

Striving to Rebuild Financial Results and Confidence

Looking Ahead to the Next 100 Years, Embarking on New Growth

In 2012, Sharp faced severely adverse conditions as it marked the milestone of the 100th anniversary of its founding. The future of the world economy was bleak, particularly in Europe, and the value of the yen remained stubbornly high.

In addition, management confronted difficult challenges, with the competitive environment in the electronics industry changing dramatically as the shift to digital media continued.

A new management structure was initiated, centered on President Okuda, and the company began efforts to restore confidence and revive financial results by accelerating the pace of business restructuring.

Sharp deployed an aggressive strategy to take up the challenge of a new business model, including a partnership with the Hon Hai Group.

Looking ahead toward growth over the next 100 years, Sharp took a new step forward toward “value creation” that serves people in the global community.

NED's mega-solar project in Lop Buri Province in central Thailand (aerial view)

1 Aiming to Become a Global Company That Can Compete on the World Stage

President Okuda Appointed

Sharp responded to changes in the competitive environment of the electronics industry by working to build a foundation on which to compete globally. Key initiatives included restructuring its LCD business and promoting local production for local consumption in both its solar cell and LCD businesses. However, in fiscal 2011, the economic climate grew even more severe, with a worsening financial crisis in Europe and an unprecedented appreciation in the value of the yen. In addition, rapid changes in the market environment for digital consumer electronics caused market conditions in Japan to deteriorate much faster than expected in the LCD TV and communication and information fields.

Against this backdrop, on April 1, 2012, the company appointed Executive Managing Officer Takashi Okuda as president. President Katayama was named chairman, and Chairman Machida was named corporate advisor. Under the new system, in which President Okuda took center stage, Sharp launched initiatives that prioritized rebuilding confidence in the company and reviving financial results. In addition to taking urgent measures by initiating a restructuring of Sharp's solar cell and large LCD businesses, President Okuda swiftly deployed an aggressive strategy aimed at new growth for the future. This strategy will aim to restructure Sharp into a global company that can compete on the world stage by establishing one business model for

success in the category of commoditized digital products and another business model for creating new one-of-a-kind products.



A new executive system began under Chairman Katayama and President Okuda (right)

In his career at Sharp, President Okuda has been responsible for various domestic and international business groups where he has overseen all aspects of business, including production and the opening up of strategic markets. In particular, he made his mark in the Procurement

Group, at SEM (an R&D and parts supply company in Malaysia), and in the Audio-Visual Systems Group. By spending time on-site in the field, he has developed an approach to business that is sensitive to the voices of the marketplace and he has embraced a hands-on approach that encourages the ingenuity of employees. Addressing employees following his appointment, President Okuda declared, “There is treasure to be found out in the field, and it is our employees who work in the field who know this best and who will enable us to take advantage of it. In the future, as we seek to implement various changes, I want each individual to focus his or her attention not at the desk, but on-site, away from the office, out in the field.”

President Okuda visited major offices in Japan, including the Head Office, to explain to employees—and managers in particular—the initiatives and policies that Sharp would implement to achieve an early turnaround in financial results. Looking to rebuild confidence and business performance, he conveyed in detail how employees should tackle this task. He called for all employees to form a single cohesive group and work as hard as they could to demonstrate a steady recovery in financial results to the public.



Attending a nationwide general sales managers conference in April 2012, President Okuda (front left) encouraged participants to keep evolving Sharp's business

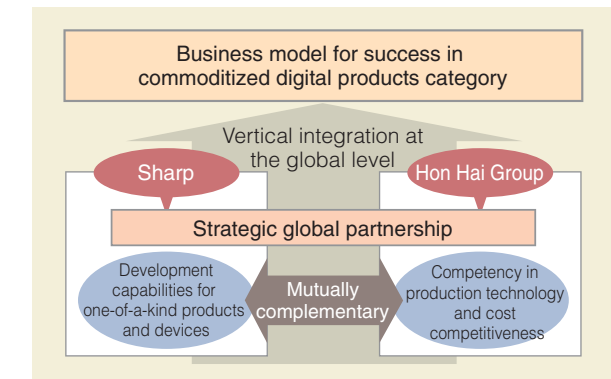
Launching a Framework to Compete in Global Markets

■ Building a Partnership with the Hon Hai Group

Up to now, Sharp has worked to expand its business by contributing to society through the creation of one-of-a-kind devices and products. Yet, in this age of increasingly commoditized digital products, the commercial success of a product is determined more by its production volume than by its uniqueness. In these types of business areas, rather than do everything on its own—from R&D and design to production, sales, and service—Sharp needed a strong partner and a new framework that would generate mutually beneficial synergies.

Accordingly, on March 27, 2012, Sharp signed an agreement with the Hon Hai Group to form a strategic global partnership incorporating capital investment from that group and cooperation in the area of digital products such as LCDs. The Hon Hai Group, which comprises Hon Hai Precision Industry Co., Ltd. and other companies, is one of the world's largest electronics manufacturing services

(EMS). The aim of its partnership with Sharp was to deliver sought-after products to the market in a speedy and timely fashion. This would be achieved by creating strategic vertical integration on a global level, bringing together Sharp's strengths in product development and the Hon Hai Group's high level of competency in production technology and cost competitiveness.



Vertical integration at the global level

In the past, Sharp has enjoyed an excellent business relationship with the Hon Hai Group, having supplied it with Sharp devices and having contracted it to manufacture Sharp products. The new agreement would serve to further develop this relationship.

Aside from the business collaboration, the partnership also involved the issuing of new Sharp shares to the Hon Hai Group through a third-party allotment*. In return, Sharp would receive an investment of approximately 66.9 billion yen, which would be used to advantage in the creation of new business and in the development of new technologies.

A further aspect of the partnership entailed an alliance related to SDP, which produced LCDs at the Sakai Plant. Under this agreement, the Hon Hai Group would invest approximately 66.0 billion yen in SDP (Sharp Display Products Corporation; now Sakai Display Products Corporation) and would procure ultimately up to 50% of the LCD panels and LCD modules manufactured by SDP. Working as equal partners, Sharp and Hon Hai would share the management of business operations. In addition to having a positive impact on the stability of operations at the Sakai Plant, it is expected that this partnership will enhance materials procurement capabilities and cost competitiveness.

■ Further Restructuring of the Sakai Plant

In May 2012, Sharp entered into an agreement with Toppan Printing Co., Ltd. and Dai Nippon Printing Co., Ltd., to merge the LCD color filter business at the Sakai Plant into SDP. The aim was to further improve operational efficiency for large-sized LCDs—for which color filters are a key element—and enhance the competitiveness of this business.

In addition, all SDP shares held by Sony Corporation were transferred to SDP, dissolving the joint venture of the two companies.

* Issuance of new shares through third-party allotment is a method of corporate financing through a private placement of shares. It raises capital by giving the rights to acquire new shares to a specific third party, regardless of whether that party is a shareholder. New shares or treasury shares that the company will dispose of are allocated to the party who applied to acquire the shares.

2 Swiftly Pursuing Business Restructuring

Implementing a Series of New Policy Measures in Overseas Markets

Sharp regards business expansion and overseas business restructuring as essential to the company's sustainable growth and is further accelerating the implementation of these initiatives.

■ Stepped-up Production in Indonesia and China

Indonesia, a country with an emerging economy that has undergone significant economic development, has seen a steady increase in domestic consumption. In fiscal 2011, sales at SEID, Sharp's Indonesian sales and production subsidiary, grew by nearly 20% compared to the previous year, and further improvements in financial results are expected in the future.

Sharp has a major presence in Indonesia. In 2011, it took a leading 35.9% share of the refrigerator market and a 28.7% share for washing machines (according to research by GfK). For the sake of further expansion, Sharp decided in March 2012 to build a new plant for SEID in Karawang to boost production of refrigerators and washing machines. The new facility will have a production capacity of 220,000 refrigerators and 140,000 washing machines per month. Construction is underway, with operations slated to begin before the end of 2013.



Conceptual rendering of new SEID plant

In April 2012, SOCC, Sharp's office equipment manufacturing company in China, began operations at a second production facility to manufacture digital color MFPs and toner cartridges.

Although Sharp copiers and MFPs are produced at four locations worldwide—Japan, China (SOCC), France (SMF), and Thailand (SMTL)—SOCC alone among these serves as a supply base for the entire global market, and even before now has played a central role.

With the newly constructed Plant No. 2 becoming operational, production capacity of the SOCC complex as a whole will increase from 400,000 units to 650,000 units a year. SOCC can now handle demand for color MFPs not only from the traditional markets of Europe and North

America, but also from China—a reflection of that country's burgeoning economic growth.



Plant No. 2 at SOCC began operations in April 2012

■ Intensifying Development of Marketing Strategies for Asia

The ASEAN region—namely, Indonesia, Philippines, Vietnam, and Thailand—represents a vast market of approximately 600 million people, yet there is still a low penetration rate in these countries for major product categories such as TVs, refrigerators, and washing machines. The potential demand is huge, with further economic development expected, along with a rise in the penetration rate for the aforementioned products.

Since setting up its ASEAN Group in 2011, Sharp has been working to expand the size of its business in the area, make the transition to a regionally self-sufficient production system, and establish Sharp as a leading brand. Further, Sharp has been deploying one-of-a-kind marketing, and introducing one-of-a-kind and high-value-added products specifically designed for the region.

On top of this, Sharp is deploying a pan-ASEAN brand strategy as one measure to strengthen its sales promotion activities. To improve brand awareness across the ASEAN region, advertising that was previously produced independently in each country has now been unified at the Brand Strategy Promotion Center under the umbrella of SEM, Sharp's subsidiary in Malaysia.

■ Establishing a European Head Office

As part of the restructuring of European operations, Sharp Electronics (Europe) Limited (SEE) was established in the UK in May 2012. SEE was tasked with assuming governance functions and ownership of subsidiaries in Europe, with its operations set to begin in the fall of 2012. The aim was to ensure that business was rooted in the European market, by promoting the delegation of authority and strengthening governance and management structures. SEE has been positioned as the head office in the European region. Under its auspices are 12 business units from various countries, including two production subsidiaries, nine sales companies, and three technology development centers. SEE will be responsible for corporate governance, strategic planning, and money management for these entities. To improve the efficiency of business operations, SEE will also be providing shared support services for the business operations of all bases in Europe. This will include legal affairs, intellectual property rights management, human resources, public relations, and brand strategy development.

Sharp has also been working to move away from Japan-led business operations and make the transition to locally self-sufficient businesses based on a system of regional business groups. In April 2012, the Audio-Visual Systems Group transferred some of its functions to SCIC, Sharp's head office in China. With SCIC—established in 2011—and the newly established SEE, Sharp is working to realize rapid business development based on faster decision-making in response to developments in the marketplace.

Debut of New Products and Devices, and Deploying a New Business Model

■ Starting Production of LCD Panels That Use Oxide Semiconductors

In March 2012, Sharp converted a production line at Kameyama Plant No. 2 and began mass production of high-performance LCD panels using an oxide semiconductor (IGZO)—a world-first accomplishment for which the company had long been preparing. Full-scale production began in April.

This new LCD reduces power consumption by increasing the amount of transmitted light per pixel and shrinking the size of the TFTs. It can also deliver higher resolutions, owing to its ability to support smaller pixel sizes. Another outstanding feature is that even higher levels of touchscreen performance are possible.



IGZO LCD (right) achieves lower power consumption compared to existing products

With these three outstanding features, IGZO LCDs lend themselves equally well to application in high-resolution notebook PCs, high-definition LCD monitors, and mobile devices such as media tablets—the product markets for which are all anticipated to grow in the future. Mass production of these innovative displays represents a major step forward in restructuring the LCD business.

■ Solar Cells and Energy-Related Business

Sharp is also pushing ahead to implement business innovations in the areas of solar cells and energy solutions. ESSE (Enel Green Power & Sharp Solar Energy S.r.l.)—an independent solar power producer previously established as a joint venture with EGP (Enel Green Power)—began operations at the end of March 2012, operating solar power plants at five sites in Italy with a total installed capacity of 14.4 MW. With the inclusion of an existing solar power plant, six sites are now operating commercially and providing a capacity of 20 MW—making ESSE now a full-fledged IPP (independent power producer). In the future, ESSE plans to expand its solar power business in Europe, particularly in the Mediterranean area, by leveraging the strengths of thin-film solar cells manufactured by 3Sun, a joint venture in Italy.

Sharp has developed and introduced the HEMS (home energy management system) for residential applications. Designed for use in conjunction with a solar power system, the HEMS can visually render power generation and power consumption in real time. With this system, users can monitor the amount of electricity being generated and sold back to the utility as well as the amount being consumed by each home appliance. HEMS will provide solid support for a way of living now spreading across Japan in which a home's occupants are more aware of the need to reduce energy use. The system can be installed easily using power-measuring taps attached to electrical outlets. Appliances and equipment such as TVs, air conditioners, and refrigerators are then plugged into the taps. HEMS offers a variety of functions, including the ability to use a media tablet to check the real-time power consumption of each appliance.

■ Adding New PCI Application Products to the Lineup

In the PCI product category, Sharp introduced a line of Plasmacluster Fans and Plasmacluster Slim Ion Fans to provide greater comfort and meet demands for energy-saving functionality. In addition, Sharp has also introduced a robotic vacuum cleaner appliance as its first home appliance robot capable of following spoken commands.



Robotic vacuum cleaner responds to voice commands

■ Strengthening Promotion for Large TVs in Japan and Overseas

In June 2012, Sharp introduced into the Japanese market an 80-inch LCD TV—the largest screen size in Japan—to enable viewers to enjoy ever-more impressive images. This model had previously been introduced in the US and China. With its large screen and high image quality, it offered a new level of TV enjoyment in the living room.



The overwhelming size of the screen offers a new TV lifestyle