

Risk Factors

Listed below are the principal business risks of Sharp that may have a significant influence on investors' decisions. Note that in addition to these, there exist certain other risks that are difficult to foresee. Each of these risks has the potential to impact the operations, business results and financial position of Sharp. All references to possible future developments in the following text were made by Sharp as of March 31, 2011.

(1) Global Market Trends

Sharp manufactures and sells products and services in different regions around the world. Business results and financial position are thus subject to economic and consumer trends (especially trends in private consumption and corporate capital investment), competition with other companies, product demand, raw material supply and price fluctuations in each region. The political and economic situation in respective areas may also exert an influence on business results and financial position.

(2) Exchange Rate Fluctuations

The proportion of consolidated net sales accounted for by overseas sales stood at 54.3% in fiscal 2008, 48.1% in fiscal 2009 and 47.3% in fiscal 2010. Although Sharp hedges the risk of exchange rate fluctuations by employing forward exchange contracts and expanding and strengthening overseas production, such fluctuations may affect its business results.

(3) Strategic Alliances and Collaborations

Sharp implements strategic alliances and collaborations with other companies in respective business fields to bolster the development of new technologies and products, and to enhance competitiveness. If, however, any strategic or other business issues arise, or objectives change, it may become difficult to maintain such alliances and collaborative ties with these companies, or to generate adequate results. In such cases, Sharp's business results and financial position may be impacted.

(4) Business Partners

Sharp procures materials and receives services from a large number of business partners, and transactions are made only once a detailed credit check of the company has been completed. However, there is a risk that business partners may suffer deterioration in performance due to slumping demand or severe price erosion, or face an unexpected M&A, or be impacted by natural disasters or accidents, or procure materials of insufficient

quality, or become involved in a corporate scandal including a breach of the law. Any of these factors may affect Sharp's business results and financial position.

(5) Technological Innovation

New technologies are emerging rapidly in the markets where Sharp operates. Resultant changes in social infrastructure, intensified market competition, changes in technology standards, or the appearance of substitute technologies may impact Sharp's business results and financial position.

(6) Intellectual Property Rights

Sharp strives to protect its proprietary technologies by acquiring patents, trademarks, and other intellectual property rights in Japan and in other countries, and by concluding contracts with other companies. However, there is a risk that rights may not be granted, or a third party may demand invalidation of an application, such that Sharp may be unable to obtain sufficient legal protection of its proprietary technologies. In addition, intellectual property that Sharp holds may not result in a superior competitive advantage, or Sharp may not be able to make effective use of such intellectual property, such as when a third party infringes on the intellectual property rights of Sharp. There may also be instances where a third party launches litigation against Sharp, claiming infringement of intellectual property rights. Resolution of such cases may place a significant financial burden on Sharp. Furthermore, if such a third-party claim against Sharp is recognized, Sharp may have to pay a large amount of compensation, and may incur further damage by having to cease using the technology in question. Also, as a result of an M&A, a third party previously unlicensed to use Sharp's intellectual property may acquire such license, with the result that Sharp's intellectual property may lose its superiority. Alternatively, an M&A with a third party could result in Sharp's business becoming subject to new restrictions to which it had not previously been subject, the resolution of which may require Sharp to pay additional compensation. Furthermore, although compensation is given to employees for innovations that they make in the course of their work pursuant to a patent reward system governed by internal regulations, an employee may consider such payment inadequate and initiate legal action. If any of the above problems related to intellectual property were to occur, it could impact Sharp's business results and financial position.

(7) Product Liability

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

(8) Laws and Regulations

The business activities of Sharp are subject to various regulations in countries where it operates, including business and investment approval, export regulations, tariffs, accounting standards and taxation. Sharp must also adhere to various laws and regulations concerning trading, antitrust practices, product liability, consumer protection, intellectual property rights, product safety, the environment and recycling, and internal control. Changes in such laws and regulations, and additional expenses to comply with the amendments may affect Sharp's business results and financial position. Further, in a case where an accident occurs related to one of Sharp's products, report of said incident, based on the Consumer Product Safety Law and related regulations in Japan, and disclosure of the accident information based on a system for public announcements could diminish Sharp's brand image.

(9) Litigation and Other Legal Proceedings

Sharp conducts business activities around the world, and as such, there is a risk that Sharp could become involved with litigation and other legal proceedings in each country. If Sharp becomes involved in litigation or other legal proceedings, with the different legal and judicial systems in each country, depending on the case, Sharp may be ordered to pay a significant amount in damages or fines. Sharp is subject to investigations conducted by the Directorate-General for Competition of the European Commission, etc., with respect to its TFT LCD business. In addition, civil lawsuits seeking monetary damages resulting from alleged anticompetitive behavior have been filed in North America and Europe against Sharp. Sharp also received a cease and desist order and a surcharge payment order from the Japan Fair Trade Commission. However, Sharp has submitted a complaint to the Commission and the complaint is pending. It is difficult to predict the result of these proceedings and

litigation at this stage. An adverse result could affect Sharp's business results and financial position.

(10) Leakage of Personal Data and Other Information

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

(11) Other Key Variable Factors

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