

## **Management Policy**

### **1. Basic Management Policy**

The Sharp Group's business creed is based on the principles of "Sincerity and Creativity". Our aim is to inspire all our daily work with these principles so that we can earn the appreciation of people everywhere, and make a valuable contribution to society. Our corporate philosophy expresses our desire to grow in mutual prosperity with all stakeholders in the business, including shareholders, business partners, and employees.

### **2. Mid- and Long-Term Business Strategy and Issues the Company Needs to Face**

#### **(1) Efforts to Become an Environmentally Advanced Company**

Sharp is giving a high priority to protecting the environment, and our target is to become an environmentally advanced company. More specifically, we have established a new corporate vision to be a company that has "zero global warming impact by 2010". In order to achieve this, we will push assertively forward to ensure the protection of our earth by thoroughly considering all aspects of our business activities, as well by placing emphasis on our photovoltaic power generation systems and environmentally friendly products.

#### **(2) Enhancing Our Spiral Strategy**

Our "Spiral Strategy" is how Sharp creates highly distinctive products through the use of our original devices. Sharp has achieved solid growth under this strategy. We will continue to strengthen the development of original cutting-edge devices such as LCDs, our core competence. By employing these devices, we will accelerate creation of unique products which meet the needs of a new era. Through these efforts, we are committed to becoming a "valued one-of-a-kind company", a company which realizes stable growth by winning the ever-intensifying global competition.

#### **(3) Corporate Social Responsibility**

Over the years, Sharp has been contributing to society through the creation of unique products and services. We pride ourselves on having practiced environmentally friendly business activities and also on having been engaged in various social activities. In recent times, amid increasing awareness of social responsibility for corporate activities, we are aiming to be a company that earns an even greater level of trust from its stakeholders across the globe, through a variety of CSR endeavors.

#### **(4) Implementing a Human Resources Strategy to Raise the Quality of Employees and Organizational Performance**

In an effort to improve the quality of individual and organizational performance, to support the implementation of our business strategy, Sharp will take measures to strengthen human resource management. This includes enhancing our core personnel development policies and a results-oriented compensation system, and creating an environment for productive work that brings job satisfaction. Through these efforts, corporate competitiveness shall be further improved.

By deploying those business strategies, we are aiming to improve ROE (return on equity) and free cash flow, as the main management indicators, as well as working to further increase corporate value. We are also continuing to focus on controlling our return on investment in all our business divisions, based on "profit after capital cost" (PCC), which is calculated by subtracting the cost of invested capital from NOPAT (net operating profit after income taxes).

### **3. Basic Policy on Distribution of Earnings**

Sharp considers distributing profits to shareholders to be one of the most important management issues. While maintaining consistently stable dividend pay-outs, and while carefully considering our business performance and financial situation in a comprehensive manner, we have implemented a set of policies to return profits to our investors, such as increasing the amount of periodic dividends. Our dividends have been raised for 5 consecutive years from fiscal 2000 through 2004. For fiscal 2005, we will distribute an interim dividend of 10 yen per share. Since we are planning to distribute a year-end dividend of 10 yen per share, the

total annual dividend will be 20 yen per share, the same level as the previous year. In an effort to improve shareholder value, we consider buying back outstanding shares when the situation allows and holding the shares as treasury stock. Internal reserve funds are being provided for investment in plant and equipment in areas of future growth, for development of uniquely featured products and proprietary electronic devices. They are also being provided for overseas business expansion and environmental protection measures.

#### **4. Concept and Policy Regarding Reducing the Share Trading Unit Size**

Sharp recognizes that increasing the number of individual shareholders is a critical issue from the standpoint of our capital management. For this reason, in addition to increasing the level of profits returned to shareholders, we have taken measures to create business reports that are easy for individual shareholders to understand, and to expand information resources that are accessible by the Internet. We consider reducing the share trading unit size to be a measure that would be useful in reinvigorating the stock market as a whole. We will deal with this issue through careful consideration regarding such factors as the price of Sharp Corporation stock and shareholder composition.

#### **5. Concept of Corporate Governance and Status of Policy Implementation**

##### **(1) Concept of Corporate Governance**

Sharp has always been a manufacturing and technology oriented company. In an effort to further strengthen our manufacturing competency, we are committed to improving the speed and quality of managerial decisions. The business activities of Sharp Corporation are clearly bounded by the development, production and sales of products, as well as devices, and further, there is strong interrelation between them. Therefore, we believe that having all Directors holding operational responsibility at the division level make decisions after consulting with one another serves to clarify their reciprocal managerial responsibilities and facilitates nimble, responsive business execution. We intend to further strengthen the current Board of Directors/Corporate Auditors System, which allows management and manufacturing divisions to work very closely, enabling the business to expand. Through this system we will enhance corporate governance.

We set the term of office of our Directors at one year so that Directors are elected annually by shareholders. We are also working to facilitate the voting process, including adopting an earlier date for convening the Ordinary General Meeting of Shareholders and enabling Internet proxy voting, as well as posting the Notice of Convocation in English on our Web site as a reference document.

As a framework to enable corporate governance to function effectively, we have adopted a “Sharp Group Charter of Corporate Behavior” as a concrete policy statement of action, in conformity with our corporate code of ethics. We commit ourselves to further enhancing the awareness of all executives and employees regarding compliance with the laws and statutes of Japan and of the foreign countries in which we do business.

We are increasing management transparency by broadening the scope of the information disclosed, so that all shareholders and investors are able to have access to corporate information promptly.

##### **(2) Status of Policy Implementation Related to Corporate Governance**

1) Management organization related to decision-making, execution and supervision, and other corporate governance systems of the company:

- To improve management maneuverability and flexibility, and to clearly articulate the responsibilities of company management during each accounting period, the term of office for members of the Board of Directors is set at one year.
- In addition to the regular monthly meetings of our Board of Directors, extraordinary meetings of the Board are convened as necessary. During these meetings, the Board makes decisions related to matters stipulated by law and to management-related matters of importance, thereby exercising its on-going oversight responsibility over the business and affairs of the corporation. In addition to our Board of Directors, Sharp has established the Executive Management Committee, where matters of importance related to corporate management and operational control are discussed and reported. Through this system, executive decisions are made promptly.
- Sharp has appointed no outside corporate directors to our Board of Directors. However, we continue to work to improve and strengthen our Corporate Auditors System, and three of our four corporate auditors are outside auditors.

- Sharp has three internal auditing divisions: one in charge of Sharp Corporation, one in charge of Sharp group companies in Japan, and one in charge of Sharp group companies overseas. Through audits of such matters as the adequacy of business execution, along with validity and efficiency of management, these divisions make specific proposals for the business improvement, therefore establishing internal control.
- As for risk management, Sharp established the CSR Promotion Department in October 2003 to handle matters related to CSR for the entire Sharp Group, thereby fulfilling our responsibility as a manufacturer. With the implementation of CSR, as well as the enhancement of BRM (business risk management), we have realized prevention of risks and formulation of prompt countermeasures.
- KPMG AZSA & Co., Sharp's independent auditors, carries out periodic accounting auditing and provides us with proposals for continuous improvement in our administrative operations.
- Sharp receives timely advice in cases involving legal decisions from its corporate attorneys.

2) Summary of personal, capital, and business relationships, and other interests of outside corporate directors and outside auditors existing between the companies involved:

- No outside directors are appointed to our Board of Directors. There are no relevant matters relating to our outside auditors.

3) Implementation of measures intended to improve and enhance corporate governance of the company in the past year:

- The 111th Ordinary General Meeting of Shareholders was convened on June 23, 2005, six days earlier than the June 29th, the date on which the shareholder's meetings of companies whose fiscal year ends on March 31st are typically held. And, in an effort to improve and enhance information disclosure to our stakeholders, particularly for those who could not attend the meeting, we posted a video presentation of the main part of the meeting on our Web site during approximately three months following the shareholder's meeting.
- The Board of Directors held 7 meetings in the interim for fiscal 2005 (12 times in fiscal 2004). In addition to deciding matters stipulated by law and matters of importance related to management, the Board carried out its oversight responsibility over the business and affairs of the corporation.
- The Board of Corporate Auditors held 7 meetings in the interim for fiscal 2005 (15 times in fiscal 2004). The Board formulated its annual audit policy and passed judgment on the validity of the independent auditors' auditing operations and performance. The Board also conducted hearings on the company's activities and performance from management, and exchanged information and opinions on such matters as auditing (on-site auditing) results and the progress of deliberations of important meetings.