

In an Effort to Further Strengthen Manufacturing and Technological Competency, Sharp is Committed to Making Speedy Managerial Decisions and to Enhancing Management Quality

While further strengthening the Director/Corporate Auditor system through strict observance of business ethics and legal compliance, reinforcement of internal control, and enhancement of audit functions, Sharp will enhance its corporate governance and management system.

Basic Concept of Corporate Governance

Business activities of Sharp are clearly bounded by the development, production and sales of products as well as devices. Each area is highly specialized and at the same time, there is strong interrelation between them. Sharp believes that when all directors with operational responsibilities at the division level make decisions after consulting with one another, they can clarify their reciprocal managerial responsibilities and execute business responsively and effectively. Also, Sharp is of the opinion that it enhances management functions by reciprocal checks among the directors.

The fact that three of Sharp's four corporate auditors are outside auditors enhances operational soundness.

Sharp intends to further strengthen its current Director/Corporate Auditor system, which allows management and R&D and manufacturing divisions to work closely on expanding business, to enhance corporate governance.

Enhancement of Corporate Governance System

To enhance the corporate governance system and ensure transparency and soundness in management, Sharp has taken the following actions. In particular, regarding the increasingly important matter of internal control, with consideration of Japan's Corporate Law which went into effect in May 2006, Sharp has established the Internal Control Committee, an advisory panel to the Board of Directors.

- Reduced the term for directors from two years to one year (June 2003)
- By unifying internal audit departments, Sharp established the Internal Audit Division under the supervision of the responsible vice president in order to keep auditing separate from the viewpoint of independence from business execution departments (April 2006)
- Introduced a plan to prevent large-scale purchases of Sharp Corporation shares (Anti-Takeover Plan) (April 2006)
- Established the Internal Control Committee as an advisory panel to the Board of Directors (May 2006)
- Established the Advisory Board to obtain a wide range of opinions and proposals from well-informed outside experts in order to assist in management decisions (July 2006)

The Sharp Group Charter of Corporate Behavior and the Sharp Code of Conduct

In 1998, Sharp established standards of conduct to guide all employees to fulfill Sharp's business philosophy and business creed.

In May 2005, to make legal compliance and business ethics top priorities and to boost Sharp's CSR performance, the standards of conduct were revised for the second time and split into two documents: the Sharp Group Charter of Corporate Behavior, established as the principles of Sharp's corporate behavior; and the Sharp Code of Conduct, as the standards of conduct for all directors and employees.

These two documents apply to group companies around the world as the common standards of the Sharp Group.

Promoting CSR and BRM Activities

Sharp believes BRM (business risk management), which prevents violations of laws and loss risks, while helping the company quickly adapt to changing business environments, is indispensable in business management. That is why the company pursues both CSR and BRM activities in correlation between them.

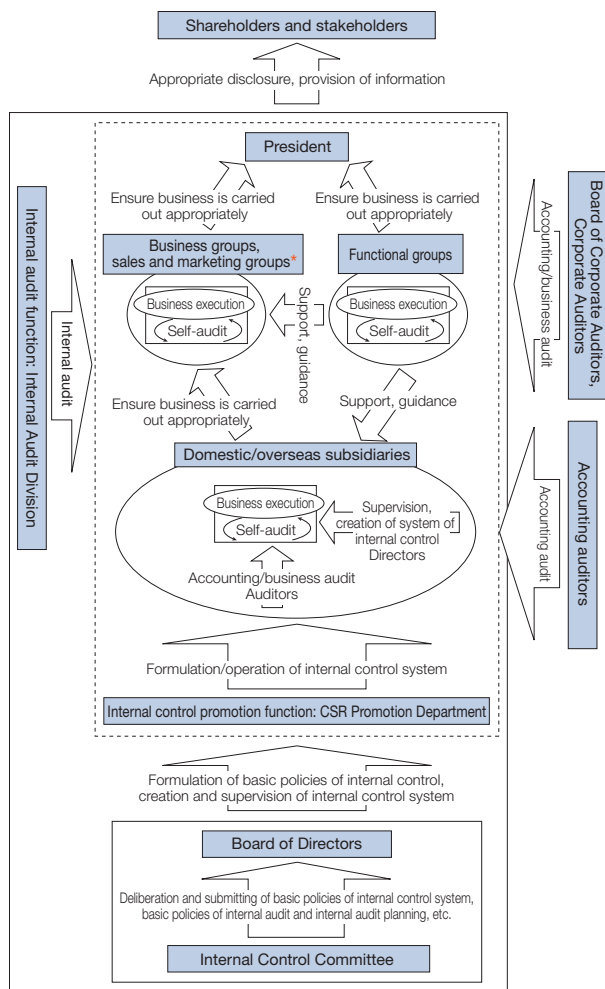
Sharp holds meetings of the CSR/BRM Committee to discuss and check progress in policies and action plans. Held twice a year, these meetings are attended by a Corporate Senior Executive Vice President (Chief General Administration Officer), all group general managers and all general managers of the functional groups.

Sharp has also established the CSR Promotion Department under the supervision of the corporate director in charge of Management Planning in order to plan and implement CSR/BRM measures for the whole Sharp Group.

R-CATS* are small-group activities in which all employees address and solve common issues in their everyday work from the viewpoint of CSR. Introduced to all Sharp departments, from production and quality to product planning and technical, right down to sales, procurement and administrative departments, R-CATS activities foster CSR awareness across the entire Sharp Group.

* R-CATS: Revolution Creative Action Teams. See also page 23.

■ Diagram of Corporate Governance/ Internal Control System



*Also responsible for directing and administrating the assigned subsidiaries

Preventing Unlawful Grants and Expenditures

Sharp has a principle of fair and open management. The Sharp Group Charter of Corporate Behavior and the Sharp Code of Conduct contain the provisions to strictly prohibit corrupt behavior such as extortion and bribery, and require that donations are handled in a proper manner.

For donations in Japan, Sharp prevents illegal payoffs and expenditures through a system of compulsory examinations by the Donation Examination Committee for monetary donations and other cases of expenditure.

Strict Business Ethics and Legal Compliance

Business ethics and legal compliance are the minimum social responsibilities for any corporation.

In Japan, Sharp Corporation and its domestic subsidiaries have appointed a Chief of Legal Affairs at each business group and company to prevent violations of laws or regulations in the course of business. To raise legal awareness and ensure compliance with the law, Sharp and its subsidiaries have a variety of continuing education programs in Japan (described below).

Sharp will continue to promote activities to ensure strict legal compliance at both domestic and overseas bases.

- Manager meetings and employee training sessions at all departments on the Sharp Group Charter of Corporate Behavior and the Sharp Code of Conduct (fiscal 2005)
- Job-level-specific training [managers and new employees, etc.] (every year)
- Training and online lectures in specialized fields [on laws related to antimonopoly, subcontracting, intellectual property rights, export control, labor, etc.] (held when necessary)
- e-learning for all employees:
 - Environmental awareness (fiscal 2004)
 - Personal information protection (fiscal 2004)
 - CSR (fiscal 2005)
 - Information security and personal information protection (fiscal 2005)
 - Legal affairs and compliance (fiscal 2006)

Consultation Hotline for Compliance Issues

Sharp Corporation and its domestic subsidiaries have established a hotline where employees can report compliance problems and receive consultation.

The hotline is also open to temporary staff and employees of business partners who work at Sharp business sites. However, in line with the spirit of the Japanese law to protect those who disclose information for public interests, enforced on April 1, 2006, Sharp has opened this hotline to employees of business partners who work outside Sharp sites.

Sharp clearly stipulates that there will be no unfavorable treatment or disadvantage against people who report compliance violations or seek consultation.