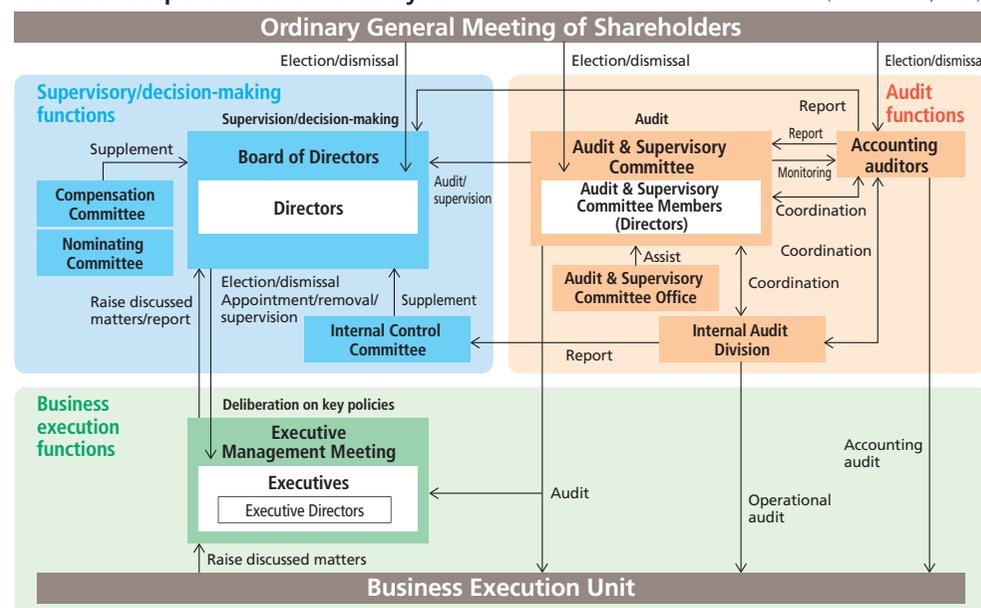
In addition to the Board of Directors, the Company has set up an Executive Management Meeting

whose members are executive officers. The Executive Management Meeting deliberates in an appropriate and timely manner on matters of importance related to corporate management and business operations. This committee facilitates prompt executive decision-making.

The Audit & Supervisory Committee is comprised of three directors, all of whom are outside directors having high levels of professional knowledge. Two of the Audit & Supervisory Committee members are independent directors and one member is a full-time Audit & Supervisory Committee member. The Audit & Supervisory Committee members hold regular meetings with executive directors, accounting auditors, the head of the Internal Audit Division and others to exchange opinions and endeavor to ensure that business is conducted legally, appropriately, and efficiently.

Status of Corporate Governance System

(As of June 30, 2020)



Organization Membership

(©: Committee chair) (As of June 30, 2020)

Title	Name	Board of Directors	Audit & Supervisory Committee	Executive Management Meeting	Nominating Committee	Compensation Committee	Internal Control Committee
Chairman & Chief Executive Officer	J.W. Tai	◎		○	○	○	◎
President & Chief Operating Officer	Katsuaki Nomura	○		◎	○	○	○
Member of the Board	Chung-Cheng Lin	○					
Member of the Board	Wei-Ming Chen	○					
Outside Director Member of the Board*	Hsu-Tung Lu	○	◎		○	○	○
Outside Director Member of the Board*	Yasuo Himejiwa	○	○		◎	◎	○
Outside Director Member of the Board*	Yutaka Nakagawa	○	○				○
Senior Executive Managing Officer	Fujikazu Nakayama			○			
Senior Executive Managing Officer	Masahiro Okitsu			○			
Senior Executive Managing Officer	Youichi Tsusue			○			
Senior Executive Managing Officer	Yoshihiro Hashimoto			○			○
Senior Executive Managing Officer	Ray-Shyang Lin			○			
Executive Managing Officer	Chien-Erh Wang			○			
Executive Managing Officer	Mototaka Taneya			○			
Executive Managing Officer	Po-Hsuan Wu			○			
Executive Officer	Satoshi Sakakibara			○			○
Executive Officer	Yoshiro Nakano			○			
Executive Officer	Yoshio Kosaka			○			

*Member of Audit & Supervisory Committee

Corporate Governance

Outside Directors

(As of June 30, 2020)

Name	Member of Audit & Supervisory Committee	Independent Director	Additional Comments on Aspects of Suitability	Reason for Selection
Hsu-Tung Lu	○		Mr. Lu was an employee at Hon Hai Precision Industry Co., Ltd. (Sharp parent company) until 2010. He served as a director at Foxconn Japan Co., Ltd., a subsidiary of Hon Hai, until January 2014, and served there as an auditor until June 2017. From December 2010 until August 2017, Mr. Lu was employed by Foxconn Technology Co., Ltd. as chief financial officer. This company is the parent company of Foxconn Technology Pte. Ltd., which is a major shareholder in Sharp and an affiliated company of Hon Hai, parent company to Sharp.	Mr. Lu has worked for many years in accounting operations. Given his wealth of experience and knowledge based on his professional experience, we have determined that he is well suited to serve as an outside director at Sharp.
Yasuo Himeiwa	○	○	Mr. Himeiwa worked at KPMG AZSA LLC, which served as our external auditor until June 2016, but he was not involved in work for Sharp over that span. We have determined, therefore, that this past experience does not present any issues related to independence.	Mr. Himeiwa has worked for many years in the accounting business. Given his wealth of professional experience and knowledge, we have determined that he is well suited to serve as an outside director at Sharp. Further, we have designated Mr. Himeiwa as an independent director based on Standards for Independence of Outside Directors.
Yutaka Nakagawa	○	○	—	Mr. Nakagawa has worked for many years in the audio visual equipment and semiconductor businesses, etc. Given his experience in corporate management as an executive officer and his wealth of professional experience and knowledge, we have determined that he is well suited to serve as an outside director at Sharp. Further, we have designated Mr. Nakagawa as an independent director based on Standards for Independence of Outside Directors.

Incentives

Introduction of Stock Option Plan

Sharp has introduced a stock option plan with the aim of improving the alignment between responsibility and incentives for persons in the categories listed below with our earnings performance. At the June 29, 2020 Ordinary General Meeting of Shareholders, approval was granted

for the issuance of a up to 2 million shares in total upon the exercise of share options that can be allocated to persons in the following categories: directors, employees, directors of subsidiaries, executive officers of subsidiaries, and corporate auditors of subsidiaries, and employees of subsidiaries, etc.

Director Remuneration

Disclosure Status of Remuneration for Each Director, and Policy for Deciding Remuneration Amount or Calculation Methods

Sharp does not disclose the remuneration of individual directors. Remuneration paid to directors (excluding directors who are Audit Committee members) in fiscal 2019 totaled ¥325 million (five directors, including two directors who retired during fiscal 2019), remuneration paid to directors on the Audit & Supervisory Committee totaled ¥79 million (four directors, including one director who retired during fiscal 2019).

Regarding remuneration for directors (excluding directors on the Audit & Supervisory Committee), the Company proposed a cap on cash remuneration set at ¥500 million per fiscal year and a cap on share options set at 3,000 units (total cash value of up to ¥300 million) per fiscal year at the Ordinary General Meeting of Shareholders (OGM) held on June 25, 2019. Shareholders at the OGM approve the total sum of cash remuneration awarded to directors (excluding directors on the Audit & Supervisory Committee) and delegate

such matters to the Compensation Committee, an advisory body to the Board of Directors, to determine a total sum equal to or below the cap.

Regarding remuneration for directors who are also members of the Audit & Supervisory Committee, the Company proposed a cap on cash remuneration set at ¥100 million per fiscal year and a cap on share options set at 600 units (total cash value of up to ¥60 million) per fiscal year at the OGM held on June 25, 2019.

Shareholders at the OGM approve the total sum of cash remuneration awarded to directors who are also members of the Audit & Supervisory Committee, with decisions on this matter to be finalized based on discussion at the Audit & Supervisory Committee.

Corporate Governance

Ongoing Development of the Internal Control System

In May 2006, the Board of Directors passed a resolution to adopt the Basic Policy for Internal Control (partially amended in August 2020). Sharp is currently engaged in the development and operation of internal control systems in accordance with this Basic Policy. The Internal Control Committee, which serves as an advisory body to the Board of Directors, deliberates on basic policies regarding internal controls and internal audits. The committee also reviews the status of development and implementation of various measures relating to internal control systems, and makes decisions about what to report on or discuss with the Board of Directors. The unit promoting

internal controls on a companywide basis oversees the internal controls of the business execution units. Meanwhile the Internal Audit Division makes specific proposals on how to improve business operations and reinforces internal controls by checking the validity of business execution as well as the appropriateness and efficiency of management.

To enhance compliance throughout the Group, Sharp introduced the Sharp Group Charter of Corporate Behavior, a set of principles to guide corporate behavior, and the Sharp Code of Conduct, which clarifies the conduct expected of all directors, executives, and employees of Sharp. Sharp ensures that

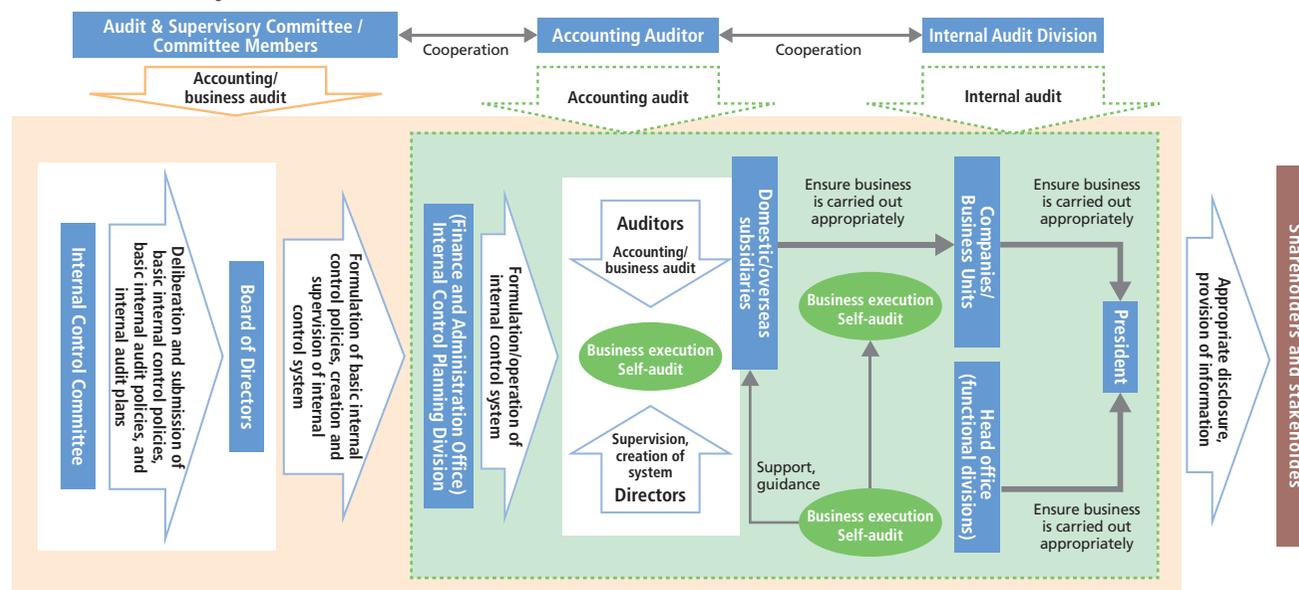
these guidelines are thoroughly observed by posting them on the Web and carrying out position-specific training programs. In accordance with the basic rules of compliance, Sharp is also developing a companywide compliance promotion system. Sharp is also implementing thorough measures to prevent compliance infractions by providing the Sharp Group Compliance Guidebook online to all employees and implementing training based on the guidebook.

On the subject of compliance-related whistleblowing systems, we have established the Crystal Hotline to handle various issues regarding compliance and the workplace, as well as the Competition Law Hotline to handle

competition laws. These hotlines have been established both internally and externally (making use of advisory law firm services) in keeping with the Whistleblower Protection Act and may be used by any employees, temporary staff, or equivalent of the Sharp Group in Japan. Our major overseas bases have also established similar whistleblowing and consultation facilities.

To deal comprehensively and systematically with a wide range of business risks, Sharp formulated its Business Risk Management Guidelines for the prevention of and swift response to risk.

Internal Control System (As of June 2020)



Risk Factors

Listed below are the principal business risks of Sharp that may have a significant influence on investors' decisions and countermeasures.

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, 2020 (or June 30, 2020 as appropriate).

(1) Global Market Trends and Overseas Businesses (Risk)

Sharp conducts its business not only in Japan but also in different regions around the world. Business results and financial position are thus subject to economic and consumer trends, private consumption and corporate capital investment trends associated with the COVID-19 pandemic, 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, the growing impact of world economic recession, U.S.-China trade friction, etc. may affect Sharp's business results and financial position.

(Countermeasure)

Business units that control Sharp's overseas subsidiaries collect risk and other information that may impact Sharp's operations, including global market trends, in cooperation with their local offices and make necessary operational decisions. Business results of the overseas subsidiaries and business

units are reported to management regularly, and changes from those in the previous report are analyzed and prescribed necessary measures are taken against risks. Important matters requiring decision making for business execution are elevated to the Executive Management Meeting, a deliberation and decision-making body for important business execution, where deliberation is conducted.

(2) Exchange Rate Fluctuations (Risk)

The proportion of consolidated net sales accounted for by overseas sales was 70.0% in fiscal 2018 and 65.4% in fiscal 2019.

Sharp sells products made overseas in the Japanese market, and also sells products in countries where it does not manufacture the products. Therefore, Sharp's business results may be impacted by exchange rate fluctuations.

(Countermeasure)

Sharp hedges the risk of exchange rate fluctuations by employing forward exchange contracts and expanding and strengthening optimally located production.

(3) Dependence on Certain Businesses, Products, and Clients

(Risk)

Sharp's 8K Ecosystem segment accounts for nearly half of Sharp's sales. Accordingly, Sharp's earnings may be impacted negatively by factors including slowing customer demand for related products, falling product prices, or increasing competition

due to the emergence of substitute or competitive products, or the emergence of new competitors.

Sharp's Smart Life and 8K Ecosystem segments have high dependence on a small number of specific clients for the sales of some of their products. 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.

(Countermeasure)

Sharp aims to gain superior competitive advantages by accelerating a business model shift achieved by launching new high value-added service solutions; accelerating the global business expansion; and simultaneous entry to the B2C and B2B markets, in addition to maintaining and expanding the existing business segments by expanding the traditional hardware business.

(4) Strategic Alliances and Collaborations (Risk)

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 goals 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.

(Countermeasure)

Sharp believes that importance of strategic alliances and collaborations will grow in the future.

To lead them to success, Sharp thoroughly verifies the business strategic necessity, profitability, and financial appropriateness beforehand at the stage of executing strategic alliances and collaborations, and makes decisions after deliberation at the Executive Management Meeting and the Board of Directors.

After executing them, Sharp monitors the progress of the alliances and collaborations under close cooperation with the relevant business units, and reports to management early if it is determined that the expected results cannot be achieved, to ensure that measures can be taken to minimize the impact they may have on Sharp's business results and financial position.

(5) Relations with Parent Company Group (Risk)

The equity investments from our parent company group (including Hon Hai Precision Industry, subsidiaries, and affiliates) allowed Sharp to pursue operational synergies using the technological, productivity, and cost capabilities of our parent company group. However, we cannot guarantee that operational synergies between Sharp and the parent company group will occur as envisioned.

A change in the parent company group's business strategies or competitive relationship with the parent company group arising in the future may adversely affect Sharp's operations, business

Risk Factors

results, and financial position.

Decision making of important matters, such as management policy and business development may be biased by the parent company group and maintaining our independence and autonomy may not be possible.

(Countermeasure)

Sharp conducts business operations by maximizing operational synergies with the parent company group while fully respecting independence and autonomy between both entities and in close cooperation with the parent company group.

Sharp identifies areas where Sharp can create synergy effects with the parent company group, such as its operational efficiency improvement and expansion of its sales and income, and Sharp appropriately verifies the expected synergies in those areas in cooperation with the parent company group in an effort to implement them.

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 and other brands. Therefore, Sharp believes that there is no competition in the parent company group that may impact Sharp's operations.

Sharp strives to grow, develop, and improve its performance in close cooperation with the parent company group, while fully respecting independence and autonomy 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.

(6) Other Factors Affecting Financial Position (Risk)

Sharp raises funds through borrowings from financial institutions such as banks. The debt to total assets ratio is 42.4% as of the end of the current consolidated fiscal year.

Sharp might become subject to restrictions on how it uses its cash flows in order to repay debt, and also face the possibility of an increase in expenses due to rising interest rates.

Sharp has the possibility of increases in fund raising costs as well as limitations on fund raising. This may be because necessary funds cannot be raised 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, or if its consolidated ordinary income cannot be kept at certain levels, Sharp may forfeit the benefit of time at the lender's request.

Sharp may also forfeit the benefit of time on other borrowings if it violates the relevant financial covenants.

Sharp's dependence on borrowings, 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.

(Countermeasure)

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.

Sharp also shares information about its financial position with other financial institutions with which Sharp has borrowing agreements.

Sharp has a system in place to discuss matters when necessary, keeps good relations with its correspondent financial institutions, and maintains and continues borrowings.

Sharp strives to improve free cash flows by recovering operating cash flows through recovery of its earnings performance and by managing investment cash flows through concentrating on investments focused on efficiency.

Sharp tries to create an environment that allows for fund raising through direct financing instead of indirect financing by early recovering from a bad rating.

(7) Technological Innovation (Risk)

Rapid technological advancement and proper response to changes in the business areas where Sharp operates improves the competitiveness of Sharp's products and services, whereas insufficient response to the following items may adversely affect the growth and business results.

- Prediction and response to the technological

advancement and rise and fall, and their social significance

- Selection and concentration in R&D, and proper resource allocation
- Technological enhancement for new areas
- Acceleration of R&D in collaboration with external partners

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.

(Countermeasure)

Sharp's R&D teams work together as one to go beyond simply the improvement of the technological level and develop the 8K+5G Ecosystem and AIoT World under the collaboration of the three business groups.

Rapidly changing society significantly changes the evaluation of technologies. Therefore, Sharp quickly identifies social issues and senses technological innovations at global exhibitions and on other occasions and promotes R&D keeping in mind suitability for social issues.

In addition, Sharp does not stick to its in-house R&D, but accelerates R&D in active collaboration with external partners to strengthen the technological capability in new areas necessary to continue transformation to the solution business.

Through these initiatives, Sharp reduces risks associated with social changes and technological innovations, and aims to become a brand company

Risk Factors

that continues to grow sustainably through technological advancement.

In addition to complying with export and import control laws and regulations in the operational activities, Sharp executes control for export and import in conformance with laws and regulations as well as regulatory situation in each country and region in R&D to deal with the tightening of control of emerging technologies involving social platforms for global infrastructure, defense, security, and so on.

(8) Intellectual Property Rights (Risk)

Sharp strives to protect its proprietary technologies by acquiring 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.

There may also be instances 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.

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.

If any of the above problems related to intellectual property rights were to occur, it could impact Sharp's business results and financial position.

(Countermeasure)

Under recognition that the intellectual property rights are important assets for a company, Sharp strives to actively create intellectual properties, and tries to acquire strong rights by mainly using Sharp's subsidiary ScienBiziP Japan, its intellectual property rights application and acquisition division.

Before releasing its products, Sharp checks the clearance of intellectual property rights by thoroughly checking the intellectual property rights of third parties, and at the same time, Sharp improves clearance accuracy by standardizing the clearance process. Thus, Sharp implements measures against the risk of infringing on the intellectual property rights of third parties.

Further, Sharp maximizes the use of intellectual property rights in conjunction with the business and R&D strategies, and at the same time, protects its intellectual property rights and fully respects the intellectual property rights of third parties.

In principle, Sharp resolves a dispute concerning an infringement of rights through dialogue, but if its intellectual property rights are not respected by a third party, Sharp does not hesitate to seek a judgment by a third party, such as a court.

(9) Product Liability (Risk)

Many of Sharp's 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.

There is 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.

(Countermeasure)

Sharp not only complies with public safety standards in each country to ensure the safety of its products but also improves safety by combining the risk assessment policy with its unique safety criteria.

To ensure safety even if an unexpected problem arises, in particular criteria for inflammable structure, malfunction test, etc. were established, and they are revised when necessary to pursue a higher level of safety, and training is performed for internal stakeholders to ensure that the safety criteria are understood and shared by the design and quality departments.

Sharp has established a system to ensure safety to make sure that an emergency action can be taken quickly and appropriately when a problem arises.

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.

(10) Competition to Secure Skilled Personnel (Risk)

Failure to secure skilled personnel in the technology and management fields could affect Sharp's business results and financial position.

(Countermeasure)

Sharp implements the following measures to secure skilled personnel in the technology and management fields.

Sharp actively hires new graduates in order to acquire new talents according to its business policies.

Sharp also actively hires experienced personnel in order to secure core personnel responsible for new businesses.

Sharp created education and training programs that allow all employees to acquire basic and professional knowledge by self-driven learning to develop professional personnel who can fulfill their professional duties.

As a platform where diverse human resources can work with peace of mind, Sharp actively implements initiatives in consideration of the work-life balance of employees, such as creating various programs to strike a balance between work and child upbringing/care/treatment.

(11) Influence of COVID-19 (Risk)

The prolonged and escalating influence of the COVID-19 pandemic may cause personal consumption reduction, supply chain stagnation in Japan and overseas, and stagnation of Sharp's operational activities, adversely affecting Sharp's financial position and business results.

(Countermeasure)

Sharp closely analyzes the influence of the COVID-19 pandemic on the processes, such as procurement, production, and sales, and rebuilds a supply chain that is more resilient to business risks, and at the

Risk Factors

same time, implements structural transformation such as further cost and expense reduction to strengthen the corporate structure.

Sharp also accelerates a shift of business model from selling goods as a home appliance manufacturer to a company that provides services and solutions, and enhances and creates products and services suitable for new life styles that prevent the spread of COVID-19 and facilitate economic activities at the same time.

From a financial viewpoint, based on the assumption that the influence of COVID-19 on the production and sales activities will continue for a certain period of time in fiscal 2020, Sharp will conduct stable and efficient business operations while paying sufficient attention to the liquidity and inventory asset levels.

In addition to the risks above, there are various potential risks, including a risk of dealing with a large number of suppliers and clients, capital investment risk, regulatory risk, large-scale natural disaster risk, or climate change risk. There are other potential risks that are not mentioned in this section which may adversely affect Sharp's business results and financial position.

(Risk Management System)

Sharp sees the risk management as "one of the important activities to fulfill our social responsibilities by growing the business sustainably and meeting the expectations of our stakeholders."

Specifically, Sharp has established the Business Risk Management Guidelines as basic rules for the risk management, created a company-wide risk management system in line with the guidelines, and selected risks that have significant impact on

the business as "specific risks" and manages them.

To respond to changes in the business and market environments, Sharp considers adding or changing specific risks every fiscal year for all specific risks, and reviews, scores, and prioritizes the added or changed specific risks.

The functional department that manages company-wide risks works together with the companies and business units in charge of managing their business segments to minimize and mitigate risks and take the necessary measures to prevent them.

In addition, in case a specific risk arises, the department where the incident arises reports it to the internal control department that serves as risk management secretariat as well as management, works together with the relevant departments to respond to the relevant incident, and, when necessary, considers company-wide improvement measures to prevent recurrence.

Members of the Board and Executives

(As of June 29, 2020)

Members of the Board



Chairman &
Chief Executive Officer
J.W. Tai



President &
Chief Operating Officer
**Katsuaki
Nomura**



Member of the Board
Chung-Cheng Lin



Member of the Board
Wei-Ming Chen



Member of the Board
(Member of Audit
& Supervisory
Committee)
Hsu-Tung Lu *



Member of the Board
(Member of Audit
& Supervisory
Committee)
**Yasuo
Himeiwa ***



Member of the Board
(Member of Audit
& Supervisory
Committee)
**Yutaka
Nakagawa ***

*Outside Directors

Executives

Chairman & Chief Executive Officer	J.W. Tai
President & Chief Operating Officer	Katsuaki Nomura
Senior Executive Managing Officer	Fujikazu Nakayama
Senior Executive Managing Officer	Masahiro Okitsu
Senior Executive Managing Officer	Youichi Tsusue
Senior Executive Managing Officer	Yoshihiro Hashimoto
Senior Executive Managing Officer	Ray-Shyang Lin
Executive Managing Officer	Chien-Erh Wang
Executive Managing Officer	Mototaka Taneya
Executive Managing Officer	Po-Hsuan Wu
Executive Officer	Satoshi Sakakibara
Executive Officer	Yoshiro Nakano
Executive Officer	Yoshio Kosaka

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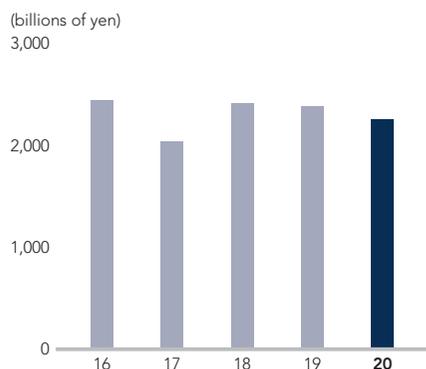
Financial Review

Sharp Corporation and Consolidated Subsidiaries

Net Sales

Consolidated net sales for the year ended March 31, 2020 amounted to ¥2,271,248 million, down ¥128,823 million (5.4%) year on year.

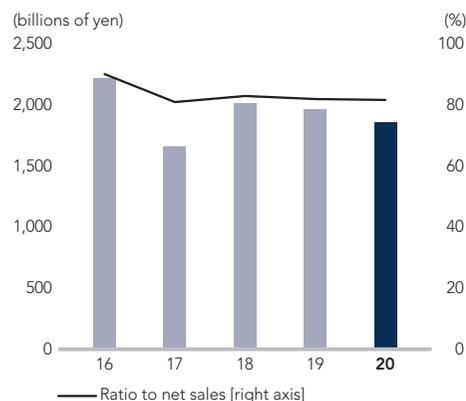
Net Sales



Financial Results

Cost of sales decreased ¥114,509 million to ¥1,861,449 million, while our cost of sales ratio decreased from 82.3% to 82.0% year on year.

Cost of Sales



Selling, general and administrative (SG&A) expenses increased ¥17,052 million to ¥357,025 million. The ratio of SG&A expenses against net sales increased from 14.2% to 15.7% year on year. SG&A expenses included salaries and allowances of ¥110,534 million, retirement benefit expenses of ¥18,821 million, transportation and warehousing expenses of ¥37,709 million, and R&D expenses of ¥23,851 million.

As a result, operating profit amounted to ¥52,773 million, a decrease of ¥31,366 million (37.3%) year on year.

Non-operating income increased ¥2,256 million to ¥24,907 million, while non-operating

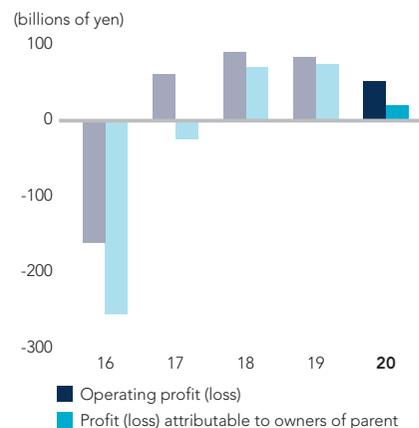
expenses decreased ¥15,639 million to ¥22,140 million.

Extraordinary income decreased ¥11,413 million to ¥3,302 million. Extraordinary losses increased by ¥12,369 million to ¥20,509 million year on year. This was mainly due to the recording of a loss on valuation of investment securities.

As a result, profit before income taxes totaled ¥38,334 million, a decrease of ¥37,253 million (49.3%) year on year. Profit attributable to owners of parent decreased ¥53,267 million (71.8%) to ¥20,958 million. Income per share of common stock was ¥34.31.

Due to effects from the COVID-19, net sales decreased by approximately ¥178.0 billion, while operating profit decreased by approximately ¥36.0 billion.

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



Segment Information

[Smart Life]

Although sales of air conditioners, refrigerators, and washing machines increased, net sales decreased by 4.7% to ¥856,291 million from the previous year due to a decrease in device sales. Segment income increased by 26.3% from the previous year to ¥39,719 million due in part to cost reduction measures.

[8K Ecosystem]

Sales in this segment decreased by 11.9% to ¥1,157,278 million year on year, due to declines in sales of LCD TVs and of panels for smartphones. Due to a decrease in sales, segment income decreased by 68.5% from the previous year to ¥14,945 million.

[ICT]

Despite the decrease in mobile communications sales, the addition of Dynabook Inc. as a consolidated subsidiary was effective in increasing sales by 27.3% to ¥357,507 million. Due to a decrease in mobile communications sales, segment income decreased by 3.0% from the previous year to ¥20,240 million.

Financial Review

Capital Investment and Depreciation

Capital Investment totaled ¥60,216 million, up 7.5% from the previous year. Much of this investment related to camera module production equipment and pilot lines for OLED displays.

By business segment, capital investment was ¥23,919 million for Smart Life, ¥23,285 million for 8K Ecosystem and ¥1,194 million for ICT. Unallocated capital investment amounted to ¥11,816 million.

Depreciation and amortization declined by 5.1% to ¥78,724 million.

Capital Investment/ Depreciation and Amortization

(billions of yen)
150



Sales by Segment

	Yen (millions)	
	2019	2020
Smart Life	¥ 898,631	¥ 856,291
8K Ecosystem	1,313,555	1,157,278
ICT	280,911	357,507
Subtotal	2,493,098	2,371,077
Adjustments	(93,026)	(99,829)
Total	2,400,072	2,271,248

Segment Income by Segment

	Yen (millions)	
	2019	2020
Smart Life	¥ 31,441	¥ 39,719
8K Ecosystem	47,380	14,945
ICT	20,856	20,240
Subtotal	99,678	74,905
Adjustments	(15,538)	(22,131)
Total	84,140	52,773

Assets, Liabilities and Net Assets

Total assets at fiscal year-end amounted to ¥1,832,349 million, down ¥33,999 million from the previous year.

Assets

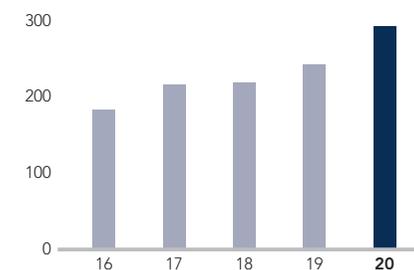
Current assets amounted to ¥1,088,626 million, down ¥52,743 million from the end of the previous year. This result was mainly due to a decrease in notes and accounts receivable-trade of ¥110,789 million, which was offset in part by an increase in inventories of ¥50,938 million. In addition, inventories were ¥294,788 million. Within total inventories, finished goods decreased ¥4,879 million to ¥156,974 million, work in process increased ¥36,191 million to ¥69,233 million, and raw materials and supplies increased ¥19,627 million to ¥68,580 million.

Property, plant and equipment increased ¥5,722 million from the end of the previous year to ¥410,760 million.

Investments and other assets amounted to ¥287,415 million, up ¥7,175 million from the end of the previous year. This was mainly due to the increase in investment securities.

Inventories

(billions of yen)
400



Financial Review

Liabilities

Current liabilities increased ¥47,886 million from the end of the previous year to ¥861,023 million. This result was mainly due to an increase of ¥156,280 million in short-term borrowings, which was offset in part by a decrease of ¥59,292 million in notes and accounts payable-trade.

Non-current liabilities decreased ¥4,553 million from the end of the previous year to ¥676,187 million. This decrease was mainly due to a decrease of ¥3,418 million in retirement benefit liability compared to the end of the previous fiscal year.

Interest-bearing debt at year end stood at ¥793,205 million, up ¥125,996 million from the end of the previous year.

Interest-Bearing Debt

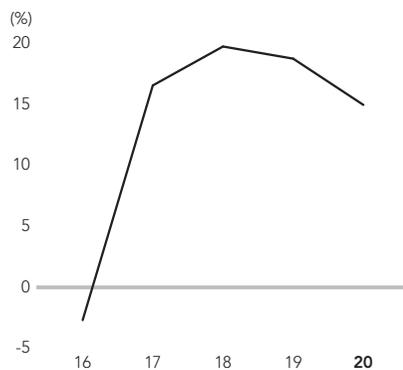


Net Assets

Net assets amounted to ¥295,138 million, down ¥77,333 million compared to the previous year-end balance of ¥372,471 million. This result was due to a decrease in capital surplus due to the purchase and cancellation of Class A shares despite an increase in retained earnings due to the recording a profit attributable to owners of parent.

Our equity ratio was 15.0%.

Equity Ratio



Cash Flows

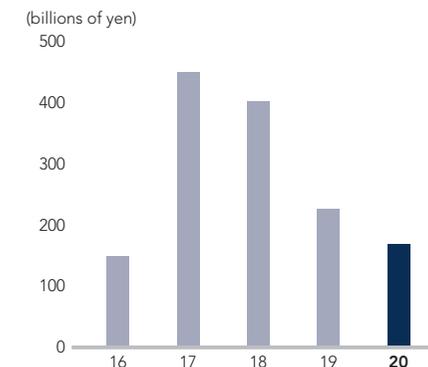
Cash and cash equivalents at the end of the year stood at ¥170,323 million, down ¥58,474 million from the previous year, as the combined inflows from operating activities and financing activities were less than the capital outflow from investing activities.

Net Cash provided by operating activities amounted to ¥68,086 million, down ¥10,957 million compared to cash provided in the amount of ¥79,043 million in the previous year. This result was mainly due to a decrease of ¥37,253 million in profit before income taxes, a decrease of ¥49,553 million in accounts receivable-other, and a decrease of ¥57,984 million in inventories, despite an increase of ¥139,201 million in notes and accounts receivable-trade compared to the previous year.

Net Cash used in investing activities totaled ¥127,882 million, down ¥39,704 million compared to cash used of ¥167,587 million in the previous year. This result was mainly due to a decrease of ¥53,182 million in payments for the purchases of property, plant and equipment compared to the previous year.

Net Cash provided by financing activities was ¥4,560 million, up ¥93,077 million compared to cash used of ¥88,517 million in the previous year. This result was mainly due to an increase of ¥136,808 million in inflows from short-term borrowings, despite increases of ¥11,913 million in outflows for purchases of treasury shares and ¥20,000 million for outflows for redemption of bonds compared to the previous year.

Cash and Cash Equivalents



- Notes: 1. Effective for the year ended March 31, 2020, the Company has changed its segment classification. Figures for the previous year have been adjusted to reflect the new classification.
 2. Sales figures by segment shown in Segment Information include internal sales and transfers among segments (Smart Life, 8K Ecosystem, ICT). Segment income figures are amounts before adjustment for inter-segment 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, 2019 and 2020

	Yen (millions)	
	2019	2020
ASSETS		
Current Assets		
Cash and deposits (Notes 2(c), 6 and 8)	¥ 266,648	¥ 225,049
Notes and accounts receivable — trade (Notes 2(c) and 8)	539,927	429,138
Inventories (Notes 2(b) and (c))	243,849	294,788
Other (Note 2(c) and 7)	94,944	142,278
Allowance for doubtful accounts	(4,000)	(2,629)
Total current assets	1,141,369	1,088,626
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures (Note 2(c))	645,074	650,391
Machinery, equipment and vehicles (Note 2(c))	1,188,148	1,156,260
Tools, furniture and fixtures (Note 2(c))	218,694	191,466
Land (Note 2(c))	83,245	82,491
Construction in progress	47,741	29,369
Other	45,974	51,978
Accumulated depreciation	(1,823,840)	(1,751,198)
Total property, plant and equipment	405,038	410,760
Intangible assets		
Software	25,763	28,261
Other	13,931	17,286
Total intangible assets	39,695	45,547
Investments and other assets		
Investment securities (Notes 2(a), 2(c), 8 and 9)	185,782	190,434
Retirement benefit asset (Note 12)	4,172	7,295
Deferred tax assets (Note 14)	22,740	18,253
Other (Note 2(c) and 7)	70,023	73,858
Allowance for doubtful accounts	(2,480)	(2,426)
Total investments and other assets	280,239	287,415
Total non-current assets	724,972	743,723
Deferred Assets	6	—
Total assets	¥ 1,866,349	¥ 1,832,349

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

	Yen (millions)	
	2019	2020
LIABILITIES		
Current Liabilities		
Notes and accounts payable — trade (Note 8)	¥ 372,166	¥ 312,873
Electronically recorded obligations — operating (Note 8)	38,149	36,331
Short-term borrowings (Notes 2(c), 8 and 11)	81,446	237,726
Current portion of bonds payable (Notes 8 and 11)	30,000	—
Accrued expenses	114,401	99,427
Provision for bonuses	20,639	18,634
Provision for product warranties	19,903	15,967
Provision for sales promotion expenses	12,422	6,918
Provision for restructuring	666	434
Valuation reserve for inventory purchase commitments	17,123	17,133
Other (Note 11)	106,217	115,575
Total current liabilities	813,136	861,023
Non-current Liabilities		
Long-term borrowings (Notes 2(c), 8 and 11)	538,205	538,744
Retirement benefit liability (Note 12)	106,636	103,217
Other (Notes 11 and 14)	35,898	34,225
Total non-current liabilities	680,740	676,187
Total liabilities	1,493,877	1,537,211
NET ASSETS		
Shareholders' equity		
Share Capital	5,000	5,000
Capital surplus	208,725	108,853
Retained earnings	258,040	264,729
Treasury shares	(13,987)	(13,993)
Total shareholders' equity	457,778	364,590
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,531	10,368
Deferred gains or losses on hedges	(220)	846
Foreign currency translation adjustment	(44,251)	(56,849)
Remeasurements of defined benefit plans	(76,208)	(43,646)
Total accumulated other comprehensive income	(107,148)	(89,281)
Share acquisition rights (Note 5)	235	293
Non-controlling interests	21,605	19,535
Total net assets	372,471	295,138
Total liabilities and net assets	¥ 1,866,349	¥ 1,832,349

Consolidated Statements of Operations

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2019 and 2020

	Yen (millions)	
	2019	2020
Net Sales (Note 16)	¥ 2,400,072	2,271,248
Cost of Sales (Notes 3 (a) and (c))	1,975,958	1,861,449
Gross profit	424,113	409,798
Selling, General and Administrative Expenses (Notes 3 (b) and (c))	339,972	357,025
Operating profit (Note 16)	84,140	52,773
Non-operating Income		
Interest income	2,713	2,916
Dividend income	1,396	1,502
Rental income from non-current assets	4,090	3,444
Foreign exchange gains	—	3,030
Other	14,449	14,014
Total non-operating income	22,650	24,907
Non-operating Expenses		
Interest expenses	4,376	4,714
Rental expenses on non-current assets	2,746	2,517
Foreign exchange losses	5,782	—
Share of loss of entities accounted for using the equity method	9,381	3,778
Other	15,492	11,129
Total non-operating expenses	37,779	22,140
Ordinary profit	69,011	55,541
Extraordinary Income		
Gain on sales of non-current assets (Note 3 (d))	10,599	2,865
Gain on sales of investment securities	—	244
Gain on bargain purchase	3,936	—
Gain on reversal of share acquisition rights	—	3
Gain on change in equity	180	—
Gain on step acquisitions	—	188
Total extraordinary income	14,716	3,302
Extraordinary Losses		
Loss on sale and retirement of non-current assets (Note 3 (e))	1,161	341
Impairment loss (Note 3 (f))	6,304	384
Loss on valuation of investment securities	10	16,119
Restructuring charges	355	332
Loss on liquidation of subsidiaries and associates	307	—
Loss from business combination (Note 3 (g))	—	3,331
Total extraordinary losses	8,139	20,509
Profit before income taxes	75,587	38,334
Income Taxes (Note 14)		
Current	13,698	11,924
Deferred	(11,523)	4,837
	2,175	16,762
Profit	73,412	21,571
Profit (loss) attributable to non-controlling interests	(814)	612
Profit attributable to owners of parent	¥ 74,226	¥ 20,958

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

Consolidated Statements of Comprehensive Income

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2019 and 2020

	Yen (millions)	
	2019	2020
Profit	¥ 73,412	¥ 21,571
Other Comprehensive Income:		
Valuation difference on available-for-sale securities	(3,375)	(3,119)
Deferred gains or losses on hedges	3,216	1,088
Foreign currency translation adjustment	3,228	(14,399)
Remeasurements of defined benefit plans	3,118	32,473
Share of other comprehensive income of entities accounted for using the equity method	(640)	434
Total other comprehensive income (Note 4)	5,546	16,478
Comprehensive Income	¥ 78,958	¥ 38,050
Comprehensive income attributable to:		
Owners of parent	80,039	38,825
Non-controlling interests	(1,080)	(775)

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

Consolidated Statements of Changes in Net Assets

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2019 and 2020

	Yen (millions)												
	Shareholders' equity					Accumulated other comprehensive income							
	Share capital	Capital surplus	Retained earnings (Note 5)	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights (Note 5)	Non-controlling interests	Total net assets
Balance at beginning of the year ended March 31, 2019	¥ 5,000	¥ 295,332	¥ 204,906	¥ (13,936)	¥ 491,302	¥ 16,876	¥ (3,205)	¥ (47,302)	¥ (79,330)	¥ (112,961)	¥ 106	¥ 23,265	¥ 401,713
Changes in items during period													
Dividends of surplus			(21,092)		(21,092)								(21,092)
Profit attributable to owners of parent			74,226		74,226								74,226
Change in ownership interest of parent due to transactions with non-controlling interests		(1,512)			(1,512)								(1,512)
Capital increase of consolidated subsidiaries		7			7								7
Purchase of treasury shares				(85,164)	(85,164)								(85,164)
Disposal of treasury shares		5		6	12								12
Cancellation of treasury shares		(85,107)		85,107	—								—
Net changes in items other than shareholders' equity						(3,344)	2,985	3,051	3,122	5,813	128	(1,660)	4,281
Total changes in items during period	—	(86,607)	53,134	(50)	(33,523)	(3,344)	2,985	3,051	3,122	5,813	128	(1,660)	(29,241)
Balance at end of the year ended March 31, 2019	¥ 5,000	¥ 208,725	¥ 258,040	¥ (13,987)	¥ 457,778	¥ 13,531	¥ (220)	¥ (44,251)	¥ (76,208)	¥ (107,148)	¥ 235	¥ 21,605	¥ 372,471

	Yen (millions)												
	Shareholders' equity					Accumulated other comprehensive income							
	Share capital	Capital surplus	Retained earnings (Note 5)	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights (Note 5)	Non-controlling interests	Total net assets
Balance at beginning of the year ended March 31, 2020	¥ 5,000	¥ 208,725	¥ 258,040	¥ (13,987)	¥ 457,778	¥ 13,531	¥ (220)	¥ (44,251)	¥ (76,208)	¥ (107,148)	¥ 235	¥ 21,605	¥ 372,471
Cumulative effects of changes in accounting policies			783		783								783
Restated balance	5,000	208,725	258,824	(13,987)	458,562	13,531	(220)	(44,251)	(76,208)	(107,148)	235	21,605	373,255
Changes in items during period													
Dividends of surplus			(15,053)		(15,053)								(15,053)
Profit attributable to owners of parent			20,958		20,958								20,958
Change in ownership interest of parent due to transactions with non-controlling interests		(3,453)			(3,453)								(3,453)
Sales of shares of consolidated subsidiaries		755			755								755
Capital increase of consolidated subsidiaries		(101)			(101)								(101)
Purchase of treasury shares				(97,078)	(97,078)								(97,078)
Cancellation of treasury shares		(97,072)		97,072	—								—
Net changes in items other than shareholders' equity						(3,163)	1,066	(12,598)	32,561	17,867	58	(2,069)	15,855
Total changes in items during period	—	(99,871)	5,905	(5)	(93,971)	(3,163)	1,066	(12,598)	32,561	17,867	58	(2,069)	(78,116)
Balance at end of the year ended March 31, 2020	¥ 5,000	¥ 108,853	¥ 264,729	¥ (13,993)	¥ 364,590	¥ 10,368	¥ 846	¥ (56,849)	¥ (43,646)	¥ (89,281)	¥ 293	¥ 19,535	¥ 295,138

Consolidated Statements of Cash Flows

Sharp Corporation and Consolidated Subsidiaries for the Years Ended March 31, 2019 and 2020

	Yen (millions)	
	2019	2020
Cash Flows from Operating Activities:		
Profit before income taxes	¥ 75,587	¥ 38,334
Depreciation	78,849	74,712
Interest and dividend income	(4,110)	(4,418)
Interest expenses	4,376	4,714
Share of loss (profit) of entities accounted for using the equity method	9,381	3,778
Loss (gain) on sales and retirement of non-current assets	(9,438)	(2,524)
Loss (gain) on sales of investment securities	—	(244)
Gain on bargain purchase	(3,936)	—
Gain on change in equity	(180)	—
Loss (gain) on step acquisitions	—	(188)
Impairment loss	6,304	384
Loss (gain) on valuation of investment securities	10	16,119
Loss (gain) on liquidation of subsidiaries and associates	307	—
Loss from business combination	—	3,331
Decrease (increase) in trade receivables	(37,248)	101,953
Decrease (increase) in accounts receivable — other	17,166	(32,387)
Decrease (increase) in inventories	1,795	(56,188)
Increase (decrease) in trade payables	(47,024)	(53,614)
Increase (decrease) in accrued expenses	(19,326)	(18,405)
Other, net	17,563	628
Subtotal	90,079	75,984
Interest and dividends received	8,782	7,786
Interest paid	(4,382)	(4,716)
Income taxes (paid) refund	(15,436)	(10,968)
Net cash provided by (used in) operating activities	79,043	68,086

	Yen (millions)	
	2019	2020
Cash Flows from Investing Activities:		
Payments into time deposits	(79,470)	(129,881)
Proceeds from withdrawal of time deposits	59,377	111,735
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 6(b))	(3,393)	(2,721)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 6(b))	13,455	341
Purchases of property, plant and equipment	(126,259)	(73,077)
Proceeds from sales of property, plant and equipment	20,764	5,801
Purchase of intangible assets	(16,589)	(20,662)
Purchases of investment securities	(36,664)	(35,901)
Other, net	1,192	16,482
Net cash provided by (used in) investing activities	(167,587)	(127,882)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term borrowings	20,547	157,355
Proceeds from long-term borrowings	32,695	1,790
Repayments of long-term borrowings	(21,189)	(1,605)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(5,422)	(8,668)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	5,904
Redemption of bonds	(10,000)	(30,000)
Purchase of treasury shares	(85,164)	(97,078)
Dividends paid	(21,076)	(15,028)
Proceeds from share issuance to non-controlling shareholders	2,255	17
Other, net	(1,162)	(8,127)
Net cash provided by (used in) financing activities	(88,517)	4,560
Effect of Exchange Rate Change on Cash and Cash Equivalents	482	(3,239)
Net Increase (Decrease) in Cash and Cash Equivalents	(176,577)	(58,474)
Cash and Cash Equivalents at Beginning of Period	404,001	228,798
Increase (Decrease) in Cash and Cash Equivalents Resulting from Change in Scope of Consolidation	1,374	—
Cash and Cash Equivalents at End of Period (Note 6(a))	¥ 228,798	¥ 170,323

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

Notes to 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 Act 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 five 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 translated into English (with no reclassifications) 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 Act.

In preparing the accompanying consolidated financial statements and notes, Japanese yen figures less than one million yen have been rounded down to the nearest million yen. Therefore, total or subtotal amounts shown in the accompanying consolidated financial statements and notes thereto are not necessarily equal to the sum of individually presented amounts.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 105 companies over which the Company has power of control through the holding of majority voting rights or with the existence of other certain conditions. Investments in 1 nonconsolidated subsidiaries and 20 affiliates on which the Company has significant influence regarding their operating and financial policies are accounted for using the equity method.

Changes in the consolidated subsidiaries for the year ended March 31, 2020 were as follows:

(Included in scope)

HiFi Orient Thai Public Company Limited
SHARP Manufacturing Vietnam CO.,LTD.
Aurora Telecom Corporation
And 12 others

(Excluded from scope)

Sharp Trading Corporation
And 2 others

Changes in the nonconsolidated subsidiaries and affiliates accounted for using the equity method for the year ended March 31, 2020 were as follows:

(Included in scope)

Sakai 10 Generations Precision Electronics Products Corporation

(Excluded from scope)

Sakai Display Products USA Corporation
And 7 others

Sharp India Ltd. is the main nonconsolidated subsidiary.

Sharp Tokusen Industry Co., Ltd. is the main nonconsolidated subsidiary not accounted for using the equity method.

(c) Investment securities

Investment securities consist principally of marketable and non-marketable equity securities.

Investment 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.

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

With respect to the investments in partnerships, the amount determined by applying the holding ratio to the profits or losses resulting from the operations of the partnerships is stated as non-operating income or expenses, then added to or deducted from the balance of investment securities.

(d) Derivatives

Derivatives are stated at fair value.

(e) 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 profitability of inventories decrease, inventories are carried at net realizable value. For overseas consolidated subsidiaries, inventories are measured at the lower of moving average cost and net realizable value.

(f) Depreciation and amortization

For the Company and its domestic consolidated subsidiaries, depreciation of property, plant and equipment other than leased assets and right-of-use assets is computed using the declining-balance method.

Meanwhile, machinery and equipment at the LCD plants in Mie and Kameyama and a part of plant in Sakai are depreciated using the straight-line method.

Buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

Property, plant and equipment at overseas consolidated subsidiaries are depreciated using the straight-line method.

Notes to Consolidated Financial Statements

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

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.

Right-of-use assets are depreciated using the straight-line method over the lesser of the useful life of the asset or the term of the lease.

(g) Deferred assets

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

(h) Allowance for doubtful accounts

The estimated amounts of allowance for general receivables are primarily determined based on the past loss experience. For particular receivables, including those from debtors at risk of bankruptcy, the allowance is provided for individually estimated unrecoverable amounts. This procedure is made to reflect the impact of the risk of possible credit loss.

(i) Provision for 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 which relate to their performance in the current period.

(j) Provision for product warranties

Estimated amounts of warranty are accrued based on the past experience. This procedure is made to reflect the impact of the risk of expenses being incurred for after-sales service within the warranty period in respect of sales recorded prior to the balance sheet date.

(k) Provision for sales promotion expenses

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 in respect of services rendered or goods received prior to the balance sheet date.

(l) Provision for restructuring

The estimated amounts of restructuring are recognized as a provision in order to provide for expenses related to structural reform.

(m) Valuation reserve for inventory purchase commitments

Regarding long-term purchase agreements of raw materials where the market price of the raw material

is significantly lower than the purchase price set forth in the agreement, the difference between the purchase price in the agreement and the latest market price or the resale price, whichever is lower, is recorded as an estimated loss associated with the agreement.

This is to prepare for potential losses that could be generated from future production and sales activities as we execute the agreement in the future.

(n) Defined benefit pension plans

The estimated amount of defined benefit pension plans 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 remaining service period of employees (10 years) commencing from the current period. Actuarial gains and losses are primarily amortized using the straight-line method over the average service period of employees (10 years) commencing from the period following that in which the gain or loss was incurred.

(o) Hedge accounting

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. Furthermore, the Company uses interest rate swaps in order to hedge the interest rate fluctuation risk associated with some borrowings with variable interest rates from financial institutions.

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.

For borrowings from financial institutions, interest rate swaps are used to hedge the risk of interest rate fluctuations.

Derivative financial instruments are used based on internal policies and procedures related to risk management. The risks of fluctuations in foreign currency exchange rates and variable interest 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.

(p) Method and period for amortization of goodwill

Goodwill is amortized evenly over the estimated effective term. Goodwill recorded in the consolidated subsidiaries in the U.S.A. is amortized straight line over 10 years.

However, if the amount of goodwill is insignificant, the entire amount is amortized during the period in which the goodwill arises.

Notes to Consolidated Financial Statements

(q) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits in banks, and highly liquid short-term investments with original maturities of three months or less for which the risks of fluctuations in value are not considered to be significant.

(r) Consumption taxes

The tax exclusion method is applied.

(s) Application of tax effect accounting for transition from consolidated taxation system to group tax relief system

Although there were some changes for the transition to the group tax relief system established in the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and the coordinated revisions in the taxation system for individual companies, the Company and a part of its domestic consolidated subsidiaries continued to present the amounts of deferred tax assets and deferred tax liabilities according to the previous tax acts, as provided for in Paragraph 3, "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to Group Tax Sharing System" (Practical Issues Task Force No. 39, March 31, 2020), instead of applying the provisions in Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018).

(t) Changes in accounting policies

Effective from the year ended March 2020, overseas subsidiaries reporting under US GAAP have adopted ASC 606 "Revenue from Contracts with Customers".

This change had an immaterial impact on consolidated financial statements for the year ended March 31, 2020.

Effective from the year ended March 2020, overseas subsidiaries reporting under IFRS have adopted IFRS 16 "Leases".

With the adoption of this accounting standard lessees in lease transactions recognize right-of-use assets and lease liabilities, while recording depreciation expense for right-of-use assets and interest payments related to lease liabilities. Right-of-use assets and lease liabilities are not recognized for short-term leases or for which the underlying asset is of low value. In accordance with transitional treatment, the Company has recognized the cumulative impact of this accounting standard for balances as of the date of adoption.

In connection with the adoption of this accounting standard, the Company recorded increases of ¥6,410 million in property, plant and equipment, ¥2,557 million in other under current liabilities, and ¥4,354 million in other under non-current liabilities.

This change had an immaterial impact on profit and loss of consolidated fiscal year ended March 31, 2020.

(u) Unapplied accounting standards and interpretations

The accounting standards and interpretations issued as of March 31, 2020 but not yet applied as of the year ended March 31, 2020 were as follows:

The monetary impact amounts arising through the application of these standards and interpretations are under evaluation.

The Company and domestic consolidated subsidiaries

Name of the standards and interpretations	Description of the standards and interpretations	Planned adoption period
ASBJ Statement No. 29	Accounting Standard for Revenue Recognition	Establishment of the accounting treatment for revenue recognition
		From the year ended March 31, 2022

Overseas consolidated subsidiaries

Name of the standards and interpretations	Description of the standards and interpretations	Planned adoption period
ASU No.2016-02	Leases (Topic 842)	Revision of the accounting treatment for leases
		From the year ended March 31, 2023

(v) Changes in presentation method

(Consolidated statements of operations)

"Rental expenses on non-current assets", which was included in "Other" under "Non-operating expenses" in the previous consolidated fiscal year is presented separately because the amount exceeds 10/100 of the total non-operating expenses. The consolidated financial statements for the year ended March 31, 2019 have been reclassified to reflect this change in presentation method.

As a result, in the consolidated statements of operations for the year ended March 31, 2019, ¥18,239 million that was included in "Other" under "Non-operating expenses" was reclassified as ¥2,746 million of "Rental expenses on non-current assets" and ¥15,492 million of "Other".

(Consolidated statements of cash flows)

"Restructuring charges", "Increase (Decrease) in advances received" and "Increase (Decrease) in valuation reserve for inventory purchase commitments", which were separately presented in the previous consolidated fiscal year have been included in "Other, net" under "Cash flows from operating activities" since their materiality has diminished. In order to reflect this change in presentation method, the consolidated financial statements for the year ended March 31, 2019 have been reclassified.

As a result, in the net cash provided by (used in) operating activities in the consolidated statements of cash flows for the year ended March 31, 2019, ¥355 million of "Restructuring charges", ¥11,180 million of "Increase (Decrease) in advances received", ¥(4,245) million of "Increase (Decrease) in valuation

Notes to Consolidated Financial Statements

reserve for inventory purchase commitments”, and ¥10,283 million of “Other, net” have been reclassified as ¥17,563 million of “Other, net.”

(w) Changes in accounting estimates

The Company and a part of its domestic consolidated subsidiaries previously amortized actuarial gains/losses and past service costs on retirement benefit liability over 13 years. Effective from the year ended March 31, 2020, the amortization period has been changed to 10 years because the average remaining service period of employees decreased.

As a result, operating profit, ordinary profit and profit before income taxes for the year ended March 31, 2020 decreased by ¥18,180 million in comparison to those calculated by the previous method.

(x) Additional information

In the impairment tests of non-current assets, accounting estimates were estimated on future cash flows based on multiple scenarios, assuming that the impact of the spread of new coronavirus pandemic will continue until at least a certain portion of the next consolidated fiscal year. However, since there are a lot of uncertainties regarding the impact of the spread of the new coronavirus pandemic, the accounting judgment revisions based on changes in the situations may lead to significant impacts on the Group's financial status and operating results in upcoming years.

2. Notes to Consolidated Balance Sheets

(a) Investment in nonconsolidated subsidiaries and affiliates

Investment in nonconsolidated subsidiaries and affiliates as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Investment securities	¥ 65,515	¥ 61,119

(b) Inventories

Inventories as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Finished goods	¥ 161,854	¥ 156,974
Work in process	33,042	69,233
Raw materials and supplies	48,952	68,580
	¥ 243,849	¥ 294,788

(c) Collateral Assets and Liabilities secured by Collateral

Collateral assets and liabilities secured by collateral as of March 31, 2019 and 2020 were as follows:

(1) Assets pledged as collateral

	Yen (millions)	
	2019	2020
Cash and deposits	¥ 34,224	¥ 38,349
Notes and accounts receivable - trade	72,803	63,201
Inventories	94,018	74,711
Other (Current assets)	11,110	41,341
Buildings and structures	140,593	145,475
Machinery, equipment and vehicles	21,913	12,360
Tools, furniture and fixtures	2,142	2,168
Land	69,992	69,246
Investment securities	33,073	29,419
Other (Investments and other assets)	—	38,724
	¥ 479,871	¥ 514,998

Notes to Consolidated Financial Statements

(2) Liabilities secured by collateral

	Yen (millions)	
	2019	2020
Short-term borrowings	¥ 7,733	¥ 402
Long-term borrowings	426,693	428,476
	¥ 434,427	¥ 428,878

Cash and deposits of ¥9,475 million as of March 31, 2019 and ¥10,021 million as of March 31, 2020 were pledged as collateral for opening a stand-by letters of credit. In addition, certain shares of consolidated subsidiaries which were subject to elimination through inter-company transactions were pledged as collateral of long-term borrowings as of March 31, 2019 and 2020.

(d) Contingent Liabilities

(1) Guarantee liabilities

	Yen (millions)	
	2019	2020
Loans guaranteed for employees	¥ 6,862	¥ 5,617
Guarantee for borrowing of invested company		
Sermsang Power Corporation Public Company Limited	—	162
	¥ 6,862	¥ 5,779

(2) Discounted and endorsed trade notes receivable

	Yen (millions)	
	2019	2020
Discounted trade notes receivable	¥ 1,880	¥ 238
Endorsed trade notes receivable	—	618

(3) Matters related to long-term electricity and other supply contracts

The Company entered into long-term contracts with several suppliers with respect to electricity and other inputs at the Sakai plant. The total amounts of future minimum payments under such contracts as of March 31, 2019 and 2020 were ¥21,795 million (longest remaining term was 10 years) and ¥16,738 million (longest remaining term was 9 years), respectively. No contract can be terminated before expiration.

(e) Investment commitment

The Company entered into contract to participate in the SoftBank Vision Fund, a private fund established by SoftBank Group Corp., in May 2017. Total amount of investment commitment is USD 1 billion. The balance of remaining committed contribution as of March 31, 2019 and 2020 were as follows:

Conversion to yen is calculated based on market exchange rate as of closing dates.

	Yen (millions)	
	2019	2020
Total amount of investment commitment	¥ 110,010	¥ 107,830
Contribution made	57,409	89,936
Remaining committed contribution	¥ 52,600	¥ 17,893

3. Notes to Consolidated Statements of Operations

(a) Inventory valuation loss

Inventories at the end of the fiscal year is presented as the amount after deducting valuation loss.

Net inventory valuation loss (after offsetting the reversal amount) included in the cost of sales for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Cost of sales	¥ (10,323)	¥ 1,135

(b) Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Salaries and allowances	¥ 107,609	¥ 110,534
Provision for bonuses	10,850	10,049
Retirement benefit expenses	8,087	18,821
Transportation and storage costs	36,298	37,709
Research and development expenses	31,868	23,851
Provision for bonuses	1,154	926

(c) Research and development expenses

Research and development expenses included in general and administrative expenses and cost of manufacturing were ¥108,545 million for the year ended March 31, 2019 and ¥100,591 million for the year ended March 31, 2020.

Notes to Consolidated Financial Statements

(d) Gain on sales of non-current assets

Major components of gain on sales of non-current assets for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Buildings and structures	¥ 2,364	¥ 483
Machinery, equipment and vehicles	2,079	652
Tools, furniture and fixtures	203	468
Land	5,934	1,260
Software	14	—
Other	3	0
	¥ 10,599	¥ 2,865

(e) Loss on sale and retirement of non-current assets

Major components of loss on sale and retirement of non-current assets for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Loss on sale:		
Machinery, equipment and vehicles	¥ 14	¥ 11
Tools, furniture and fixtures	3	9
Other	0	1
	¥ 19	¥ 21
Loss on retirement:		
Buildings and structures	¥ 321	¥ 57
Machinery, equipment and vehicles	614	154
Tools, furniture and fixtures	39	42
Construction in progress	2	—
Software	53	14
Other	109	51
	¥ 1,141	¥ 320
Total:		
Buildings and structures	¥ 321	¥ 57
Machinery, equipment and vehicles	629	165
Tools, furniture and fixtures	43	51
Construction in progress	2	—
Software	53	14
Other	109	52
	¥ 1,161	¥ 341

(f) Impairment loss

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

A consolidated subsidiary recognized an impairment loss of ¥167 million for the Smart Home unit, with the book value reduced to the recoverable value, due to the decreasing profitability of the business for the year ended March 31, 2019. Details were as follows: ¥2 million for buildings and structures; ¥14 million for tools, furniture and fixtures; ¥128 million for software; and ¥22 million for others. The net realizable value for all assets was evaluated to be zero.

The Company recognized an impairment loss of ¥970 million for the IoT Electronic Device unit, with the book value reduced to the recoverable value, due to the decreasing profitability of the business for the year ended March 31, 2019. Details were as follows: ¥960 million for machinery, equipment and vehicles; ¥9 million for tools, furniture and fixtures. The estimated recoverable amount was evaluated to be the net realizable value.

The Company recognized an impairment loss of ¥5,166 million on goodwill following adverse profitability in a consolidated subsidiary. The estimated recoverable amount was evaluated based on the net realizable value.

A consolidated subsidiary in China recognized an impairment loss of ¥384 million for the Smart Life unit, with the book value reduced to the recoverable value, due to the future production plan change for the year ended March 31, 2020. Details were as follows: ¥374 million for machinery, equipment and vehicles, and ¥10 million for tools, furniture and fixtures. Although the recoverable value was measured based on value in use, no discount rate was applied to the future cash flow in measuring the value in use, because the assets had a short remaining useful life and the discount rate was not important in calculating the recoverable value.

(g) Loss on business combination

Due to the settlement of an adjusted price for the acquisition of Toshiba Client Solutions Co., Ltd. executed in October 2018, the Company posted an extraordinary loss of ¥3,331 million as a loss on business combination.

Notes to Consolidated Financial Statements

4. Notes to Consolidated Statements of Comprehensive Income

Summary of amounts of reclassification adjustments and their tax effects to other comprehensive income as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Valuation difference on available-for-sale securities		
Amount arising during the year	¥ (4,810)	¥ (4,235)
Reclassification adjustment	(42)	(244)
Before tax effect	(4,853)	(4,479)
Tax effect	1,477	1,360
Valuation difference on available-for-sale securities	¥ (3,375)	¥ (3,119)
Deferred gains or losses on hedges		
Amount arising during the year	¥ 2,894	¥ 1,560
Reclassification adjustment	(40)	68
Before tax effect	2,853	1,629
Tax effect	363	(540)
Deferred gains or losses on hedges	¥ 3,216	¥ 1,088
Foreign currency translation adjustment		
Amount arising during the year	¥ 3,228	¥ (14,399)
Foreign currency translation adjustment	¥ 3,228	¥ (14,399)
Remeasurements of defined benefit plans		
Amount arising during the year	¥ (7,345)	¥ (3,179)
Reclassification adjustment	11,290	36,409
Before tax effect	3,945	33,230
Tax effect	(827)	(756)
Remeasurements of defined benefit plans	¥ 3,118	¥ 32,473
Share of other comprehensive income of entities accounted for using the equity method		
Amount arising during the year	¥ (637)	¥ 410
Reclassification adjustment	(3)	24
Share of other comprehensive income of entities accounted for using the equity method	¥ (640)	¥ 434
Total other comprehensive income	¥ 5,546	¥ 16,478

5. Notes to Consolidated Statements of Changes in Net Assets

(a) Class and Total Number of Issued Shares and Treasury Shares

Class and total number of issued shares and treasury shares for the years ended March 31, 2019 and 2020 were as follows:

For the year ended March 31, 2019

	(Thousands of shares)			
	Number of shares as of March 31, 2018	Increase in number of shares	Decrease in number of shares	Number of shares as of March 31, 2019
Issued shares				
Common shares	498,316	34,100	—	532,416
Class A shares	200	—	92	108
Class C shares	1,136	—	341	795
Total	499,652	34,100	433	533,319
Treasury shares				
Common shares	1,067	41	3	1,104
Class A shares	—	92	92	—
Class C shares	—	341	341	—
Total	1,067	474	436	1,104

- Notes:
- The increase of 34,100 thousand shares in common shares of issued shares, the increase and decrease of 341 thousand shares in Class C shares of treasury shares was due to the acquisition by exercising the call option with common shares as consideration and cancellation of treasury shares (Class C shares) on July 23, 2018.
 - The decrease of 92 thousand shares in Class A shares of issued shares, the increase and decrease of 92 thousand shares in Class A shares of treasury shares was due to the acquisition and cancellation of treasury shares (Class A shares) on January 30, 2019.
The Company adopted the resolution concerning the acquisition and cancellation of the remaining 108 thousand shares in Class A shares at the meeting of its Board of Directors on June 11, 2019. Based on this, the Company acquired and cancelled treasury shares (Class A shares) on June 21, 2019.
 - The increase of 41 thousand shares in common shares of treasury shares consisted of the increase of 35 thousand shares due to the acquisition of shares owned by untraceable shareholders and the increase of 5 thousand shares due to the purchase of shares less than one trading unit.
 - The decrease of 3 thousand shares in common shares of treasury shares consisted of the decrease of 3 thousand shares due to the sale of the Company's common shares which were held by the consolidated subsidiary and the decrease of 0 thousand shares due to the sale of shares less than one trading unit.

Notes to Consolidated Financial Statements

For the year ended March 31, 2020

	(Thousands of shares)			Number of shares as of March 31, 2020
	Number of shares as of March 31, 2019	Increase in number of shares	Decrease in number of shares	
Issued shares				
Common shares	532,416	—	—	532,416
Class A shares	108	—	108	—
Class C shares	795	—	—	795
Total	533,319	—	108	533,211
Treasury shares				
Common shares	1,104	4	—	1,109
Class A shares	—	108	108	—
Class C shares	—	—	—	—
Total	1,104	112	108	1,109

- Notes: 1. The decrease of 108 thousand shares in Class A shares of issued shares, the increase and decrease of 108 thousand shares in Class A shares of treasury shares was due to the acquisition and cancellation of treasury shares (Class A shares) on June 21, 2019.
2. The increase of 4 thousand shares in common shares of treasury shares consisted of the increase of 4 thousand shares due to the purchase of shares less than one trading unit.

(b) Share Acquisition Rights and Treasury Share Acquisition Rights

Share acquisition rights and treasury share acquisition rights for the years ended March 31, 2019 and 2020 were as follows:

For the year ended March 31, 2019

Classification	Description of share acquisition rights	Number of shares underlying the share acquisition rights (Share)					Balance as of March 31, 2019 (Millions of yen)
		Class of shares underlying the share acquisition rights	Number of shares as of March 31, 2018	Increase in number of shares	Decrease in number of shares	Number of shares as of March 31, 2019	
The Company	Share acquisition rights as a stock option	—	—	—	—	—	227
Consolidated subsidiaries	—	—	—	—	—	—	8
Total		—	—	—	—	—	235

For the year ended March 31, 2020

Classification	Description of share acquisition rights	Number of shares underlying the share acquisition rights (Share)					Balance as of March 31, 2020 (Millions of yen)
		Class of shares underlying the share acquisition rights	Number of shares as of March 31, 2019	Increase in number of shares	Decrease in number of shares	Number of shares as of March 31, 2020	
The Company	Share acquisition rights as a stock option	—	—	—	—	—	285
Consolidated subsidiaries	—	—	—	—	—	—	8
Total		—	—	—	—	—	293

(c) Dividends

Items related to dividends for the years ended March 31, 2019 and 2020 were as follows:

For the year ended March 31, 2019

(1) Dividends paid

Resolutions	Class of shares	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on April 26, 2018	Common shares	4,972	10	March 31, 2018	May 30, 2018
Board of Directors meeting on April 26, 2018	Class A shares	14,983	74,916.50	March 31, 2018	May 29, 2018
Board of Directors meeting on April 26, 2018	Class C shares	1,136	1,000	March 31, 2018	May 30, 2018

(2) Dividends for which the record date was within the year ended March 31, 2019, with effective date falling in the following fiscal year were as follows:

Resolutions	Class of shares	Source of dividends	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on May 9, 2019	Common shares	Retained earnings	10,626	20	March 31, 2019	June 5, 2019
Board of Directors meeting on May 9, 2019	Class A shares	Retained earnings	2,836	26,263.60	March 31, 2019	June 4, 2019
Board of Directors meeting on May 9, 2019	Class C shares	Retained earnings	1,590	2,000	March 31, 2019	June 5, 2019

Notes to Consolidated Financial Statements

For the year ended March 31, 2020

(1) Dividends paid

Resolutions	Class of shares	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on May 9, 2019	Common shares	10,626	20	March 31, 2019	June 5, 2019
Board of Directors meeting on May 9, 2019	Class A shares	2,836	26,263.60	March 31, 2019	June 4, 2019
Board of Directors meeting on May 9, 2019	Class C shares	1,590	2,000	March 31, 2019	June 5, 2019

(2) Dividends for which the record date was within the year ended March 31, 2020, with effective date falling in the following fiscal year were as follows:

Resolutions	Class of shares	Source of dividends	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on May 19, 2020	Common shares	Retained earnings	9,563	18	March 31, 2020	June 15, 2020
Board of Directors meeting on May 19, 2020	Class C shares	Retained earnings	1,431	1,800	March 31, 2020	June 15, 2020

6. Notes to Consolidated Statements of Cash Flows

(a) Reconciliation of cash and cash equivalents and cash and deposits on the consolidated balance sheets

Reconciliation of cash and cash equivalents and cash and deposits on the consolidated balance sheets as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Cash and deposits	¥ 266,648	¥ 225,049
Time deposits and negotiable certificate of deposit with maturity over 3 months or pledged as collateral	(37,850)	(54,726)
Cash and cash equivalents	¥ 228,798	¥ 170,323

(b) Major components of assets and liabilities of newly consolidated subsidiaries acquired by purchase of shares

Fiscal year ended March 31, 2019

The components of assets and liabilities of SAIGON STEC Co., LTD. acquired by purchase of shares at the start of its consolidation, and the relationship between the acquisition cost of their shares and the related proceeds (net amount) were as follows:

	Yen (millions)
Current assets	¥ 10,496
Non-current assets	10,828
Goodwill	323
Current liabilities	18,503
Non-current liabilities	2,593
Foreign currency translation adjustment	108
Non-controlling interests	111
Acquisition cost of shares	331
Cash and cash equivalents	776
Net: proceeds from purchase	¥ 444

The components of assets and liabilities of Dynabook Inc. and other 7 newly consolidated subsidiaries acquired by purchase of shares at the start of their consolidation, and the relationship between the acquisition cost of their shares and the related proceeds (net amount) were as follows:

	Yen (millions)
Current assets	¥ 75,908
Non-current assets	2,048
Current liabilities	61,177
Non-current liabilities	6,045
Gain on bargain purchase	3,936
Non-controlling interests	2,136
Acquisition cost of shares	4,661
Accounts payable - other	(656)
Cash and cash equivalents	17,015
Net: proceeds from purchase	¥ 13,010

Fiscal year ended March 31, 2020

The information is omitted as it was immaterial.

Notes to Consolidated Financial Statements

(c) Significant non-cash transactions

Newly recorded assets and liabilities related to finance leases were as follows:

	Yen (millions)	
	2019	2020
Assets and liabilities related to finance lease transactions	¥ 27,204	¥ —

7. Leases

Finance leases

(a) As lessee

The information is omitted as it was immaterial.

(b) As lessor

Amount of lease receivables to be collected on and after March 31, 2020

(1) Current assets

	Yen (millions)					
	2020					
	Within 1 year	Over 1 year and no more than 2 years	Over 2 years and no more than 3 years	Over 3 years and no more than 4 years	Over 4 years and no more than 5 years	Over 5 years
Lease receivables	¥ 6,794	¥ —	¥ —	¥ —	¥ —	¥ —

(2) Investments and other assets

	Yen (millions)					
	2020					
	Within 1 year	Over 1 year and no more than 2 years	Over 2 years and no more than 3 years	Over 3 years and no more than 4 years	Over 4 years and no more than 5 years	Over 5 years
Lease receivables	¥ —	¥ 5,734	¥ 4,536	¥ 3,506	¥ 2,889	¥ 34,243

Note: Finance lease transactions for the previous consolidated fiscal year in which the Company was the lessor are omitted as they were immaterial.

Operating leases

(a) As lessee

The balance of remaining lease payments for non-cancellable contracts as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Due within one year	¥ 3,073	¥ 1,243
Due after one year	9,949	4,428
	¥ 13,023	¥ 5,672

Since overseas consolidated subsidiaries, etc., excluding those in the United States, have adopted IFRS 16 "Leases" from the current consolidated fiscal year, the amount of the operating leases related to the said subsidiaries are included only in the figures of March 31, 2019.

(b) As lessor

Future lease receipts for only non-cancellable contracts as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Due within one year	¥ 1,378	¥ 1,458
Due after one year	2,540	2,294
	¥ 3,919	¥ 3,752

Notes to Consolidated Financial Statements

8. 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 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.

Derivative transactions are used for minimizing risk and not for speculative or dealing purposes.

(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, is exposed to foreign currency risk. Notes and accounts payable - trade and electronically recorded obligations - operating 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 are mainly for capital investments. The longest repayment term is 6 years and 1 month from March 31, 2020.

Derivative transactions consist primarily of forward exchange contracts, which are used to hedge the foreign currency risk exposure, and interest rate swaps. For hedging instruments, hedged items, hedging policies and assessment methods of effectiveness of hedging instruments, see "(o) Hedge accounting" in "1. Summary of Significant Accounting and Reporting Policies".

(3) Risk management of financial instruments

i) Management of credit risk

For notes and accounts receivable, the Finance Division and Accounting Division of Finance and Administration Office of the Company periodically review the status of its key customers, monitoring their respective payment deadlines and remaining balance. The Company strives to recognize and reduce the risk of irrecoverability as a result of deteriorating financial conditions or other factors at an early stage. The Company's consolidated subsidiaries also follow the same monitoring and

administration process.

ii) 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 Division of Finance and Administration Office executes transactions and reports the results of such transactions to the Accounting Division of Finance and Administration Office on a daily basis. The Accounting Division has set up a specialized section for monitoring transaction results and position management and reports the results of transactions to the head of Finance and Administration Office on a daily basis.

In addition, the Finance Division reports the results of transactions to the Foreign Exchange Administration Committee and the Finance Administration Committee on a monthly 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 monitors their fair values and the issuer's financial position, and continually reviews the need to increase or decrease the holdings of such financial instruments based on the factors mentioned above as well as the relationship with the issuers.

iii) Management of liquidity risk in financing activities

The Finance Division manages liquidity risk by preparing and updating financial plans based on reports from each section and through maintenance of ready liquidity.

(4) Supplementary explanation of fair value of financial instruments

The fair value of financial instruments is based on the quoted market price in an active market other than when a market price is not available, in which case the fair value is reasonably estimated. Since variable factors are incorporated in the determination of this reasonably estimated price, the valuation may vary if different assumptions were to be used.

The contract amount itself may not reflect the market risk associated with a derivative transaction.

(b) Fair value of financial instruments

The consolidated balance sheet amounts, fair values and differences between the two as of March 31, 2019 and 2020 are included in the tables below. Financial instruments for which fair values are considered too difficult to be estimated are not included in the tables. Refer to (Note 2) below for the details of such financial instruments.

Notes to Consolidated Financial Statements

	Yen (millions)		
	2019		
	Consolidated Balance Sheet Amount	Fair Value	Difference
(1) Cash and deposits	¥ 266,648	¥ 266,648	¥ —
(2) Notes and accounts receivable — trade	539,927	539,504	(423)
(3) Investment securities			
1) Shares of nonconsolidated subsidiaries and affiliates	0	914	914
2) Other securities	35,190	35,190	—
Total assets	¥ 841,766	¥ 842,258	¥ 491
(4) Notes and accounts payable — trade	¥ 372,166	¥ 372,166	¥ —
(5) Electronically recorded obligations — operating	38,149	38,149	—
(6) Short-term borrowings	81,446	81,446	—
(7) Bonds payable (including bonds expiring within one year)	30,000	30,129	129
(8) Long-term borrowings	538,205	541,383	3,178
Total liabilities	¥ 1,059,967	¥ 1,063,274	¥ 3,307
(9) Derivative transactions*			
1) Derivative transactions — hedge accounting not applied	¥ 1,184	¥ 1,184	¥ —
2) Derivative transactions — hedge accounting applied	(13)	(548)	(535)
Total derivative transactions	¥ 1,171	¥ 636	¥ (535)

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

	Yen (millions)		
	2020		
	Consolidated Balance Sheet Amount	Fair Value	Difference
(1) Cash and deposits	¥ 225,049	¥ 225,049	¥ —
(2) Notes and accounts receivable — trade	429,138	428,745	(392)
(3) Investment securities			
1) Shares of nonconsolidated subsidiaries and affiliates	0	296	296
2) Other securities	30,674	30,674	—
Total assets	¥ 684,863	¥ 684,766	¥ (96)
(4) Notes and accounts payable — trade	¥ 312,873	¥ 312,873	¥ —
(5) Electronically recorded obligations — operating	36,331	36,331	—
(6) Short-term borrowings	237,726	237,726	—
(7) Long-term borrowings	538,744	541,317	2,572
Total liabilities	¥ 1,125,676	¥ 1,128,249	¥ 2,572
(8) Derivative transactions*			
1) Derivative transactions — hedge accounting not applied	¥ (2,198)	¥ (2,198)	¥ —
2) Derivative transactions — hedge accounting applied	1,289	1,979	690
Total derivative transactions	¥ (908)	¥ (218)	¥ 690

*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 deposits

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

(2) Notes and accounts receivable — trade

The fair value of notes and accounts receivable — trade 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) Investment securities

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

(4) Notes and accounts payable — trade

The fair value of notes and accounts payable — trade approximates their book value due to their short maturity periods.

(5) Electronically recorded obligations — operating

The fair value of electronically recorded obligations — operating approximates their book value due to their short maturity periods.

(6) Short-term borrowings

The fair value of short-term borrowings approximates their book value due to their short maturity periods.

(7) Long-term borrowings

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

(8) Derivative transactions

The fair value of forward exchange contracts is calculated based on forward exchange market rate.

The fair value of interest rate swaps is calculated based on the asking price offered by the financial institutions with which the Company enters into such transactions.

(Note 2) Financial instruments of which fair values are considered too difficult to be estimated are unlisted stocks of ¥72,108 million as of March 31, 2019 and ¥64,700 million as of March 31, 2020, and investments in capital of ¥78,484 million as of March 31, 2019 and ¥95,059 million as of March 31, 2020. Since there are no available quoted market prices and it is too difficult to estimate their fair values, they are not included in “(3) Investment securities”.

Notes to Consolidated Financial Statements

(Note 3) Aggregate maturity of cash and deposits, and receivables as of March 31, 2019 and 2020 were as follows:

	Yen (millions)		
	2019		
	Cash and deposits	Notes and accounts receivable - trade	Total
Due within one year	¥ 266,648	¥ 529,494	¥ 796,142
Due after one year, within five years	—	10,433	10,433
Due after five years, within ten years	—	—	—
Due after ten years	—	—	—

	Yen (millions)		
	2020		
	Cash and deposits	Notes and accounts receivable - trade	Total
Due within one year	¥ 225,049	¥ 424,114	¥ 649,164
Due after one year, within five years	—	5,023	5,023
Due after five years, within ten years	—	—	—
Due after ten years	—	—	—

9. Investment Securities

Other securities with available fair market values as of March 31, 2019 and 2020 were as follows:

	Yen (millions)			
	2019			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair market value
Equity securities	¥ 16,976	¥ 18,635	¥ (421)	¥ 35,190
	¥ 16,976	¥ 18,635	¥ (421)	¥ 35,190

	Yen (millions)			
	2020			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair market value
Equity securities	¥ 16,933	¥ 14,231	¥ (489)	¥ 30,674
	¥ 16,933	¥ 14,231	¥ (489)	¥ 30,674

Unlisted stocks and others (of which book values were recorded as ¥85,077 million for the year ended March 31, 2019 and ¥98,640 million for the year ended March 31, 2020) are not included in the above table because they do not have market prices.

The proceeds from sales of other securities were ¥74 million for the year ended March 31, 2019. The gross realized gains on those sales were ¥57 million for the year ended March 31, 2019. The

gross realized losses on those sales were zero for the year ended March 31, 2019.

The proceeds from sales of other securities were ¥287 million for the year ended March 31, 2020. The gross realized gains on those sales were ¥244 million for the year ended March 31, 2020. The gross realized losses on those sales were zero for the year ended March 31, 2020.

Impairment losses recorded for unlisted stocks of other securities were ¥10 million and ¥16,119 million for the years ended March 31, 2019 and 2020, respectively.

10. Derivative Transactions

(a) Derivative transactions — hedge accounting not applied

Currency-related transactions

Classification	Type of derivatives	Yen (millions)			
		2019			
		Contract amount	Amount of contract due after one year	Fair value	Profit (loss) from valuation
Off-market transactions	Forward exchange contracts				
	Sell				
	U.S. dollar	¥ 42,230	¥ —	¥ 197	¥ 197
	New Zealand dollar	2,331	—	82	82
	Canadian dollar	884	—	16	16
	Pound sterling	584	—	(4)	(4)
	Russian rouble	242	—	19	19
	Swedish krona	132	—	(0)	(0)
	Euro	128	—	3	3
	Swiss franc	88	—	(0)	(0)
	Australian dollar	55	—	2	2
	Danish krone	13	—	(0)	(0)
	Norwegian krone	1	—	0	0
	Hungarian forint	1	—	0	0
	Buy				
	U.S. dollar	69,995	—	860	860
	Canadian dollar	1,042	—	8	8
	Euro	13	—	0	0
	Chinese yuan	2	—	0	0
Total		¥ 117,749	¥ —	¥ 1,184	¥ 1,184

*Fair value of forward exchange contracts is calculated based on forward exchange market rate.

Notes to Consolidated Financial Statements

Classification	Type of derivatives	Yen (millions)			
		2020			
		Contract amount	Amount of contract due after one year	Fair value	Profit (loss) from valuation
Off-market transactions	Forward exchange contracts				
	Sell				
	U.S. dollar	¥ 87,099	¥ —	¥ (765)	¥ (765)
	Euro	11,277	—	(143)	(143)
	New Zealand dollar	2,007	—	(50)	(50)
	Canadian dollar	242	—	(19)	(19)
	Russian rouble	177	—	(57)	(57)
	Australian dollar	159	—	(21)	(21)
	Swedish krona	147	—	5	5
	Czech koruna	66	—	3	3
	Danish krone	44	—	(0)	(0)
	Buy				
	U.S. dollar	79,339	—	(1,138)	(1,138)
	Euro	861	—	(10)	(10)
	Chinese yuan	71	—	(0)	(0)
Total		¥ 181,495	¥ —	¥ (2,198)	¥ (2,198)

*Fair value of forward exchange contracts is calculated based on forward exchange market rate.

(b) Derivative transactions — hedge accounting applied

(1) Currency-related transactions

Hedge accounting method	Type of derivatives	Main hedged item	Yen (millions)		
			2019		
			Contract amount	Amount of contract due after one year	Fair value
Principle-based accounting	Forward exchange contracts				
	Sell	Accounts receivable — trade			
	U.S. dollar		¥ 61,348	¥ —	¥ (16)
	Pound sterling		1,690	—	(11)
	Swiss franc		269	—	(4)
	Swedish krona		230	—	(4)
	Russian rouble		116	—	(8)
	Danish krone		98	—	(0)
	Norwegian krone		80	—	(1)
	Czech koruna		70	—	(0)
	Polish zloty		70	—	(0)
	Hungarian forint		30	—	0
	New Zealand dollar		6	—	(0)
	Buy	Accounts payable — trade			
	U.S. dollar		103,686	—	267
	Japanese yen		9	—	0
	Canadian dollar		1	—	(0)
Allocation accounting	Forward exchange contracts				
	Sell	Accounts receivable — trade			
	U.S. dollar		157,226	—	(640)
	Buy	Accounts payable — trade			
	U.S. dollar		41,819	—	105
	Euro		33	—	(0)
	Singapore dollar		9	—	0
Total			¥ 366,799	¥ —	¥ (313)

*Fair value of forward exchange contracts is calculated based on forward exchange market rate.

Notes to Consolidated Financial Statements

Hedge accounting method	Type of derivatives	Main hedged item	Yen (millions)		
			Contract amount	Amount of contract due after one year	Fair value
			2020		
Principle-based accounting	Forward exchange contracts				
	Sell	Accounts receivable — trade			
	U.S. dollar		¥ 53,456	¥ —	¥ (367)
	Euro		3,339	—	44
	Pound sterling		1,171	—	(41)
	Swedish krona		198	—	(1)
	Swiss franc		183	—	(0)
	Australian dollar		153	—	15
	Russian rouble		120	—	12
	Canadian dollar		77	—	4
	Danish krone		73	—	(0)
	Polish zloty		59	—	(5)
	Czech koruna		49	—	0
	Norwegian krone		43	—	(0)
	Hungarian forint		19	—	0
	New Zealand dollar		11	—	0
	Buy	Accounts payable — trade			
	U.S. dollar		215,026	—	1,801
	Euro		11	—	0
	Japanese yen		7	—	0
Allocation accounting	Forward exchange contracts				
	Sell	Accounts receivable — trade			
	U.S. dollar		123,337	—	198
	Buy	Accounts payable — trade			
	U.S. dollar		48,646	—	491
	Euro		100	—	(0)
Total			¥ 446,086	¥ —	¥ 2,152

*Fair value of forward exchange contracts is calculated based on forward exchange market rate.

(2) Interest rate-related transactions

Hedge accounting method	Type of derivatives	Main hedged item	Yen (millions)		
			Contract amount	Amount of contract due after one year	Fair value
			2019		
Principle-based accounting	Interest rate swaps	Long-term borrowings			
	Pay fixed/receive floating		¥ 20,000	¥ 20,000	¥ (235)
Total			¥ 20,000	¥ 20,000	¥ (235)

*Fair value of interest rate swaps is calculated based on the asking price offered by the financial institutions with which the Company enters into such transactions.

Hedge accounting method	Type of derivatives	Main hedged item	Yen (millions)		
			Contract amount	Amount of contract due after one year	Fair value
			2020		
Principle-based accounting	Interest rate swaps	Long-term borrowings			
	Pay fixed/receive floating		¥ 20,000	¥ 20,000	¥ (172)
Total			¥ 20,000	¥ 20,000	¥ (172)

*Fair value of interest rate swaps is calculated based on the asking price offered by the financial institutions with which the Company enters into such transactions.

11. Bonds Payable, Borrowings and Lease Obligations

(a) Bonds payable

Bonds payable as of March 31, 2019 and 2020 consisted of the following:

	Yen (millions)	
	2019	2020
1.604% unsecured straight bonds, the date of maturity on September 13, 2019	¥ 30,000	—
	¥ 30,000	—

Notes to Consolidated Financial Statements

(b) Borrowings and lease obligations

Borrowings and lease obligations as of March 31, 2019 and 2020 consisted of the following:

	Yen (millions)	
	2019	2020
Short-term borrowings with the following interest rates		
1.2% as of March 31, 2019 and 0.3% as of March 31, 2020	¥ 79,741	¥ 236,507
Current portion of long-term borrowings with the following interest rates		
2.0% as of March 31, 2019 and 2.3% as of March 31, 2020	1,704	1,218
Current portion of lease obligations with the following interest rates		
2.5% as of March 31, 2019 and 4.0% as of March 31, 2020	4,362	3,056
Long-term borrowings (except portion due within one year) with the following interest rates		
0.5% as of March 31, 2019 and 0.5% as of March 31, 2020	538,205	538,744
Lease obligations (except portion due within one year) with the following interest rates		
2.3% as of March 31, 2019 and 2.3% as of March 31, 2020	13,193	6,765
	¥ 637,208	¥ 786,293

Interest rates shown are weighted average interest rates for the balance outstanding as of March 31, 2019 and 2020 respectively.

The aggregate annual maturities of long-term borrowings (except portion due within one year) as of March 31, 2020 were as follows:

Years ending March 31	Yen (millions)
2022	¥ 11,798
2023	2,358
2024	148
2025	8
2026 and thereafter	524,430

The aggregate annual maturities of lease obligations due within 5 years (except portion due within one year) as of March 31, 2020 were as follows:

Years ending March 31	Yen (millions)
2022	¥ 2,126
2023	1,293
2024	871
2025	643

The current portions of lease obligations and lease obligations (excluding the current portion) do not include lease liabilities recorded on the consolidated balance sheet by the application of IFRS 16. The balance of lease liabilities at the end of the current period is as follows.

Current portion of lease liabilities	¥2,557 million
Lease liabilities (Excluding current portion)	¥4,354 million

12. Defined benefit pension plans

(a) Overview of the applied pension plans

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 domestic consolidated subsidiaries adopt a simplified accounting method, and such figures are simply included in the amounts under the standard method in this note, since they are immaterial.

Certain overseas consolidated subsidiaries primarily have defined contribution pension plans and lump-sum retirement benefit plans.

(b) Reconciliations of the defined benefit obligations

Reconciliations of the defined benefit obligations of the Company and its consolidated subsidiaries as of March 31, 2019 and 2020 consisted of the following:

	Yen (millions)	
	2019	2020
Defined benefit obligation at beginning of year	¥ 349,184	¥ 358,253
Service cost	10,760	10,688
Interest cost	3,205	3,147
Actuarial loss (gain)	3,817	(3,106)
Benefits paid	(21,907)	(22,828)
Increase from newly consolidated subsidiaries	13,962	44
Other	(3)	475
Foreign currency exchange rate changes	(766)	(3,295)
Defined benefit obligation at end of year	¥ 358,253	¥ 343,378

Notes to Consolidated Financial Statements

(c) Reconciliations of the fair value of plan assets

Reconciliations of the fair value of plan assets of the Company and its consolidated subsidiaries as of March 31, 2019 and 2020 consisted of the following:

	Yen (millions)	
	2019	2020
Fair value of plan assets at beginning of year	¥ 250,869	¥ 255,789
Expected return on plan assets	7,194	7,066
Actuarial gain (loss)	(3,269)	(6,466)
Employer contribution	13,176	16,216
Benefits paid	(21,251)	(22,200)
Increase from newly consolidated subsidiaries	9,721	—
Other	(122)	25
Foreign currency exchange rate changes	(529)	(2,975)
Fair value of plan assets at end of year	¥ 255,789	¥ 247,457

(d) Reconciliations of the defined benefit obligation and the fair value of the plan assets and the amount recognized in the consolidated balance sheets

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, 2019 and 2020 consisted of the following:

	Yen (millions)	
	2019	2020
Funded defined benefit obligation at end of year	¥ 348,873	¥ 334,003
Fair value of plan assets at end of year	(255,789)	(247,457)
Funded status at end of year	93,083	86,546
Unfunded defined benefit obligation at end of year	9,379	9,375
Total net retirement benefit liability	¥ 102,463	¥ 95,921
Retirement benefit liability	106,636	103,217
Retirement benefit asset	(4,172)	(7,295)
Total net retirement benefit liability	¥ 102,463	¥ 95,921

(e) Retirement benefit expenses

Retirement benefit expenses of the Company and its consolidated subsidiaries for the years ended March 31, 2019 and 2020 consisted of the following:

	Yen (millions)	
	2019	2020
Service cost	¥ 10,760	¥ 10,688
Interest cost	3,205	3,147
Expected return on plan assets	(7,194)	(7,066)
Amortization of net actuarial loss	11,357	36,550
Amortization of past service cost	(86)	127
Other	124	35
Total retirement benefit expenses	¥ 18,166	¥ 43,480

(f) Amounts recognized in remeasurements of defined benefit plans (other comprehensive income)

Amounts recognized in remeasurements of defined benefit plans (other comprehensive income) for the years ended March 31, 2019 and 2020 before the effect of income taxes consisted of the following:

	Yen (millions)	
	2019	2020
Past service cost	¥ (52)	¥ (108)
Net actuarial gain	3,998	33,339
Total	¥ 3,945	¥ 33,230

(g) Amounts recognized in remeasurements of defined benefit plans (accumulated other comprehensive income)

Amounts recognized in remeasurements of defined benefit plans (accumulated other comprehensive income) as of March 31, 2019 and 2020 before the effect of income taxes consisted of the following:

	Yen (millions)	
	2019	2020
Unrecognized past service cost	¥ (121)	¥ (13)
Unrecognized net actuarial loss	81,549	48,210
Total	¥ 81,427	¥ 48,197

Notes to Consolidated Financial Statements

(h) Classification of the fair value of plan assets

Classification of the fair value of plan assets of the Company and its consolidated subsidiaries as of March 31, 2019 and 2020 consisted of the following:

	2019	2020
Bonds	26%	27%
Equity securities	17%	16%
Cash and cash equivalents	2%	2%
Life insurance company general accounts	14%	14%
Alternatives	31%	32%
Other	10%	9%
Total	100%	100%

Alternatives mainly consisted of investments in hedge funds.

(i) 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.

(j) Actuarial assumptions

Actuarial assumptions

	2019	2020
Discount rate	mainly 0.5%	mainly 0.5%
Long-term expected rate of return	mainly 2.7%	mainly 2.7%

In addition, the cost recognized for the defined contribution pension plans was ¥942 million for the year ended March 31, 2019 and ¥1,033 million for the year ended March 31, 2020.

13. Stock Options

(a) Expensed amount and account

The expensed amount and account for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Selling, general and administrative expenses	¥ 128	¥ 61

(b) Amount recorded as profit due to expiration of unexercised rights

The amount recorded as profit due to expiration of unexercised rights for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Gain on reversal of share acquisition rights	¥ —	¥ 3

(c) Description, size and changes of stock options

(1) Description of stock option

	First stock options (resolved on April 19, 2017)	Second stock options (resolved on September 26, 2017)	Third stock options (resolved on August 28, 2018)
Grantee categories and numbers of grantees	5 directors of the Company 43 employees of the Company	7 directors of the Company 22 employees of the Company	5 directors of the Company 15 employees of the Company
Number of stock options by class of shares (Note 1)	81,100 common shares	45,300 common shares	104,500 common shares
Grant date	April 21, 2017	September 28, 2017	September 3, 2018
Vesting conditions	See (Note 2)	See (Note 2)	See (Note 2)
Service period	From April 21, 2017 to April 20, 2019	From September 28, 2017 to September 27, 2019	From September 3, 2018 to September 2, 2020
Exercise period	From April 21, 2019 to April 21, 2024	From September 28, 2019 to September 28, 2024	From September 3, 2020 to September 3, 2025

(Note 1) Equivalent number of shares has been described instead of the number of stock options.

The Company performed a share consolidation at a ratio of 10 shares to 1 share on October 1, 2017.

With regard to first and second stock options, figures shown above are the number of shares after the conversion.

(Note 2) Eligible persons shall be directors, executives, audit & supervisory board members or employees of the Company, or the Company's subsidiaries and affiliates at the time of the exercise. However, the grantees can exercise their stock options without satisfying the above conditions in special cases when the Board of Directors permits in writing.

Notes to Consolidated Financial Statements

(2) Size and changes of stock options

Stock options that existed for the year ended March 31, 2020 were as follows:

i) Number of stock options

Equivalent number of shares has been described instead of the number of stock options.

	First stock options (resolved on April 19, 2017)	Second stock options (resolved on September 26, 2017)	Third stock options (resolved on August 28, 2018)
Unvested stock options (shares)			
Balance on March 31, 2019	78,100	42,100	102,500
Granted	—	—	—
Nullified	—	—	—
Vested	71,100	42,100	—
Balance on March 31, 2020	7,000	—	102,500
Vested stock options (shares)			
Balance on March 31, 2019	—	—	—
Vested	71,100	42,100	—
Exercised	—	—	—
Nullified	1,800	—	—
Balance on March 31, 2020	69,300	42,100	—

The Company performed a share consolidation at a ratio of 10 shares to 1 share on October 1, 2017.

With regard to first and second stock options, figures shown above are the number of shares after the conversion.

ii) Unit price

	Yen		
	First stock options (resolved on April 19, 2017)	Second stock options (resolved on September 26, 2017)	Third stock options (resolved on August 28, 2018)
Exercise price	¥ 4,120	¥ 3,400	¥ 2,717
Weighted-average share price at exercise	—	—	—
	(74,100 shares) 1,970		(54,500 shares) 1,010
Fair value at the grant date	(7,000 shares) 2,110	1,570	(35,000 shares) 1,041 (15,000 shares) 1,139

The Company performed a share consolidation at a ratio of 10 shares to 1 share on October 1, 2017.

With regard to first and second stock options, figures shown above are the number of shares after the conversion.

(d) Estimation method of the number of vested stock options

The method used is to deduct only the number of actual nullified stock options as the estimation method of the number of vested stock options since the reasonable estimation of future nullified number of stock options is difficult.

14. 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 30.4% for the year ended March 31, 2019 and 2020.

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

The significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2019 and 2020 were as follows:

	2019	2020
Statutory tax rate	30.4%	30.4%
Foreign withholding tax	3.8	2.4
Tax credit	(2.8)	(8.1)
Net Increase (Decrease) in valuation allowance and other	(28.8)	18.7
Differences in normal tax rates of overseas subsidiaries	(0.4)	1.2
Other	0.7	(0.9)
Effective tax rate	2.9%	43.7%

Notes to Consolidated Financial Statements

The significant components of deferred tax assets and deferred tax liabilities as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Deferred tax assets:		
Inventories	¥ 17,334	¥ 14,643
Accrued expenses	30,340	13,868
Provision for bonuses	5,372	4,930
Provision for sales promotion expenses	318	651
Valuation reserve for inventory purchase commitments	5,205	5,208
Retirement benefit liability	29,408	29,296
Buildings and structures	23,595	21,609
Machinery, equipment and vehicles	3,025	2,395
Software	5,056	4,484
Long-term prepaid expenses	9,136	7,339
Loss carried forward*	302,063	309,182
Other	65,089	69,458
Gross deferred tax assets	495,948	483,068
Valuation allowance for tax loss carried forward*	(300,171)	(308,757)
Valuation allowance for future deductible temporary difference and other	(163,476)	(148,065)
Total valuation allowance	(463,647)	(456,823)
Total deferred tax assets	¥ 32,300	¥ 26,245
Deferred tax liabilities:		
Retained earnings appropriated for tax allowable reserves	¥ (1,314)	¥ (1,351)
Valuation difference on available-for-sale securities	(5,988)	(4,626)
Other	(3,699)	(4,199)
Total deferred tax liabilities	¥ (11,002)	¥ (10,177)
Net deferred tax assets	¥ 21,297	¥ 16,067

* Tax loss carried forward and its deferred tax assets amount by carry forward period as of March 31, 2020 were as follows:

	Yen (millions)		
	2020		
	Tax loss carried forward*	Valuation allowance	Deferred tax assets
Expire within one year	¥ 50,094	¥ (50,048)	¥ 45
Expire after one year, within two years	120,191	(120,113)	78
Expire after two years, within three years	26,770	(26,765)	4
Expire after three years, within four years	26,248	(26,248)	—
Expire after four years, within five years	41,824	(41,824)	—
Expire after five years	44,052	(43,757)	295
Total	¥ 309,182	¥ (308,757)	¥ 424

*Tax loss carried forward shown is the amount which is multiplied by effective statutory tax rate.

15. Business Combinations

The main business combination conducted during the year ended March 31, 2020 was as follows:

Transaction under common control

(Absorption-type merger of import and sales business in Japan)

(a) Overview of the transaction

(1) Name and field of business

Business name

Business of import and sales of machinery and equipment

Field of business

Import of machinery and equipment and sales to domestic affiliated companies, etc.

(2) Date of business combination

June 1, 2019

(3) Legal form of business combination

An absorption-type merger

Surviving company

Company name: Sharp Corporation (the Company)

Absorbed company

Company name: Sharp Trading Co., Ltd. (the Company's wholly owned consolidated subsidiary) (hereinafter referred to as the "Merger")

(4) Company name after business combination

Sharp Corporation

(5) Objective of business combination

As part of structural reforms, the Company will simplify and streamline the import process through this merger to improve profitability.

(b) Overview of the accounting treatment

The Merger is treated as a transaction under common control in accordance with the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, January 16, 2019) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, January 16, 2019).

Notes to Consolidated Financial Statements

16. Segment Information

(a) General information about reportable segments

The Company's reportable segments are components of the Group for which discrete financial information is available and whose operating results are reviewed regularly by the Board of Directors. The Board uses this information to make decisions about resources to be allocated among the segments and to assess segment performance.

The Company has united for transformation, pursuing the business vision of Changing the World with 8K+5G and AIoT through initiatives to (1) expand our business globally, (2) create new businesses, (3) engage in M&A and alliances, and (4) strengthen our competitive position. To achieve this vision, we changed the four reportable business segments (Smart Homes, Smart Business Solutions, IoT Electronics Devices, and Advance Display Systems) used in the previous consolidated fiscal year, and defined three business domains as reportable segments: Smart Life, 8K Ecosystem, and ICT.

This change reflects the reorganization conducted to advance business reform as One SHARP, aiming to achieve our business vision of creating an 8K+5G Ecosystem and AIoT World.

The major difference is the reclassification of the Health and Environment business and Energy Solutions business (formerly under Smart Homes) and the Camera Modules business and Electronic Components and Devices business (formerly under IoT Electronics Devices) to the Smart Life business segment. In addition, Smart Business Solutions business, Advance Display Systems business, and the Advanced Equipment Development business formerly under IoT Electronics Devices have been reclassified under the 8K Ecosystem business segment. Mobile communication business, AIoT business, and PC business formerly under Smart Homes are now under the ICT business segment.

Segment information for the year ended March 31, 2019 is stated based on the three new segments after the change.

(b) Basis of measurement of reported segment sales, 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 properly negotiated prices.

Depreciable assets of the administration groups of the Company's headquarters are not allocated to reportable segments. However, depreciation and amortization of these assets are properly allocated to reportable segments.

As described under Changes in Accounting Estimates, the Company and certain domestic consolidated subsidiaries had been using a period of 13 years as the period over which to amortize actuarial gains/losses and past service costs for retirement benefit liabilities. However, due to a decrease in average employee remaining years of service, the Company has adopted a 10-year amortization period beginning with the current consolidated fiscal year.

As a result of this change, segment profit for the current consolidated fiscal year decreased ¥4,251 million for Smart Life, ¥10,883 million for 8K Ecosystem, ¥1,781 million for ICT, and ¥1,263 million for Adjustments compared to calculations based on the former amortization period.

(c) Information on reported segment sales, income or loss, segment assets and other material items

Segment information as of and for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Net sales:		
Smart Life:		
Customers	¥ 848,412	¥ 801,254
Intersegment	50,219	55,037
Total	898,631	856,291
8K Ecosystem:		
Customers	1,287,812	1,131,375
Intersegment	25,742	25,903
Total	1,313,555	1,157,278
ICT:		
Customers	263,847	338,619
Intersegment	17,063	18,888
Total	280,911	357,507
Adjustments	(93,026)	(99,829)
Consolidated net sales	¥ 2,400,072	¥ 2,271,248
Segment income (loss):		
Smart Life	¥ 31,441	¥ 39,719
8K Ecosystem	47,380	14,945
ICT	20,856	20,240
Adjustments	(15,538)	(22,131)
Consolidated operating profit	¥ 84,140	¥ 52,773
Segment assets:		
Smart Life	¥ 404,480	¥ 361,885
8K Ecosystem	729,353	687,915
ICT	122,582	112,470
Adjustments	609,932	670,077
Consolidated assets	¥ 1,866,349	¥ 1,832,349

Notes to Consolidated Financial Statements

	Yen (millions)	
	2019	2020
Other material items		
Depreciation:		
Smart Life	¥ 34,347	¥ 29,602
8K Ecosystem	31,306	32,974
ICT	10,783	10,858
Adjustments	1,582	2,054
The amount presented in consolidated financial statements	¥ 78,018	¥ 75,490
Amortization of goodwill:		
Smart Life	¥ 749	¥ 88
8K Ecosystem	2,323	1,412
ICT	—	66
Adjustments	—	—
The amount presented in consolidated financial statements	¥ 3,072	¥ 1,566
Investments in nonconsolidated subsidiaries and affiliates accounted for using the equity method:		
Smart Life	¥ 392	¥ 404
8K Ecosystem	29,994	25,201
ICT	—	—
Adjustments	34,435	34,938
The amount presented in consolidated financial statements	¥ 64,822	¥ 60,544
Increase in property, plant, equipment and intangible assets:		
Smart Life	¥ 27,701	¥ 24,648
8K Ecosystem	38,881	35,086
ICT	10,464	17,165
Adjustments	2,636	15,624
The amount presented in consolidated financial statements	¥ 79,684	¥ 92,525

Adjustments of segment income (loss) were ¥(15,538) million and ¥(22,131) million for the years ended March 31, 2019 and 2020, respectively, including elimination of intersegment transactions and corporate expenses not allocated to each reportable segment.

Elimination of intersegment transactions for segment income (loss) were ¥(11) million and ¥41 million, respectively. Corporate expenses not allocated to each reportable segment were ¥(16,225) million and ¥(18,885) million for the years ended March 31, 2019 and 2020, 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 ¥609,932 million and ¥670,077 million as of March 31, 2019 and 2020, respectively, and comprised elimination of intersegment transactions and corporate assets not allocated to each reportable segment.

Elimination of intersegment transactions for segment assets were ¥(6,408) million and ¥(10,215) million, respectively. Corporate assets not allocated to each reportable segment were ¥616,341 million and ¥680,293 million as of March 31, 2019 and 2020, respectively.

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

Adjustments of investments in nonconsolidated subsidiaries and affiliates accounted for using the equity method were ¥34,435 million and ¥34,938 million as of March 31, 2019 and 2020, respectively, and mainly comprised investments in Sharp Finance Corporation.

Adjustments of increase in property, plant, equipment and intangible assets were ¥2,636 million and ¥15,624 million for the years ended March 31, 2019 and 2020, respectively, and mainly comprised increases in the Company's R&D groups and the administrative groups of the Company's headquarters.

Depreciation includes the amortization of long-term prepaid expenses.

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

(d) Related information

(1) Net sales by product/service

Net sales by product/service for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Net sales to outside customers:		
LCD modules	¥ 710,842	¥ 627,230
Sensing devices	362,005	347,362
Other	1,327,224	1,296,655
Total	¥ 2,400,072	¥ 2,271,248

Changes in presentation method:

'LCD color TVs', which was separately presented in the year ended March 31, 2019, has been included in 'Other', since its financial materiality has decreased in the year ended March 31, 2020.

As a result, ¥218,425 million of 'LCD color TVs' and ¥1,108,798 million of 'Other' for the year ended March 31, 2019 have been reclassified as ¥1,327,224 million of 'Other'.

Notes to Consolidated Financial Statements

(2) Net sales by region/country

Net sales by region/country for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Net sales:		
Japan	¥ 719,424	¥ 786,859
China	1,050,536	910,891
Other	630,111	573,497
Total	¥ 2,400,072	¥ 2,271,248

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

Changes in presentation method:

'Asia', which was separately presented in the year ended March 31, 2019, has been included in 'Other', since its financial materiality has decreased in the year ended March 31, 2020.

As a result, ¥240,230 million of 'Asia' and ¥389,881 million of 'Other' for the year ended March 31, 2019 have been reclassified as ¥630,111 million of 'Other'.

(3) Property, plant and equipment by region/country

Property, plant and equipment by region/country as of March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Property, plant and equipment, at cost less accumulated depreciation:		
Japan	¥ 293,300	¥ 300,475
Asia	58,747	54,916
Other	52,989	55,367
Total	¥ 405,038	¥ 410,760

(4) Major customers and related sales amount

Major customers and related sales amount as of and for the year ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Net sales:		
APPLE INC.	¥ 563,336	¥ 522,254
Related segments:		
Smart Life and 8K Ecosystem for the years ended March 31, 2019 and 2020.		

(e) Impairment loss on fixed assets by reportable segment

Impairment loss on fixed assets by reportable segment for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Impairment loss:		
Smart Life	¥ 970	¥ 384
8K Ecosystem	5,166	—
ICT	167	—
Corporate Assets and Elimination	—	—
Total	¥ 6,304	¥ 384

Notes to Consolidated Financial Statements

(f) Goodwill amortization and unamortized balance by reportable segment

Goodwill amortization and the unamortized balance by reportable segment as of and for the years ended March 31, 2019 and 2020 were as follows:

	Yen (millions)	
	2019	2020
Amortization of goodwill:		
Smart Life	¥ 749	¥ 88
8K Ecosystem	2,323	1,412
ICT	—	66
Corporate Assets and Elimination	—	—
Total	¥ 3,072	¥ 1,566

Balance at end of year:

Smart Life	¥ 83	¥ 46
8K Ecosystem	7,526	8,652
ICT	—	471
Corporate Assets and Elimination	—	—
Total	¥ 7,610	¥ 9,169

¥5,166 million of impairment loss was recorded for the year ended March 31, 2019 regarding the goodwill attributable to the 8K Ecosystem segment.

(g) Gain on bargain purchase by reportable segment

For the year ended March 31, 2019, ¥3,936 million of gain on bargain purchase was recorded under the ICT segment. It is derived from the acquisition of Toshiba Client Solutions Co., Ltd. which is included in our consolidation.

Toshiba Client Solutions Co., Ltd. has changed its name to Dynabook Inc. on January 1, 2019.

For the year ended March 31, 2020, there was no gain on bargain purchase.

17. Transactions with Related Parties

(a) Transactions with related parties

(1) Transactions between the Company and related parties

i) Parent company and major corporate shareholders, etc. of the Company

Principal transactions with related parties for the year ended March 31, 2019 and 2020 are omitted as they were immaterial.

ii) Nonconsolidated subsidiaries and affiliates, etc. of the Company

Principal transactions with related parties for the year ended March 31, 2019 were as follows:

Category	Company name	Location	Share capital	Details of business	Holding or held ratio	Relationship with the related party	Detail of transaction	Transaction amount (millions of yen)	Account	Balance at end of year (millions of yen)
Affiliate	Sakai Display Products Corporation	Sakai City, Osaka	32,485 million yen	Development, manufacture, distribution, export and import of LCD and other displays	24.6% holding directly	Manufacture of the Company's products and lease of real estate, etc.	Lease transaction with the Company	49,136	Other (Current assets)	3,460
							Collection of lease receivables from the Company	2,980	Other (Investments and other assets)	42,695

Note: Transaction amounts were determined at proper prices upon negotiation.

Notes to Consolidated Financial Statements

Principal transactions with related parties for the year ended March 31, 2020 were as follows:

Category	Company name	Location	Share capital	Details of business	Holding or held ratio	Relationship with the related party	Detail of transaction	Transaction amount (millions of yen)	Account	Balance at end of year (millions of yen)
Affiliate	Sakai Display Products Corporation	Sakai City, Osaka	32,485 million yen	Development, manufacture, distribution, export and import of LCD and other displays	24.6% holding directly	Manufacture of the Company's products and lease of real estate, etc.	Payment of costs and expenses	38,035	Accounts receivable - other	36,472
							Lease transaction with the Company	5,022	Other (Current assets)	2,848
							Collection of lease receivables from the Company	624	Other (Investments and other assets)	44,578

Notes:

1. Transaction amounts were determined at proper prices upon negotiation.
2. Consumption tax is included in accounts receivable - other of the balance at end of year.

iii) Subsidiaries owned by the same parent company as the Company and subsidiaries of other related companies of the Company, etc.

Principal transactions with related parties for the years ended March 31, 2019 and 2020 are omitted as they were immaterial.

iv) Directors and major individual shareholders, etc. of the Company

Principal transactions with related parties for the years ended March 31, 2019 and 2020 are omitted as they were immaterial.

(2) Transactions between the consolidated subsidiaries of the Company and related parties

i) Parent company and major corporate shareholders, etc. of the Company

Principal transactions with related parties for the year ended March 31, 2019 were as follows:

Category	Company name	Location	Share capital	Details of business	Holding or held ratio	Relationship with the related party	Detail of transaction	Transaction amount (millions of yen)	Account	Balance at end of year (millions of yen)
Parent company	Hon Hai Precision Industry Co., Ltd.	New Taipei City, Taiwan	138,629 million New Taiwan dollars	Electronic manufacturing service	24.5% held directly and 17.2% held indirectly [19.1%]	Purchases of raw materials and goods by the Company	Purchases of raw materials and goods by the Company	138,616	Accounts payable	38,634

Notes:

1. Transaction amounts were determined at proper prices upon negotiation.
2. The value in parentheses [] of "Holding or held ratio" refers to the ratio held by the entities which are regarded to exercise their voting rights in the same manner as Hon Hai Precision Industry Co., Ltd. due to a close relationship with Hon Hai Precision Industry Co., Ltd..

Principal transactions with related parties for the year ended March 31, 2020 were as follows:

Category	Company name	Location	Share capital	Details of business	Holding or held ratio	Relationship with the related party	Detail of transaction	Transaction amount (millions of yen)	Account	Balance at end of year (millions of yen)
Parent company	Hon Hai Precision Industry Co., Ltd.	New Taipei City, Taiwan	138,629 million New Taiwan dollars	Electronic manufacturing service	24.5% held directly and 17.2% held indirectly [19.1%]	Purchases of raw materials and goods by the Company	Purchases of raw materials and goods by the Company	92,322	Accounts payable	22,461

Notes:

1. Transaction amounts were determined at proper prices upon negotiation.
2. The value in parentheses [] of "Holding or held ratio" refers to the ratio held by the entities which are regarded to exercise their voting rights in the same manner as Hon Hai Precision Industry Co., Ltd. due to a close relationship with Hon Hai Precision Industry Co., Ltd..

Notes to Consolidated Financial Statements

ii) Nonconsolidated subsidiaries and affiliates, etc. of the Company

Principal transactions with related parties for the years ended March 31, 2019 and 2020 are omitted as they were immaterial.

iii) Subsidiaries owned by the same parent company as the Company and subsidiaries of other related companies of the Company, etc.

Principal transactions with related parties for the year ended March 31, 2019 and 2020 are omitted as they were immaterial.

iv) Directors and major individual shareholders, etc. of the Company

Principal transactions with related parties for the years ended March 31, 2019 and 2020 are omitted as they were immaterial.

(b) Information on the parent company and significant affiliates

(1) Information on the parent company

Hon Hai Precision Industry Co., Ltd. (Listed on the Taiwan Stock Exchange)

(2) Summary of financial statements of significant affiliated company

For the year ended March 31, 2020, significant affiliated company was Sakai Display Products Corporation.

Summary of its financial statements was as follows:

	Yen (millions)	
	2019	2020
Current assets	203,646	296,480
Non-current assets	422,291	505,031
Current liabilities	139,635	209,683
Non-current liabilities	216,106	371,276
Net assets	270,195	220,550
Net sales	80,115	101,458
Profit (loss) before income taxes	(44,869)	(20,817)
Profit (loss) attributable to owners of parent	(43,891)	(20,941)

18. Per Share Data

Per share data as of March 31, 2019 and 2020 were as follows:

	Yen	
	2019	2020
Net assets per share	¥ 392.56	¥ 450.70
Income per share	116.80	34.31
Fully diluted income per share	91.69	33.00

Income per share and fully diluted income per share as of March 31, 2019 and 2020 were calculated on the following basis:

	2019	2020
Income per share		
Profit attributable to owners of parent (millions of yen)	¥ 74,226	¥ 20,958
Amounts not allocated to common shares (millions of yen)	2,877	—
Preferred dividend amount (millions of yen)	2,877	—
Profit attributable to owners of parent allocated to common shares (millions of yen)	71,348	20,958
Average number of common shares outstanding during each year (thousands of shares)	610,882	610,845
Common shares (thousands of shares)	520,854	531,309
Shares equivalent to common shares (thousands of shares)	90,028	79,536

Fully diluted income per share

Adjustment to profit attributable to owners of parent (millions of yen)	2,877	—
Preferred dividend amount (millions of yen)	2,877	—
Increase in number of common shares (thousands of shares)	198,689	24,196
Class A shares (thousands of shares)	198,689	24,196

Residual securities which do not dilute income per share	781 share acquisition rights resolved by the Board of Directors meeting on April 19, 2017 (First Share acquisition rights)	763 share acquisition rights resolved by the Board of Directors meeting on April 19, 2017 (First Share acquisition rights)
	421 share acquisition rights resolved by the Board of Directors meeting on September 26, 2017 (Second Share acquisition rights)	421 share acquisition rights resolved by the Board of Directors meeting on September 26, 2017 (Second Share acquisition rights)
	1,025 share acquisition rights resolved by the Board of Directors meeting on August 28, 2018 (Third Share acquisition rights)	1,025 share acquisition rights resolved by the Board of Directors meeting on August 28, 2018 (Third Share acquisition rights)

Notes to Consolidated Financial Statements

Since Class C shares have the same priority as common shares in dividend payments, the number of Class C shares after considering the conversion rate to common shares is regarded as the number of “Shares equivalent to common shares”.

The Company completed the acquisition and cancellation of 200,000 Class A shares issued (92,000 shares on January 30, 2019 and 108,000 shares on June 21, 2019). The figures for the income per share and the fully diluted income per share are calculated considering the effect of this transaction.

19. Significant Subsequent Events

Allotment of Stock Options (Share Acquisition Rights)

The Company passed a resolution at the Board of Directors meeting held on June 5, 2020, to submit a proposal at the Ordinary General Meeting of Shareholders held on June 29, 2020, that the Company be authorized to allot share acquisition rights as stock options to directors, audit & supervisory board members, executives and employees (hereinafter referred to as “Officers and Employees”) of the Company and its subsidiaries and affiliates in Japan (hereinafter referred to as the “Company Group”) and to delegate to its Board of Directors the determination of the subscription requirements of such share acquisition rights.

The proposal was approved at the Ordinary General Meeting of Shareholders.

(1) Purpose of adopting the stock option plan

The Company implemented the stock option plan that would help the Company recruit and retain human resources required for the Company’s revitalization and growth, and would serve as an incentive to increase their motivation to participate in the Company Group’s business management and contribute to higher performance, as well as the increased corporate value of the Company. The Company decided to continue the implementation of the plan and will issue share acquisition rights as stock options as one of the types of remuneration for Officers and Employees of the Company Group.

(2) Class and number of shares to be issued upon exercise of share acquisition rights

The class of shares to be issued upon the exercise of share acquisition rights shall be common stock of the Company, and the number of shares to be issued shall not exceed 2,000,000.

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

(3) Total number of share acquisition rights to be issued

No more than 20,000 units of share acquisition rights shall be issued.

100 shares shall be issued per unit of share acquisition rights; 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 acquisition rights shall be adjusted accordingly.

The date of allotment of share acquisition rights shall be determined by the Board of Directors, and the Board of Directors may allot the share acquisition rights at a plurality of times within the scope of the aforementioned limit.

(4) Cash payment for share acquisition rights

No cash payment is required for share acquisition rights.

(5) Value of assets to be contributed upon the exercise of share acquisition rights

The value of assets to be contributed upon the exercise of each share acquisition right shall be the value per share to be issued by the exercise of each share acquisition right (hereinafter referred to as the “Exercise Value”) multiplied by the number of shares to be issued upon the exercise of one unit of share acquisition rights.

The Exercise Value 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 Subscription Requirements of the share acquisition rights or the closing price on the date of the allotment, whichever is higher.

If the Company splits or consolidates its common stock after the issuance of share acquisition rights, the Exercise Value shall be adjusted.

(6) Exercise period of share acquisition rights

The exercise period shall be from the date on which two years have passed from the date of allotment of the share acquisition rights to the date on which seven years have passed from the date of allotment. 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.

(7) Matters concerning increase in capital by issuing of shares upon exercise of share acquisition rights

Amount of increase in capital as a result of issuing shares upon exercise of share acquisition rights shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the “Ordinance on Accounting of Companies”, where any resultant fraction less than one yen shall be rounded up.

Consolidated Subsidiaries

(As of March 31, 2020)

Domestic

Sharp Marketing Japan Corporation
Sharp Energy Solutions Corporation
Sharp Yonago Corporation
Sharp Mie Corporation
Sharp Support & Service Corporation
ScienBiziP Japan Co., Ltd.
Dynabook Inc.
Kantatsu Co., Ltd.
Sharp Fukuyama Semiconductor Co., Ltd.
Sharp Fukuyama Laser Co., Ltd.
AIoT Cloud Inc.

Overseas

<Countries and Areas>

Sharp Electronics Corporation <New Jersey, U.S.A.>
Sharp Laboratories of America, Inc. <Washington, U.S.A.>
Dynabook Americas, Inc. <Delaware, U.S.A.>
Sharp Electronics of Canada Ltd. <Ontario, Canada>
Sharp Corporation Mexico S.A. de C.V. <Mexico City, Mexico>
Sharp Electronics (Europe) Limited <Middlesex, U.K.>
Sharp Business Systems UK Plc. <Wakefield, U.K.>
Sharp International Finance (U.K.) Plc. <Middlesex, U.K.>
Sharp Laboratories of Europe, Ltd. <Oxford, U.K.>
Sharp Electronics (Europe) GmbH <Hamburg, Germany>
Sharp Devices Europe GmbH <Munich, Germany>
Sharp Business Systems Deutschland GmbH <Cologne, Germany>
Dynabook Europe GmbH <Neuss, Germany>
Sharp Business Systems Sverige AB <Bromma, Sweden>
Sharp Electronics (Schweiz) AG <Rüschlikon, Switzerland>
Sharp Business Systems France S.A.S. <Toulouse, France>
Sharp Manufacturing France S.A. <Sultz, France>
Sharp Electronics Benelux B.V. <Utrecht, the Netherlands>
UMC Poland sp. z o.o. <Toruń, Poland>
Sharp Middle East Free Zone Establishment <Dubai, U.A.E.>
Sharp Universal Technology (Shenzhen) Co., Ltd. <Shenzhen, China>
Sharp Universal Technology (Shanghai) Co., Ltd. <Shanghai, China>
Shanghai Sharp Electronics Co., Ltd. <Shanghai, China>
Sharp Electronics Sales (China) Co., Ltd. <Shanghai, China>
Sharp (China) Investment Co., Ltd. <Beijing, China>
Sharp Electronics Research & Development (Nanjing) Co., Ltd. <Nanjing, China>

Nanjing Sharp Electronics Co., Ltd. <Nanjing, China>
Sharp Office Equipments (Changshu) Co., Ltd. <Changshu, China>
Wuxi Sharp Electronic Components Co., Ltd. <Wuxi, China>
Lianyungang Kantatsu Fine Technology Co., Ltd. <Lianyungang, China>
Pinghu Kantatsu Fine Technology Co., Ltd. <Pinghu, China>
Dynabook Technology (Hangzhou) Inc. <Hangzhou, China>
Yantai Xia Ye Electrons Co., Ltd. <Yantai, China>
Sharp Hong Kong Limited <Hong Kong>
Sharp (Taiwan) Electronics Corporation <New Taipei, Taiwan>
Dynabook Technology (Taiwan) Co., Ltd. <Taoyuan, Taiwan>
Sharp Electronics (Malaysia) Sdn. Bhd. <Selangor, Malaysia>
Sharp Manufacturing Corporation (M) Sdn.Bhd. <Johor, Malaysia>
S&O Electronics (Malaysia) Sdn. Bhd. <Kedah, Malaysia>
Sharp Singapore Electronics Corporation Pte. Ltd. <Singapore>
Sharp Thai Co., Ltd. <Bangkok, Thailand>
Sharp Appliances (Thailand) Ltd. <Chachoengsao, Thailand>
Sharp Manufacturing (Thailand) Co., Ltd. <Nakornpathom, Thailand>
Sharp Solar Solution Asia Co., Ltd. <Bangkok, Thailand>
P.T. Sharp Electronics Indonesia <West Jawa, Indonesia>
P.T. Sharp Semiconductor Indonesia <West Jawa, Indonesia>
Sharp Electronics (Vietnam) Company Limited <Ho Chi Minh City, Vietnam>
SAIGON STEC Co.,LTD. <Thu Dau Mot, Vietnam>
Sharp (Phils.) Corporation <Manila, Philippines>
Sharp Business Systems (India) Private Ltd. <New Delhi, India>
Sharp Corporation of Australia Pty. Ltd. <New South Wales, Australia>

* There are 43 other consolidated subsidiaries in additions to the companies listed above.

Investor Information

(As of March 31, 2020)

Number of Shares issued and Shareholders

	Number of shares authorized	Number of shares issued	Number of shareholders
Common shares	1,000,000,000	532,416,558	195,781
Class A shares	200,000	—	—
Class C shares	1,136,363	795,363	1

Note: On June 21, 2019, Sharp acquired all 108,000 issued and outstanding Class A shares, canceling these 108,000 Class A shares on the same day. In addition, on June 29, 2020, Sharp amended a portion of the company's articles of incorporation via resolution at the 126th Ordinary General Meeting of Shareholders, deleting provisions related to Class A stock.

Principal Shareholders (Common shares)

	Number of shares held	Percentage of total shares (%)
HON HAI PRECISION INDUSTRY CO., LTD.	130,000,000	24.47
FOXCONN (FAR EAST) LIMITED	91,555,069	17.23
FOXCONN TECHNOLOGY PTE. LTD.	64,640,000	12.17
SIO INTERNATIONAL HOLDINGS LIMITED	36,600,000	6.89
The Master Trust Bank of Japan, Ltd.(Trust Account)	10,225,000	1.92
Nippon Life Insurance Company	4,731,738	0.89
Japan Trustee Services Bank, Ltd. (Trust Account 5)	4,712,600	0.89
Meiji Yasuda Life Insurance Company	4,578,100	0.86
Japan Trustee Services Bank, Ltd. (Trust Account)	4,562,300	0.86
Mizuho Bank, Ltd	4,191,046	0.79

Notes: 1. Percentage of total shares is calculated by the number of shares issued excluding 1,109,127 treasury shares.
2. Aside from the above, a total of 600,000 shares in Mizuho Bank, Ltd. have been set up as trust assets related to the employee pension trust.

Investor Relations

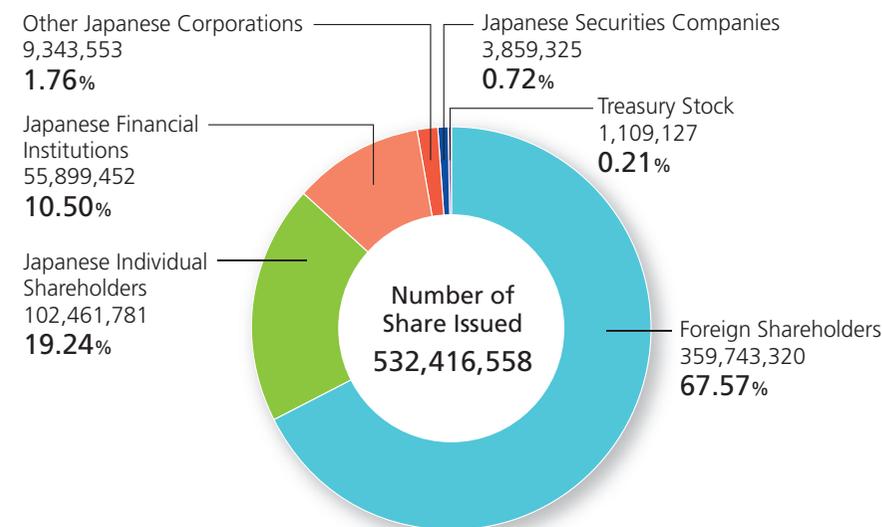
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Osaka 1 Takumi-cho, Sakai-ku, Sakai City, Osaka 590-8522, Japan

Websites: [Japanese https://corporate.jp.sharp/ir/index.html](https://corporate.jp.sharp/ir/index.html)
[English https://global.sharp/corporate/ir/index.html](https://global.sharp/corporate/ir/index.html)

Share Distribution (Proportion of total issued common shares)



Stock Exchange Listings

Tokyo