



Annual Report 2006

For the Year Ended
March 31, 2006



Ambrosial Gaze

A dragon among the clouds is majestically painted on the ceiling of the Lecture Hall in the Myoshin-ji temple. No matter where you are in the great hall, the dragon's eyes are watching you. The painting is often called "The Dragon Watching Eight Directions." Boldly leaping through the heavens with eyes wide open and body coiled, the dragon emanates vitality and agility in motion. The dragon's gaze looks in every direction, into all corners, constantly calling forth the best in the human spirit.



2006

ROHM CO.,LTD., established in Kyoto, Japan, in 1958, designs and manufactures integrated circuits (ICs) and other semiconductor and electronic components. ROHM's product lineup includes monolithic ICs, power modules, photo link modules, transistors, diodes, light emitting diodes (LEDs), laser diodes, resistors, capacitors, liquid crystal displays (LCDs), thermal printheads, image sensor heads, LED displays and others. ROHM's corporate objective is "Quality First," and a key component of that objective is the Company's policy of securing a reasonable margin. ROHM also puts focal emphasis on environmental protection.

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Myoshin-ji: Ceiling of Lecture Hall "Cloud Dragon Painting"

In 1337, with the support of the cloistered Emperor Hanazono, Kanzan Egen began the construction of Myoshin-ji, a temple of the Zen sect. It was a center for Zen practice in Japan through the end of the 17th century.

The "Cloud Dragon Painting" is a very large ceiling painting measuring 12.5 meters, created by Kano Tan'yu in 1656. The omniscient dragon alludes to the feeling of being watched throughout the Lecture Hall and for this reason it is also known as "The Dragon Watching Eight Directions."

In the world of Zen, the dragon sustains a very important role in defending the teachings of the Buddha. This is why it is common to have paintings of dragons on the ceilings of lecture halls. The bold pose of the "Cloud Dragon Painting" is expressed in free and natural brushstrokes. The dragon emanates power and evokes an overwhelming sense of magnificence.

ROHM's personnel provides its services to customers all over the globe with support from sales, development engineers, quality engineers, application engineers and more. The theme of the Myoshin-ji Lecture Hall "Dragon Watching Eight Directions" was selected for this annual report to represent the attentive service ROHM provides to its customers worldwide.

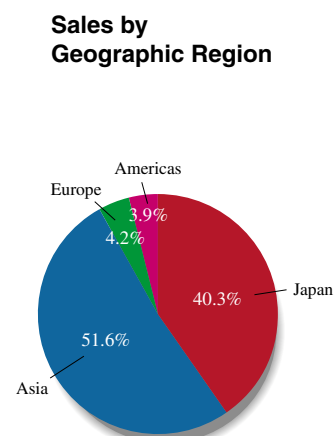
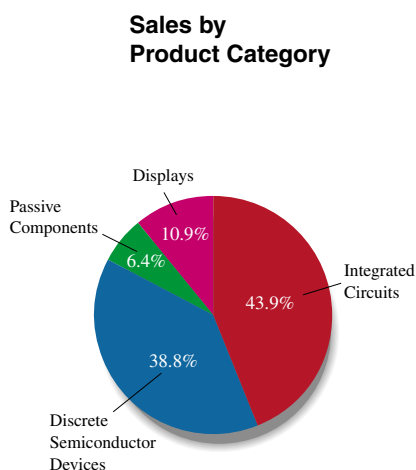
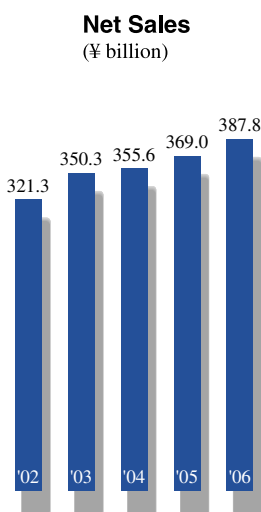
(Photo by Kenzo Yokoyama)

Financial Highlights

ROHM CO., LTD. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars	% change
	2006	2005	2004	2006	
For the Year:					
Net sales	¥ 387,790	¥ 369,024	¥ 355,630	\$ 3,314,444	+5.1
Cost of sales	243,516	221,133	194,857	2,081,333	+10.1
Selling, general and administrative expenses	75,955	71,837	66,266	649,188	+5.7
Operating income	68,319	76,054	94,507	583,923	-10.2
Income before income taxes and minority interests	73,858	70,842	101,070	631,265	+4.3
Income taxes	25,490	25,667	37,268	217,863	-0.7
Net income	48,305	45,135	63,717	412,863	+7.0
Capital expenditures	80,240	85,171	51,958	685,812	-5.8
Depreciation and amortization	57,032	47,442	45,869	487,453	+20.2
Per Share Information (in yen and U.S. dollars):					
Basic net income	¥ 416.39	¥ 380.21	¥ 535.62	\$ 3.56	+9.5
Cash dividends applicable to the year	90.00	85.00	55.00	0.77	+5.9
At Year-End:					
Shareholders' equity	¥ 787,214	¥ 739,329	¥ 715,938	\$ 6,728,325	+6.5
Total assets	951,442	867,323	846,800	8,131,983	+9.7
Number of employees	20,279	19,803	18,591		+2.4

- Notes:
1. U.S. dollar amounts are provided solely for convenience at the rate of ¥117 to US\$1, the approximate exchange rate at March 31, 2006.
 2. Diluted net income per share is not disclosed because there is no outstanding potentially dilutive securities.
 3. Effective April 1, 2005, the Group adopted a new accounting standard for impairment of fixed assets. There is no effect of this adoption to the consolidated statement of income for the year ended March 31, 2006.
 4. Effective April 1, 2005, the Group changed consolidation policy relating some foreign subsidiaries, whose fiscal year end is December 31, which differs from the Company's fiscal year end, March 31. In the past, the Company had consolidated these subsidiaries using their December 31 financial statements. In the year ended March 31, 2006, the Company consolidated such subsidiaries using their hard close as of March 31. The effect of this change to the consolidated statement of income was immaterial for the year ended March 31, 2006.



To Our Shareholders and Friends

The electronics market is expected to grow over the medium to long term in parallel with the rapid widespread use of digital audio/visual equipment and third-generation mobile phones.

In the digital audio/visual equipment segment, the market for flat-screen TVs, DVD recorders, hard disk and silicon audio equipment is growing rapidly. Likewise, in the area of information and communications equipment, mobile phones that incorporate sophisticated multimedia capabilities, such as high-speed data transmission and videotelephony, are gaining rapid acceptance worldwide. Automotive industries are also becoming increasingly electronic, as demonstrated in advanced vehicle control systems and safety systems. To meet an increasingly broader range of the technological needs of these new markets, ROHM's design and production efforts always focus on the highest level of quality. ROHM is also enhancing its technical support and quality assurance systems for customers by establishing and improving design centers and quality assurance centers.



Ambrosial Gaze



ROHM's bases for technological enhancement include the VLSI Research Center, Optical Device Research Center, and the LSI Test Technology Center, which are located at the headquarters premises, as well as the Yokohama Technology Center and the Kyoto Technology Center. At these technological bases, more than 2,000 engineers are engaged in research and development.

In the area of LSIs, in an effort to constantly deliver leading-edge solutions that meet customers' application requirements, ROHM is directing its energy to developing and offering high value-added LSIs that satisfy the increasing needs for higher-performance electronic products, through optimizing the Company's digital, analog, and combined digital/analog technologies required by circuit blocks used in electronic products such as digital audio/visual equipment and mobile phones. In response to the growing needs for larger-scale integration and higher performance in the area of LSIs, ROHM makes good use of its proprietary system LSI development platform "REAL PLATFORM" that slashes design lead-time and speeds up the development of complicated system LSIs, as well as its "REAL SOCKET" design system that enables the development of complex, high-performance system LSIs, thus reinforcing the system of developing and producing LSIs that exactly satisfy customers' demands in a short period of time.

In discrete semiconductors, ROHM continues to be committed to enriching its MOSFET (metal-oxide semiconductor field-effect transistors) and power diode products, which is an area that is increasing in demand particularly in the mobile phone and flat panel display applications, meeting the increasing needs for low power consumption, miniaturized packages and high reliability.

With an eye to future business expansion, ROHM is also focusing on R&D in next-generation essential technologies, which is carried out at the Research and Development Headquarters; this facility consists of R&D centers for Next-Generation Semiconductor, Composite Devices, Nano-Bionics, New Material Devices, Display Devices and Optical Devices. To improve the efficiency of these R&D activities, ROHM is actively involved in industrial-academic collaboration with Kyoto University and other major universities and institutions in and outside Japan. Recent achievements include successful prototype production of SiC (silicon carbide)-based Schottky diodes and MOSFETs, which are far better than conventional products in terms of efficiency and reliability, as well as prototype production of organic light-emitting transistors applicable to flexible displays.



The Concept of Zen

Zen. The negation of all distractions. Focusing on the true form within oneself. In order to pursue this, one unifies the will through the practice of sitting meditation (zazen), asking and answering in one's own unique way the messages (Zen questions) left by our predecessors, fostering a spirit that cannot be misdirected by any force. Polish one's inner surface as one might polish a mirror, without leaving a single spot. By doing so, one may reach the destination of Zen-enlightenment (satori). The "beauty of elegant simplicity" (kotan no bi), where what is not there also possesses significance and only the essence is manifest, arises from these Zen beliefs. (Photo by Katsuhiko Mizuno)

Global competition is constantly intensifying in the electronics market, particularly in Asia. Addressing this issue, ROHM's production bases worldwide ensure the most outstanding product quality and reliability in the industry. The majority of ROHM's manufacturing equipment is developed in-house to ensure the required high product quality and reliability. The Company's manufacturing equipment, developed by incorporating its manufacturing know-how for top-quality products, is used at all the plants of the Group including those overseas, enabling the Company to manufacture and supply high-quality products worldwide. ROHM also produces materials internally, such as wafers, lead frames and photomasks. This allows ROHM to carry out quality control in all processes from materials to finished products, giving the Company overwhelming superiority over competitors in terms of reliability.

ROHM's production network secures more than one mass production facility for each product category to avoid potential supply risks caused by events such as natural disasters and international conflicts, guaranteeing a stable product supply to customers worldwide. Specifically, regarding wafer processes, ROHM continues to focus on the development of larger-diameter wafers and fine process technology; at the ROHM HAMAMATSU CO., LTD. plant, which is a seismically isolated structure, capacity is being increased for the 300 mm wafer process, and development efforts are under way to bring industry-leading, cutting-edge 65 nm fine process technology into reality. For the back-end process, ROHM's plant in Thailand is increasing its production capacity for transistors, diodes and tantalum capacitors, while the plant in the Philippines is enhancing its LSI and transistor production capacity. Also at the plants in Tianjin, China, ROHM continues production-capacity enhancement for diodes, LEDs and laser diodes. Furthermore, to be prepared for demand expansion in the future, ROHM is constructing a new plant in each of the ROHM Group's core production bases in Thailand, the Philippines and China.



To reinforce its technical support and quality assurance systems for customers worldwide and enable the Company to respond quickly and precisely to all customer needs, ROHM has established and expanded its networks of sales offices, design centers, and quality assurance centers in and outside Japan.

In Japan, ROHM opened new sales bases in some local cities, in addition to the existing bases in major cities such as Osaka and Kobe. This increased number of sales offices allows the Company to carry out customer-oriented sales activities. ROHM also opened the Nagoya Design Center as a development base for LSIs, reinforcing the Company's technical support system particularly for the automobile-related equipment market.

In China, which is particularly, a key target area for our sales promotion, ROHM has enhanced its customer support system by establishing sales offices in various areas of the country, including in Hong Kong, Shanghai and Dalian.

To enhance the quality support system for customers, ROHM opened the Detroit quality assurance center near Detroit, U.S.A. The



Company has also improved its design and development system in Europe by, for example, shifting the LSI design base in France from Rennes to Paris.

ROHM will continue to reinforce its sales and customer support systems in an effort to ensure a quick response to customer needs and to expand its share in the global market.

Social Responsibility

With the belief that social responsibility for sustainable development as a corporate citizen is of paramount importance in business management, we at ROHM are spearheading efforts toward establishing a fair and transparent management system in areas such as corporate governance, corporate ethics, and observance of statutes. ROHM is also committed to proper and timely disclosure of information so as to ensure fair and open management. To enlighten and educate employees, the Company formulated the “ROHM Group Business Conduct Guidelines” and developed a follow-up policy to ensure that the Guidelines are fully understood and observed by employees. Moreover, the Company is enhancing its internal control system by establishing committees, each focusing on a specific subject such as risk management, compliance, and information disclosure.

The Company is also performing various activities to retain and improve good relationships with society and local communities, such as donating “ROHM Plaza” research facilities to Ritsumeikan University, Doshisha University and Kyoto University, as well as proactive dispatch of employees to local volunteer activities.

ROHM is also making continued group-wide efforts in the area of occupational safety and health. The Company has achieved twelve consecutive years of zero accidents which would normally cause employee absences from work, demonstrating its constant high performance in occupational safety and health.



Taizo-in: Genshin no niwa, Yoko-en

Near the subtemple Taizo-in of Myoshin-ji there are two famous gardens, Genshin-no-niwa and Yoko-en. Genshin-no-niwa is said to have been created by Kano Genshin, an artist of the Muromachi Period. It is an abstract world expressed only in combinations of stones and white sand. Standing before this silent garden one can almost envision the rise and fall of waves and water flowing.

Yoko-en was designed by the twentieth-century garden designer, Nakane Kinsaku. This is a large garden that features ponds and streams, islands, and combinations of large and small waterfalls with grass and trees representing each of the four seasons. One cannot help but become immersed in the beauty of these natural creations all gathered in one spacious area.

Two gardens opposite each other, separated by a hedge, enticing you to visit and appreciate the contrast between stillness and motion. (Photo by Katsuhiko Mizuno)

ROHM considers global environmental conservation a top priority and is committed to contributing to the continued existence of mankind and the progress of industries, as shown in its basic environmental philosophy. As part of the ROHM Group's all inclusive environmental management system, ROHM has established an Environmental Conservation Committee to discuss significant policies and measures for environmental concerns. The Committee consists of subcommittees responsible for greenhouse gases, energy conservation, environmental burden reduction, waste and recycling, environmentally controlled substances, and packaging materials. Through their activities shared at all business levels of the ROHM Group, the Company continues to lead the industry in environmental conservation.

ROHM has obtained a single ISO14001 certification covering all domestic and overseas Group companies from a third-party certification organization, which is testimony to ROHM's group-wide commitment to environmental conservation in conformity with international standards. Examples of ROHM's successful activities include zero emissions of waste achieved quickly at all the production bases of the Group in Japan, the development of environmentally friendly, energy- and resource-saving products, complete elimination of environmentally controlled substances, and green procurement. Regarding the European RoHS (Restriction of the use of certain Hazardous Substances) Directive, which has just recently taken effect, ROHM has already met the Directive ahead of others in the industry in 2004 when all products of the Company became lead-free.

Besides CO₂ emission reduction efforts, forestation activities to achieve natural absorption of CO₂ have proven extremely effective in helping to prevent global warming. Actively conducting the extensive "ROHM Forest" project in Southern Australia, planting eucalyptus trees, ROHM is the first Japanese semiconductor manufacturer to undertake such a large-scale reforestation project. The forestation is scheduled to cover an area of 10 million m² by the year 2008, of which 6.62 million m² has been completed to date.



In addition to the benefits that our business brings to society, ROHM acknowledges its role as a good corporate citizen by actively supporting cultural and sporting activities.

The ROHM Music Foundation was established in 1991 with the objective of contributing to the progress of music as a cultural activity, and continues to provide support for various musical activities.

In the year under review, ROHM and ROHM Music Foundation provided support for a number of musical events, including the ROHM LYRIC SELECTION classical concert series, the Autumn Kyoto Music Festival Opening Concert, the Educational Program for High School Students Opera, the World Symposium on Choral Music, and various other concert events. Besides offering scholarships for musicians, we also provided continued support for events intended to assist aspiring young musicians, including the Kyoto International Music Students Festival, the ROHM Music Foundation Musical Seminars, and the Seiji Ozawa Ongaku-juku Opera Project series. ROHM also provided support for major sporting events, including the Lake Biwa Mainichi Marathon, one of the domestic qualifying races for the Asian Games in Athletics (First place: Jose Rios); the Kyoto City Half Marathon, (First place: men, Takayuki Ota; women, Mai Ito); and the Inter Prefectural Men's Ekiden Hiroshima 2006 (First place: Nagano Prefecture).

Distribution of Profits to Shareholders

ROHM intends to continue to commit itself deeply to improving its business performance, through the development of high-value-added products and technologies in anticipation of future customer needs, improvement of quality and reliability, reinforcement of production and marketing systems, and thorough, company-wide streamlining and cost-reduction efforts.

Regarding profit distribution to shareholders, ROHM gives thorough consideration to various factors, including business performance, financial position, and expected demand for funds for business investment aimed at improving corporate value. Specifically, the Company intends to improve the total return ratio, by keeping the dividend rate consecutive in consideration of the consolidated dividend payout ratio, while implementing flexible return-improvement measures, such as treasury-stock purchasing, in light of cash-flow conditions.

In conclusion, we would like to take this opportunity to ask for continued support and understanding from our shareholders.

June 2006

Ken Sato
President



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Tea House and an Open Field

At the Keishun-in subtemple in Myoshin-ji there are four gardens-Wabi-no-niwa (Garden of Solitude), Seijo-no-niwa (Garden of Purity), Shii-no-niwa (Garden of Thought) and Shinnyo-no-niwa (Garden of Absolute Reality), as well as a small hidden teahouse called Kihakuan. Tea is said to have originally arrived in Japan from China along with Zen beliefs. Peace of mind comes from a sip of tea. The "way" of tea originated from this concept and a new spiritual culture called cha-no-yu was derived.

Cha-no-yu involves an open field, a teahouse and the memory of one's ancestors. Stepping stones, the formal crouched position with a straight back (sonkyo), and lanterns strategically placed. With each step on a garden stone, anticipation of the unfolding world of sazen ichimi (tea and Zen as one) rises from within.

(Photo by Katsuhiko Mizuno)

Corporate Governance

Basic Policy Concerning Corporate Governance

It is demanded that corporate governance functions effectively. Under such circumstances, the Company believes that corporate management and actions should be fair, unbiased and transparent, based on the idea that a company is an entity supported by all its stakeholders including shareholders, customers, local communities and employees. In this respect, we regard the establishment of corporate governance as an extremely important issue. Based on the above understanding, ROHM performs various actions, giving top priority to the improvement of ROHM's corporate value, in consideration of its stakeholders.

Structure of Corporate Governance Performed by the Management and Other Functions of ROHM Regarding Managerial Decision-making, Execution and Supervision

(1) Organizational structure and operation

In the semiconductor industry, where the business environment is undergoing accelerated changes, ROHM believes that its flexible and effective management system is the most desirable where the Directors with a thorough knowledge of the Company's businesses and technologies have executive power while supervising each other. As the function of supervising ROHM's managerial performance, ROHM maintains the existing auditor system and has no outside board members, based on the idea that supervision over the executive branch works sufficiently through improving and enhancing the system of auditing by Corporate Auditors. Currently the number of Directors is nine, and the President chairs the Board of Directors.

ROHM's Corporate Auditors and accounting auditors work in coordination with one another; they hold meetings several times a year, in which they make reports on audit programs, audit status and results, and other related topics. They also attend physical inventory taking at the fiscal year end. The Corporate Auditors also work in cooperation with the Company's internal auditing department; the activities of the internal auditing department are communicated to the Corporate Auditors by means of a monthly report, and carry out audits of the Head Office and overseas subsidiaries in coordination with each other.

Other functions of ROHM's outside Corporate Auditors include: auditing the Head Office, and domestic and overseas subsidiaries by dividing the audit tasks among the Corporate Auditors according to their specialty and attending Board of Directors meetings to make necessary comments. ROHM's Internal Audit Department, consisting of five staff members including the Department chief, audits individual divisions of the Head Office and domestic and overseas affiliates by interviewing executives and regular employees, inspecting documents, reports and the like, and through other methods, and regularly reports the audit results to the Corporate Auditors. The Company's auditing system also requires that the materials related to Directors' decision-making processes (minutes of the Board of Directors meetings, documented requests for managerial decision etc.) are checked on regular basis, and that major divisions of the Company make reports of their operations and other information via the monthly report. Various findings from daily audit activities are also communicated from full-time Corporate Auditors to part-time Corporate Auditors at the Board of Corporate Auditors' meetings and on other occasions as needed.

Regarding the decision on remuneration and bonuses for the Directors, ROHM has adopted a performance-related remuneration system, which uses the amount of ordinary income for the previous fiscal year as the evaluation index, to clarify the management responsibility of the Directors. The total amount of remuneration paid to all Directors is disclosed in the annual secu-

rities reports.

Remuneration paid to Directors for the year ended March 31, 2006: ¥317 million

*Including bonuses to Directors (¥5 million) resulting from appropriation of earnings from the previous fiscal year.

(2) Matters concerning supervising and auditing procedures, certified public accountants, and decision on remuneration for Directors

For the Board of Directors to have sufficient discussion and make adequate and swift decisions, having a Board of Directors of the proper size enables its function to be enhanced. Concerning the supervision of managerial execution, we have five Corporate Auditors of whom none are Company members, reinforcing auditing functions. The Auditors are committed to building a fair management supervision system through legally stipulated audits. In ROHM's auditing procedure, the Corporate Auditors attend major managerial meetings such as those of the Board of Directors, and the Corporate Auditors and the Internal Audit Department audit the individual divisions of the Head Office and domestic and overseas affiliates by holding meetings with those in managerial positions and by inspecting documents and reports, thus ensuring that the Directors perform their duties in total compliance with existing laws and auditing the Company's operation in many respects such as ensuring that the Group's internal control system is well prepared and at work, that in-house regulations are compliant, and that its assets are sound. For internal audits, audits of Corporate Auditors, and accounting audits, the Corporate Auditors, the Internal Audit Department and accounting auditors have reporting meetings regularly, and exchange information and opinions proactively by continuously maintaining close cooperation and association with each other, thus sharing the information they obtain by their respective auditing operations and enhancing auditing accuracy thus effectively improving auditing operation. Concerning accounting audits, ROHM is under contract with auditing organization Deloitte Touche Tohmatsu, and has its accounting audited based on Japanese Corporate Law and Securities Exchange Law. ROHM has an established environment where the auditing organization can perform audits from a fair, unbiased position as an independent third party. The following are the names of certified public accountants (CPAs) who audited ROHM's accounts for the fiscal year ended March 31, 2006, the number of consecutive years they have been engaged in auditing ROHM, and information on assistants involved in the audits.

CPAs who audited ROHM (Number of consecutive years they have been engaged in auditing ROHM)

Designated CPAs (employees in charge of performing the audit) of Deloitte Touche Tohmatsu: Yoshifumi Tsutsumi (3 years), Tomoharu Kuda (7 years), Hiroyuki Asaga (5 years)

Major assistants in the audits

8 CPAs and 5 assistant CPAs

Updates on the performance of actions taken with respect to shareholders and other stakeholders

(1) Efforts to energize general shareholders' meetings and facilitate the process of exercising voting rights

ROHM sends out notices of general shareholders' meetings about three weeks prior to each meeting. Based on the findings of surveys on foreign shareholders, ROHM is taking various actions for foreign shareholders, including promoting investor relations activities, facilitating the process of exercising voting rights, and preparing English versions of notices of general shareholders' meetings.

(2) Investor relations activities

ROHM has the Public Relations and Investor Relations Department in charge of investor relations (IR) activities, including the holding of information sessions regularly both within and outside Japan for research analysts and institutional investors. ROHM also has an investor relations section on its website which provides a wealth of information including: legal disclosure documents such as financial reports and securities reports; voluntary information such as annual reports, materials for financial results briefings, performance trend charts, and long-term financial data; IR calendar; and information on paperwork for shareholders.

(3) Efforts to ensure respect for stakeholders

ROHM expresses its intention to respect all stakeholders surrounding the Company through publication of social and environmental reports. As part of efforts to ensure due respect for stakeholders, the Company is also striving to enlighten and educate its employees by distributing the “Business Conduct Guidelines.”

To contribute to environmental conservation, the ROHM Group as a whole has introduced an environmental management system based on ISO 14001 standards. Moreover, ROHM leads the industry in totally abolishing the use of chlorofluorocarbon chemicals and satisfying the RoHS (Restriction of the use of certain Hazardous Substances) Directive. ROHM also places importance on social responsibility for sustainable development as a corporate citizen. Specifically, the Company is making constant efforts to forge and maintain favorable relations with local communities and society as a whole through various activities, including donations of research facilities to universities and active involvement in community volunteer activities.

ROHM’s policies regarding information disclosure to stakeholders are stipulated in the Company’s in-house rules on information disclosure, including the requirements of fairness and legal compliance.

Basic Policy and Current Status concerning Internal Control System

Considering enhancement of the internal control system as one of the most important management issues, ROHM is committed to ensure reliable financial reporting and the maintaining of proper business practices within the ROHM GROUP as a whole, thereby fulfilling corporate social responsibility. The Company is advancing the enhancement of its internal control system based on the following specific policies.

(1) System to ensure that the Directors perform their duties in compliance with established laws, regulations, and Articles of Incorporation

- 1 Directors’ noncompliance with the laws, regulations, or Articles of Incorporation in performing their duties is deterred, based on the “Guidelines for Ethics in the Business of the ROHM GROUP,” Board of Directors regulations, and other relevant rules.
- 2 Directors with a thorough knowledge of their own areas of expertise have responsibility and authority for business operations of their respective areas, hold discussions regularly, and supervise each other.
- 3 Every Director/Corporate Auditor promptly notifies the Board of Directors and the Board of Corporate Auditors of any violation of laws, regulations or in-house rules by any Director when the violation comes to be known by the Director/Corporate Auditor.
- 4 The internal “Compliance Hotline” system for reporting compliance concerns and issues has been established and is used to find violation by any Director of laws, regulations or in-house rules and to take pre-

vention measures against any recurrence.

- 5 All Corporate Auditors are appointed from outside the Company to check constantly that the Directors perform their duties in compliance with established laws, regulations, and Articles of Incorporation.

(2) System regarding storage and management of information on execution of Directors’ duties

- 1 All materials related to Directors’ decision-making and decisions regarding execution of their duties, including minutes and other materials pertaining to general shareholders’ meetings, minutes and other materials pertaining to the Board of Directors meetings, circulars sent around for managerial decisions, and materials pertaining to annual business planning, are maintained in written form. Retention periods and other instructions for management of such documents comply with established laws, regulations and in-house rules.
- 2 All instructions to different units of the Company, Group companies or other relevant sectors are issued in written form in principle, and are maintained in a manner that is accessible by Directors, Corporate Auditors etc. upon request.

(3) Rules and system regarding management of risk of loss

- 1 For environmental and safety risk management, ROHM has established various in-house committees, including the Central Health and Safety Committee and the Environment Conservation Committee, as well as subcommittees there under (e.g. subcommittee responsible for greenhouse gases), and, through daily activities of those committees, prevents risks and addresses unavoidable risks in a proper and ethical fashion.
- 2 ROHM has organized an in-house Risk Control Committee as an overall risk management function, which sets out risk management rules and policies and controls and reviews the activities of various sections in charge of the management of their own risks.

(4) System to ensure efficient execution of Directors’ duties

- 1 The number of members of the Board of Directors with executive authority has been reduced to ensure swift and proper executive decision-making.
- 2 The Board of Directors consists of Directors with a thorough knowledge of their respective areas of responsibility, and each Director, based on segregation of duties, executes his/her own specific duties.
- 3 Regarding matters that may have a significant impact on business management, expeditious decision-making is performed, as appropriate, at the Board of Directors meetings or by consultation via circular (documents sent around for managerial decision) according to in-house rules.
- 4 Company standards of risk management, information management and other in-house management procedures are created, documented and implemented.
- 5 To strengthen the competitiveness of the ROHM Group and to secure appropriate profits, a profit plan is prepared annually for each Group company and operating division specifying the target profit, for use in performance management.

(5) System to ensure that employees perform their duties in compliance with established laws, regulations, and Articles of Incorporation

- 1 A Compliance Committee has been organized to formulate and disseminate the “Guidelines for Ethics in the Business of the ROHM GROUP” throughout the Group, thereby promoting compliance activities of the Group as a whole.

Corporate Governance

- 2 In an effort to ensure that efficient actions are taken regarding compliance matters inherent in different areas of management, various committees have been established, including the Information Disclosure Committee, the Central Health and Safety Committee and the Environment Conservation Committee, to check the status of compliance and conduct enlightenment activities across the Group.
- 3 The internal control system is being enhanced prior to full-scale introduction of a system to evaluate and audit internal control concerning financial reporting.
- 4 To ensure sound and appropriate financial reporting, a system has been established in which written testimonies must be submitted by the relevant responsible persons of different ranks (including those persons of subsidiaries) to prove the soundness of financial reporting.
- 5 The internal "Compliance Hotline" system for reporting compliance concerns and issues has been established and is used to determine any violation by any employee of laws, regulations or in-house rules in the course of performing his/her duties and to take prevention measures against recurrence.
- 6 Internal audits are conducted to check the work of employees, thus ensuring compliance with established laws, regulations, Articles of Incorporation as well as making necessary improvements for streamlining of work processes.

(6) System to ensure sound and appropriate business operations within the corporate group

- 1 Documented standards applicable across the ROHM Group are prepared and implemented.
- 2 Some directors/auditors of the ROHM Group companies are appointed from among the staff members of ROHM CO., LTD. or its subsidiaries to supervise and ensure sound and appropriate business operations.
- 3 A system is introduced that requires, in the case of important matters or issues at subsidiaries, consultation with ROHM CO., LTD. via a circular sent around for managerial decisions so that each sector of the Company exercises control across all the Group companies.
- 4 The internal control system is being improved and enhanced to cover not only the Company but also its major subsidiaries, prior to full-scale introduction of a system to ensure sound and appropriate financial reporting, including procedures for auditing financial reporting.
- 5 The Company's auditing department conducts internal audits of the Group companies.

(7) In the case where Corporate Auditors request employees to serve as assistants in performing their duties

When requested by a Corporate Auditor, support staff with necessary practical skills is provided.

(8) Independence of the employees set forth in (7) above from Directors

Corporate Auditors' support staff members shall not hold a post or engage in any activity related to execution of the Company's business operations. Any personnel changes involving them shall require prior approval of the Board of Corporate Auditors. In the personnel performance evaluation process for them, the views and opinions of the members of the Board of Corporate Auditors shall be taken into account.

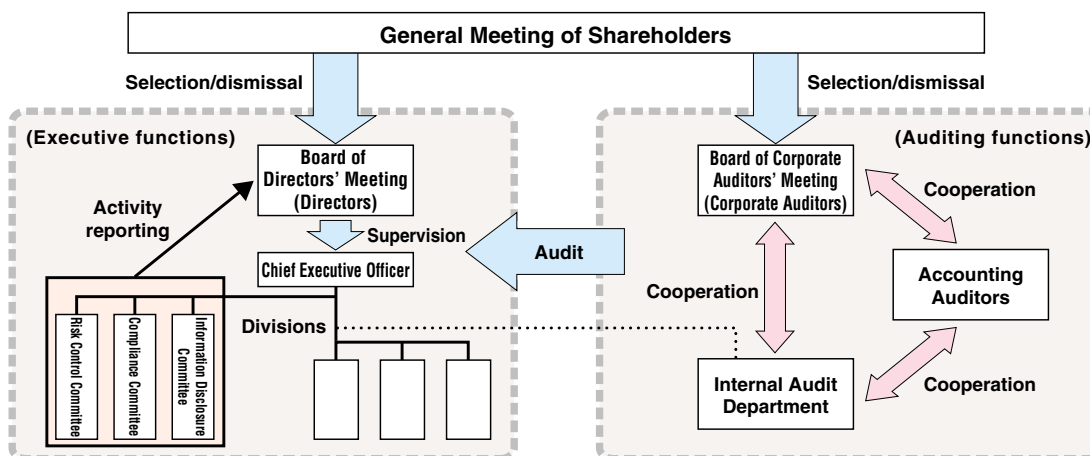
(9) System for Directors and employees to make reports to Corporate Auditors and other systems ensuring reports to Corporate Auditors

- 1 Every Director makes reports to Corporate Auditors, as needed, regarding the presence or absence of any violation of laws, regulations or in-house rules by any Director with regard to the performance of his/her duties, or of any breach of duty of care by any Director, or of any fact that may cause material damage to the Company.
- 2 The Company has the Compliance Committee, the Risk Control Committee, and the Information Disclosure Committee, each of which makes a report regularly to Corporate Auditors by means of minutes.
- 3 The Company maintains a system in which processes and results of execution of business operations are communicated to Corporate Auditors as deemed appropriate by presenting reports, circulars sent around for managerial decision and by other means.

(10) Other systems to ensure effective audits by Corporate Auditors

- 1 Directors make reports on the current status of the internal control system at the request of the Board of Corporate Auditors.
- 2 The Internal Audit Department will be expanded and enhanced considerably to strengthen cooperation with Corporate Auditors.
- 3 All Corporate Auditors are appointed from outside the Company and include legal experts, accounting experts, and those from government ministries/agencies and financial circles so as to establish a sophisticated and capable auditing system with a high degree of independence.

<ROHM Corporate Governance System>



Risk Management

The following are the risks that may have a great impact on the ROHM Group's financial status and operating results. The ROHM Group has an in-house Risk Control Committee to preclude these risks or minimize their influence, reinforcing the in-house risk management system.

(1) Risks Associated with Market Changes

The semiconductor industry and electronics component industry are subject to sudden, abrupt changes in market conditions, as set makers may adjust production according to the sales conditions of electronic products and competition in prices and technology development with rival companies. Prices are especially susceptible to a sudden drop according to supply-demand and the pricing strategies of Southeast Asian companies, which are growing rapidly. Such price changes compose an uncertainty factor in maintaining or increasing sales and thus in ensuring profits.

(2) Exchange Risks

The ROHM Group has development bases, manufacturing bases and sales bases around the world. The financial statements prepared in local currencies are translated into Japanese yen to prepare the consolidated financial statement. Therefore, the gains and losses on the consolidated financial statement may change because of the exchange rates at the time of translation, even if values remain unchanged in local currencies.

The Group produces products in Japan and other Asian countries and sells them in Japan, other Asian countries, the Americas and Europe. Because different currencies are used between production bases and sales bases, we are constantly influenced by exchange rate fluctuations. Generally, a strong Japanese yen adversely influences our business performance, while a weak yen has a favorable influence.

(3) Risks of Product Defects

The Group consistently places top priority on quality, as stated in the Company mission, and produces products under severe quality control. However, this does not guarantee that we never produce defective products or that we will never be liable to pay for product losses by a buyer. If a buyer makes a claim for losses with regard to our products, our business performance may be adversely influenced.

(4) Legal Risks

To manufacture products distinguishable from the products of other companies, we develop various new technologies and know-how, and produce and sell products worldwide based on these original technologies. We have a specializing division that strictly supervises in-house activities to ensure that the technologies and know-how the Group uses do not infringe the intellectual property rights of other companies, such as patent rights. In addition, to conserve the environment, protect health and ensure safety, we comply with all the relevant laws and regulations in all the fields we do business in, monitoring gas emissions, drainage, harmful-material utilization and handling, waste treatment, and soil/underground water pollution. However, we may shoulder legal responsibilities in this respect, because of a difference in views among those concerned or unexpected events, possibly having an adverse influence on our business performance.

(5) Natural Disasters and Geopolitical Risks

The Group performs development and manufacture activities in Japan and in other countries. As a measure against natural disasters and geopolitical risks, the Group locates production lines at different bases. However, our business bases may suffer damage due to earthquakes, typhoons, flooding and other natural disasters, political uncertainty or international conflict. If these events prevent us supplying products to customers, our business performance may be influenced.

(6) Other Risks and Corporate Risk Management System

In addition to the above-mentioned risks, there are various risks that may influence our financial conditions and administrative performance as we perform business activities, such as logistics risks, material procurement risks, and information system risks.

Other Information

Defense against Takeover

On May 11, 2006, the Board of Directors of ROHM decided to adopt "Fair Rules for the Acquisition of Substantial Shareholdings (Takeover Defense Measures)" (hereinafter referred to as the "Rules"). ROHM believes that in the event of a takeover bid, the final decision as to whether or not to accept the bid should be made by the Company's existing shareholders at the time of the bid. To ensure that the shareholders make an informed judgment based on sufficient information and with a reasonable time period to consider the bid and go through a fair and transparent procedure for ascertaining their will, ROHM has set forth a procedure that the takeover bidder must follow before undertaking the purchase. Aimed at securing and enhancing corporate value and common interests of shareholders, the Rules is also designed to be objective and specific, so that the Board of Directors facing a takeover bid does not take any arbitrary action (to protect their own interests, for example). The Board of Directors of ROHM requires any party wishing to make a takeover bid to comply with the procedure stipulated in the Rules. If the bidder fails to comply, the Board takes prescribed measures (including issuance of stock acquisition right certificates). Details are given on the Company's website.

New Technologies

The quest for new technology for the next generation of sight and sound

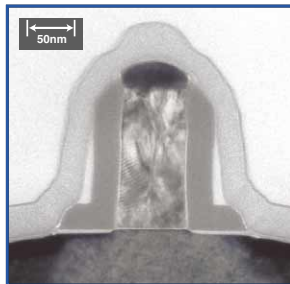
The advent of true digital and high-definition broadcasts has paved the way toward widespread use of high resolution digital images, embracing the era of flat panel displays. Beyond digital video, digital audio-which includes Dolby surround, DTS and other forms of multi-channel digital audio data-is promoting the spread of home theaters and entertainment systems. Additionally, the widespread diffusion of third-generation mobile phones and the global growth of portable audio devices are shaping the market for new music downloads through MP3, AAC, and similar formats. The evolution of new consumer video and music products has accelerated on a global scale. Through this process, digital equipment are getting a grip on the various needs of consumers and penetrating deeper into daily life while at the same time allowing us to witness the emergence of higher performance protocols, more environmental awareness and fewer usage barriers. Based on these trends, ROHM is seizing the opportunity to place its high-reliability semiconductor technology at the core of such devices and usher in this era, with the accelerated development of new products and technologies to serve the public interest.

With system LSI design technology, we have been expanding and building "REAL PLATFORM" for the development of products to be used in the core areas of digital imaging and audio software, including Dolby Surround, DTS, MPEG, MP3, AAC and H.264 to improve design efficiency and application while strengthening software assets and improving hardware capabilities*1. We are also focusing on optimal usage of MPEG4 and H.264 video engines, AAC music downloads in mobile phones, CD-R/W one-chip processors with built-in MP3, and MP3 portable audio LSIs.

In the area of LSI hardware, we have begun using a 300mm, high-voltage CMOS process line to supply film carriers*2 for the mass production of the LCD source drivers used in a large numbers of LCD televisions, where screens are growing larger. We have also strengthened our lineup with new technology sound processors in home theaters, including LVDS*3 interface LSIs, overdrive processors and other types of system LSIs as well as voltage-generating ICs to control the gradation of up to one billion colors, backlight driver control ICs, DC/DC converters, and other types of power supply integrated circuits.

Our expertise in advanced analog technology has allowed us to develop high-speed circuits for use in serial ATA bus interfaces and at the front end of HDDs and DVD players, where signal processing capabilities greater than GHz (gigahertz) are required. For power LSIs, we have expanded the range of technical applications with the development of switching regulators that have voltage conversion rates greater than 95%, as well as compact, low-energy, low-noise lens drivers that are built into digital still cameras.

In the area of LSI miniaturization technology, in addition to the 180nm mixed signal process and the 130nm CMOS process currently in mass production, we have recently completed the development of the

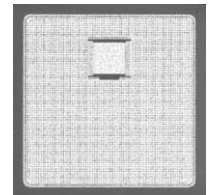


The cross section of our 90 nm CMOS transistor

90nm process and have begun preparation for mass production. We are also expanding our production capacity of 300mm wafer lines and have started construction of a new clean room to accommodate 300mm at ROHM Hamamatsu, our main wafer plant. With respect to package technology, we have expanded the applications for WL-CSP (Wafer Level Chip-Size Package)*4 to include standard goods and are now expanding the scale of production.

In the area of discrete semiconductors, we have commercialized 400V and 600V power MOSFETs as well as 400V-class ultra-low-loss power Schottky barrier diodes, an achievement once considered impossible. In addition, we have promoted the fortification of power device technology in such areas as high-efficiency fast-recovery power diodes for plasma televisions, and have developed our first thyristor, initiating our entry into that market.

As for new materials for discrete devices, our research and development maintains its world-class reputation by developing products using SiC (Silicon Carbide)*5 to develop a MOSFET with a low loss level 1/100 that of silicon products as well as high-voltage diodes that exceed 1000V.



SiC MOSFETs

In the area of semiconductor lasers, we have moved to higher output levels in our 260mW class monolithic, dual-wavelength laser diodes for use in super combo drives for high-speed writing of DVDs or CDs and we are moving forward with technology aimed at the development and mass production of high-heat frame packages as well as the development of blue-violet laser diodes for use in next-generation DVDs.

In the field of LEDs, we have increased the generation of red wavelengths, which has been a problem in white LEDs, developed a high color rendering LEDs*6 with a high degree of color reproducibility and we have also received a favorable response from the market with the expansion of the range of applications in lighting devices such as LCD backlights.

We were first in the industry to develop our "Step-Free" technology*7 for thermal printheads; a wear-resistant structure capable of high-speed printing (up to 500mm/sec). Additionally, our new thermal printheads for color printers feature optimized heat storage and release characteristics, resulting in a seven-second printing speed-the fastest in the world.

Our 1mΩ ultra-low ohmic resistors feature the highest voltage and power ratings in the industry by utilizing new architecture. Additionally, technological developments such as chip resistors with improved anti-sulfuration characteristics*8 for use in automotive applications and our new concept-oblong electrode resistors have generated interest. We have developed a new electrode architecture for our capacitors and have started mass producing tantalum capacitors with the highest capacitance in the industry (220μF, 1.1mm package thickness). These capacitors were developed to improve sound quality while contributing to more compact portable audio equipment.

We have remained committed to our mission of "contributing to society through electronics." At ROHM, we will continue contributing to society through relentless efforts toward research and development activities in new technologies.

*1 **Dolby surround, DTS, MPEG, MP3, AAC, and H.264 digital image and audio software**

These are different specifications for audio and video image data. Among the many features is increased compression rates. They are widely used in portable audio devices such as mobile phones, televisions, video players, and other AV equipment.

Dolby surround

A system for compressing, recording, and playing back audio data. It can be used with both monaural and multi-channel formats.

DTS (Digital Theater Systems)

A system for compressing, recording and playing back audio data. DTS has received recognition from the Motion Picture Academy of Science & Technology for its high audio quality and playback reliability.

MPEG (Moving Picture Experts Group)

Moving picture data compression specifications.

MP3 (Moving Picture Experts Group 1 Audio Layer 3)

Audio data compression specifications.

AAC

A high fidelity, high compression standard for audio data-used in ring tones.

H.264

Moving picture data compression specifications featuring twice the compression rate of conventional methods - used in mobile phones and similar applications.

*2 **Film carrier**

Tape-like film that carries elements, including electrodes, leads and circuit patterns, formed on its surface.

*3 **LVDS (Low Voltage Differential Signaling)**

An interface that performs differential transmission using 100mV to 600mV small amplitude signals. These are in wide use in applications such as high-speed image signal transmission in notebook computers.

*4 **WL-CSP (Wafer level chip size package)**

The latest packaging technology that seals an IC in resin at the wafer level. Its extremely compact size simplifies miniaturization, hence its wide use in mobile phones.

*5 **SiC (Silicon Carbide)**

This is a compound semiconductor composed of carbon (C) and silicon (Si).

*6 **High color rendering LEDs**

These LEDs feature improved color reproduction capabilities that replicate all wavelengths of light.

*7 **Step-Free technology**

New technology - independently developed by ROHM - that eliminates the step that previously existed between the heat elements and media (heat-sensitive paper, transfer ribbon).

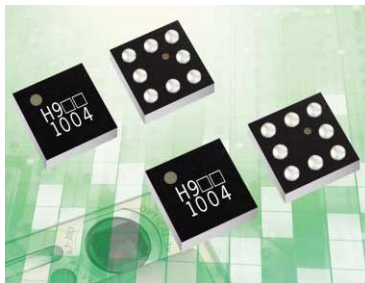
*8 **Anti-sulfuration characteristics**

The use of protective, sulfuration-resistant material prevents damage to the resistive elements caused by sulfur-induced corrosion.

New Products

A WL-CSP*1 video driver that eliminates the need for an output capacitor for increased space conservation.

The trend towards smaller, increasingly sophisticated digital still cameras and mobile phones with video capability necessitate smaller, higher density IC products. Conventional video driver ICs require a high-capacitance capacitor at the video signal output for TV monitors which can cause mounting problems in ultra-compact portable devices.

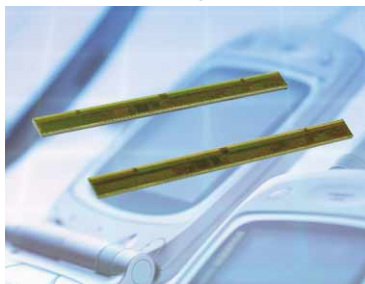


ROHM's BH769□□GU series video driver ICs eliminate the need for a high-capacitance capacitor by integrating a charge pump circuit that drives the IC using both positive and negative voltages. In addition, the ICs are offered in a WL-CSP (Wafer Level Chip Size Package - 1.6mm x 1.6mm x 0.75mm - the package is almost the same size as the chip itself), significantly contributing to end-product miniaturization.

This series also provides many of the features required of portable devices such as low voltage operation (2.5V-3.45V) and 0μA (typ) standby current consumption, resulting in increased power savings.

Single-chip liquid crystal driver with built-in high-speed MSDL*2 serial interface for 16.77 million color QVGA*3 amorphous TFT LCD mobile phone displays.

ROHM's LCD driver combines the Gate*4 and Source drivers*5 into a single chip and features a built-in power supply and video frame memory, reducing power consumption as well as the number of components required, contributing to increased space savings. An RGB gamma correction function enables increased fine-tuning capability for faithful color scale reproduction.



In addition to parallel and serial interfaces, the BU66R01CH is compatible with MSDL2 (Mobile Shrink Data Link 2), a differential serial data transmission technology*6 developed by ROHM featuring low voltage high-speed data transmission (200Mbps), resulting in reduced noise along with the number of connections required for LCD module control and image transmission (from 12-20 to 4-6).

High speed, durable thermal printheads featuring ROHM's original Step-Free structure.

The popularity of thermal printers for industrial applications, such as bar code label and package printing, continues to grow due to the fact that they are lightweight, compact and possess high-speed printing capability. The number of applications is increasing as well, necessitating a demand for high-speed, high-resolution thermal printheads featuring increased power conservation and ultra-high durability.



ROHM meets these needs by offering the SH3004-DC70A and SH3002-DC70A thermal printheads that utilize original Step-Free and super-hard coating technologies in order to eliminate the step between the resistive element and electrode, resulting in improved abrasion, corrosion (ion) and ESD resistance for greater reliability as well as increased heat transfer characteristics that enable high-speed printing. The near edge structure*7 significantly improves printing accuracy.

ROHM continues to apply its considerable expertise in semiconductor and module technologies and significant resources in developing high quality, ultra-compact products for image input devices such as facsimiles, color scanners and multifunction printers.

World's smallest remote control receiver modules featuring the industry's first dual-lens structure.

ROHM offers the RPM5500 series of ultra-compact, high-sensitivity surface mount remote control receiver modules*8 in order to meet the growing demand for portable devices with remote control functionality.



These modules utilize the latest in IrDA*9 manufacturing technology in order to reduce the volume to 1/16th the size of conventional leaded products (65.3mm³: top view type, 51.0mm³: side view type - smallest in the world). The units feature a two-lens structure (telephoto/wide-angle), ensuring excellent optical characteristics regarding both straight line coverage and directivity. The chip, developed in-house, uses ROHM's advanced LSI circuit technology for significantly lower noise (infrared, power supply, electromagnetic).

ROHM continues to produce highly reliable remote control and IrDA communication modules and optical sensors as well as smaller, more sophisticated products using the most advanced optical and packaging technologies.

*1 WL-CSP

This represents the latest in packaging technology. The IC is resin-sealed in a wafer state and the package assembled at a size nearly equal to that of the bare chip. It is optimal for devices that require high-density mounting, such as mobile phones.

*2 MSDL

A high-speed differential serial transmission technology developed by ROHM for mobile phones featuring low power consumption and low noise.

*3 QVGA (Quarter Video Graphics Array)

Specifies a resolution of 320 x 240 pixels.

*4 Gate driver

LSI that drives the TFT LCD Gate and Bus lines.

*5 Source driver

LSI that drives the TFT LCD Source and Bus lines (Drain).

*6 Serial transmission technology

A data transmission method where all data bits are transmitted consecutively on one line.

*7 Near edge structure

Structure where the resistive element is placed very close to the edge, ensuring straight path printing even with thick media.

*8 Remote control receiver modules

Converts infrared rays into electronic signals.

*9 IrDA

Infrared data communication standard.

ROHM at a Glance

Integrated Circuits

ICs, LSIs
Power Modules
Photo Link Modules

Discrete Semiconductor Devices

Transistors
Diodes
Light Emitting Diodes
Laser Diodes

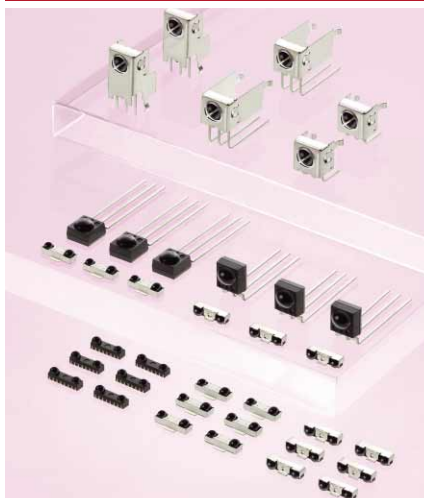
Passive Components

Resistors
Capacitors

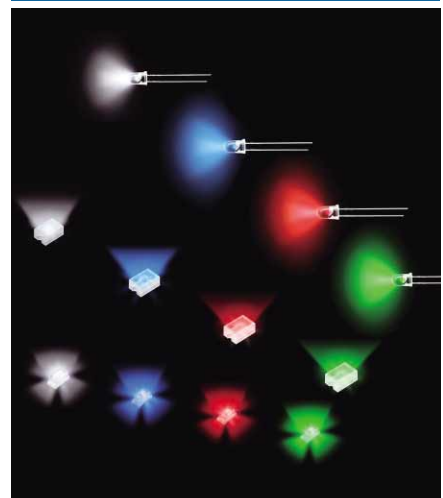
Displays

Liquid Crystal Displays
Thermal Printheads / Image Sensor Heads
LED Displays
Others

Photo Link Modules



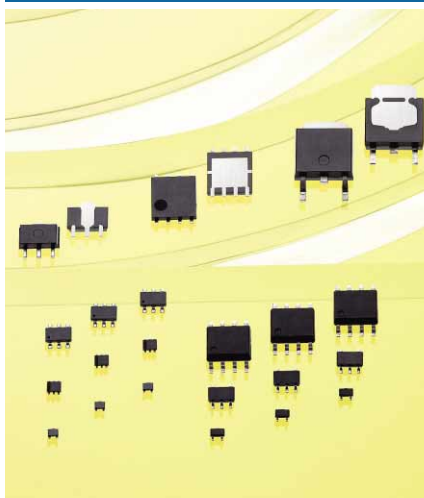
Light Emitting Diodes



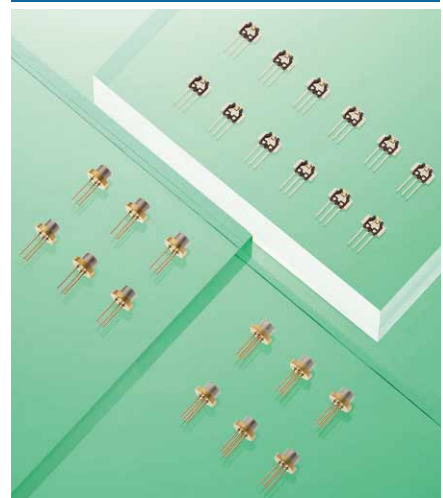
ICs, LSIs



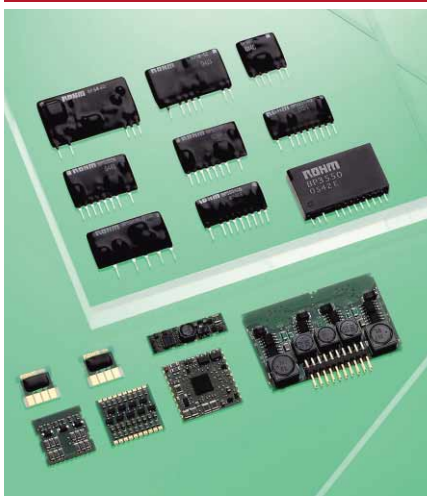
Transistors



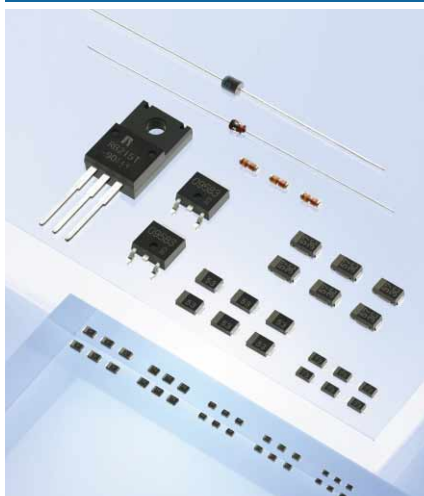
Laser Diodes



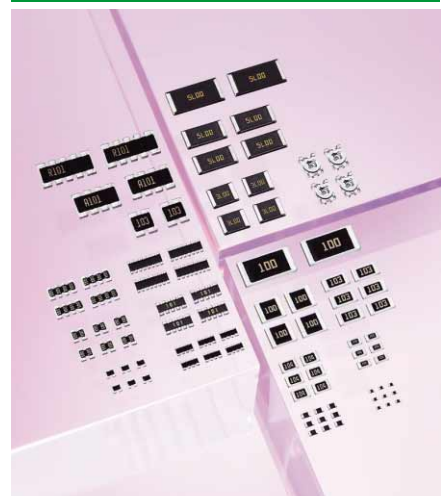
Power Modules



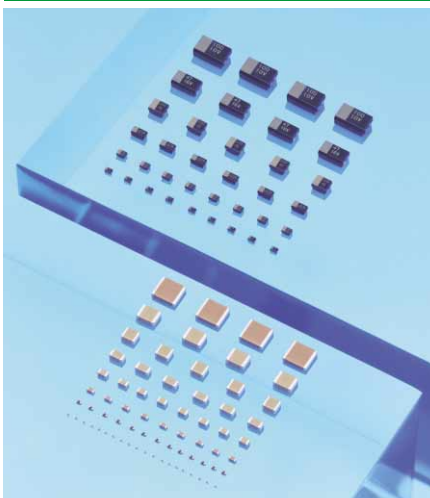
Diodes



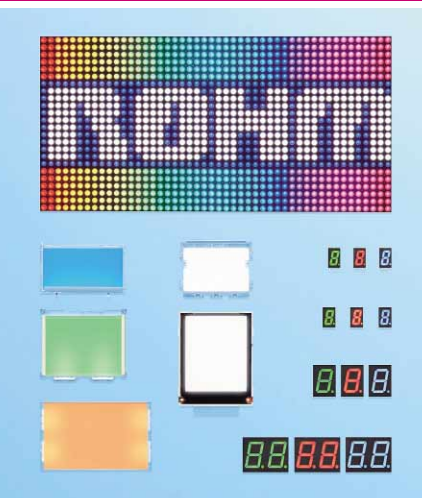
Resistors



Capacitors



LED Displays



Liquid Crystal Displays



	sales (¥ million)	% of net sales	% change from previous year
2006	170,088	43.9	7.0
2005	159,022	43.1	2.3
2004	155,447	43.7	-2.5
2003	159,424	45.5	9.7
2002	145,349	45.2	-17.2

	sales (¥ million)	% of net sales	% change from previous year
2006	150,636	38.8	6.2
2005	141,788	38.4	2.0
2004	139,009	39.1	2.0
2003	136,252	38.9	11.5
2002	122,173	38.0	-22.3

Thermal Printheads / Image Sensor Heads



	sales (¥ million)	% of net sales	% change from previous year
2006	24,998	6.4	5.9
2005	23,610	6.4	-4.0
2004	24,601	6.9	-0.4
2003	24,688	7.1	-2.5
2002	25,313	7.9	-40.7

	sales (¥ million)	% of net sales	% change from previous year
2006	42,068	10.9	-5.7
2005	44,604	12.1	22.0
2004	36,573	10.3	22.3
2003	29,917	8.5	5.2
2002	28,430	8.9	-16.3

Divisional Review

INTEGRATED CIRCUITS

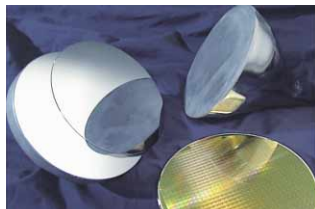
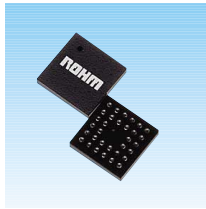
ICs, LSIs

Mastering the art of circuit design in system LSIs

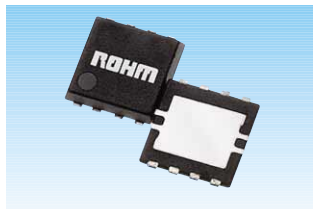
With the growing demand for multifunctional IT equipment and mobile phones and the widespread use of digital home appliances, customer requirements for system LSIs are becoming increasingly complex.

ROHM system LSIs are a product of the extensive expertise the Company has built up over years of proven success in manufacturing custom-designed LSIs, as well as the advanced planning and circuit design capabilities of its forward-thinking engineers. At ROHM, we fulfill customers' system LSI requirements with complete design solutions and comprehensive support, from product planning through wafer manufacturing, mass production and packaging. Our successful track record includes mastering the art of advanced linear circuit design that demands exceptional engineering skills, developing and delivering a variety of digital cores and an enhanced lineup of analog and digital interface modules, as well as establishing proprietary low-power, low-noise circuit technologies.

ROHM has also developed a System C-based system LSI design environment named "Real Platform," enabling the Company to design and verify entire processes including software and hardware concurrently with its customers using the same environment, thus greatly shortening system LSI design cycles and meeting customer needs faster than the competition.



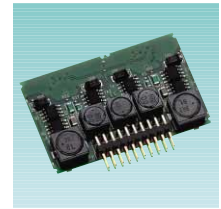
Silicon ingots and wafers



Power Package

Power Modules

Our tremendous contribution to energy conservation



ROHM power modules, including AC/DC and DC/DC converters, contribute to energy conservation and consequently to the prevention of global warming. In recent years, the trend toward low-voltage, large-current power supplies has accelerated in tandem with the speed of micro-computers. This trend has led to the development of highly efficient DC/DC converter products. Additionally, as part of our goal of reducing power demand during standby, we have developed an AC/DC converter that achieves ultra-low standby power consumption of 7mW or less.

ROHM AC/DC converters meet the high-efficiency requirement. These miniaturized lightweight power modules were developed by making full use of the Company's high-breakdown-voltage, high-speed switching circuit technology. ROHM has also brought to the market insulated models, which are now enjoying popularity as the standard power supply IC for home appliances and communications equipment.

ROHM DC/DC converters are also achieving new levels of efficiency, miniaturization and safety. They feature a dedicated LSI that incorporates a speed-up circuit and wedge-shaped protection circuit, with reference voltage precision of $\pm 1\%$.

Photo Link Modules

Constant innovations in product miniaturization



ROHM supplies IrDA and remote control modules incorporating LSIs and optical semiconductors (infrared LEDs and PIN photodiodes) developed in-house.

ROHM IrDA modules are widely utilized in networking devices for infrared wireless data communications between mobile phones, notebook computers, and printers. ROHM has also developed and brought to the market a new, extremely miniaturized photo link module, which is one-fifth the size of conventional models, intended for use as infrared receiver in the remote control units of various household electrical appliances such as air-conditioners and TVs.

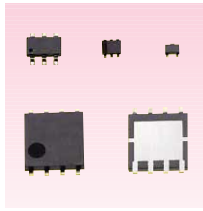
DISCRETE SEMICONDUCTOR DEVICES

Transistors

New energy-efficient solutions

ROHM is one of the largest manufacturers of discrete transistors in the world. By responding promptly to the needs of the times, ROHM maintains its leading position in the market. In meeting the increasing demand for resource- and energy-saving products in consideration of global environmental protection, ROHM has expanded its environmentally-friendly product lineup with low-on-resistance MOSFETs and low-saturation small signal bipolar transistors. These products are available in micro-miniature VMT3 packages (1.2 mm by 0.8 mm), as well as in EMT5/EMT6 packages (1.6 mm by 1.2 mm) intended for dual transistors. Additionally, ROHM has developed high-efficiency, surge-resistant MOSFETs for use in switching power supplies.

ROHM leads the industry in developing and marketing new energy- and space-saving transistors that offer high reliability while contributing to the miniaturization of end-products. Meeting diverse market needs, ROHM transistors are available in thin, high-power packages and a variety of other configurations.



Diodes

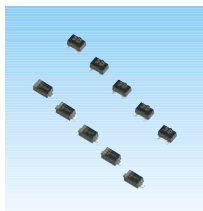
Utilizing original component technology to develop advanced diodes

Diodes are the most basic discrete semiconductor components. ROHM develops diode product lines that command a high world market share. This success is attributed to our policy of reliance on the basics while developing products and solutions mindful of the future needs of customers.

One example of this approach is our proprietary device technology which allows our Schottky barrier diodes to combine low forward voltage (VF) and low reverse current (IR) in the same diode. This was once an unattainable combination. With this advantage, ROHM Schottky barrier diodes have earned strong customer support in a myriad of markets.

ROHM's accumulated technology in the small signal and middle power class categories has been expanded into the power diode area. The Company has introduced high-quality power Schottky barrier diodes and fast recovery diodes (FRDs), which have received positive customer feedback. In addition, ROHM has completed the development of 400V high surge-resistant fast recovery diodes, low-loss diodes, and many other high-performance models that are ready to be released on the market. In the small signal category, ROHM intends to enhance the lineup of high-performance Schottky barrier diodes and Zener diodes, with a focus on those products housed in the ultra-compact VMN2 package (1.0 mm by 0.6 mm).

By developing high-reliability products and offering stable supplies, ROHM continues to serve market demands by meeting technological challenges as they evolve.

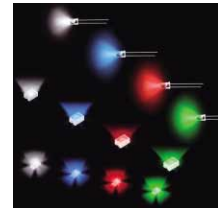


Light Emitting Diodes

Bright sources in energy efficiency

With our advanced compound semiconductor technology, we are able to design and develop packages suited to the needs and the requirements of our customers.

ROHM's product line includes blue, red and white LEDs. Our diverse lineup of packages includes ultra-thin, top-view, side-view, and reverse-mount types. Our LED lamp products include a unique 3-mm-diameter model with pressure release structure, which can be directly mounted on a board using an insertion machine. Our LED products offer high reliability and advanced energy-saving features that our customers have come to expect.



Laser Diodes

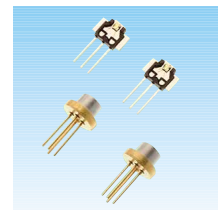
Setting the worldwide standard in the optical disc market

By offering a product line of highly reliable solutions developed with advanced device technology, ROHM has become the world leader in producing laser diodes for the ever-growing optical disc market.

ROHM laser diodes are finding widespread application in the optical disc drive market, which is undergoing a significant shift from playback-only to recordable models, as well as in the laser printer market, where faster speeds and higher resolutions are a constant demand.

ROHM's proactive efforts also include the development of higher laser output power products in anticipation of future market trends. We have already surpassed the competition by delivering a 240 mW laser diode for x16-speed recording, the highest available speed for DVD recording.

We have also enhanced our package lineup by adding new thin-frame type packages. As these examples demonstrate, our flexible development approaches enable us to respond quickly to the increasingly diverse needs of the market.



Divisional Review

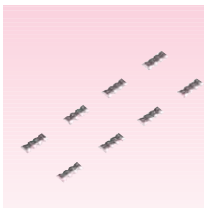
PASSIVE COMPONENTS

Resistors

Flexibility in production, the key to market leadership

Ultra-compact rectangular chip resistors and chip resistor networks, first developed by ROHM, are essential components for mobile phone handsets, PDAs, and other information technology equipment. ROHM has expanded its resistor lineup to accommodate the needs of various fields, by adding the world's smallest MCR004 resistor (0402-size) ideal for increasingly miniaturized electronic end-products, and the ESR series of surge-resistant chip resistors and the KTR series of high-voltage chip resistors, both featuring exceptional reliability. We have also expanded the PMR series of chip resistors for battery detection as well as the MVR series, the world's thinnest chip potentiometers.

ROHM continues to meet new challenges by delivering a stable supply of high-quality products within shorter delivery time based on advanced supply chain management.



Capacitors

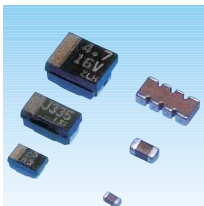
Higher capacity for smaller products

ROHM multi-layer ceramic chip capacitors and tantalum capacitors have the highest degree of reliability, thanks to our original automated production system designed to assure quality stabilization. By successfully establishing production bases overseas, we have enhanced our ability to supply these capacitors to markets worldwide.

In response to the growing demand for surface mount components, ROHM offers an extensive lineup of multi-layer ceramic chip capacitors, ranging from ultra-compact (0402-size) to large (5750-size) packages.

The Company is also making tremendous strides in developing miniaturized, larger-capacity tantalum capacitor products. Orders are increasing for ROHM's bottom electrode type, M-case, low-profile P-case, and low-profile A-case capacitors, particularly for mobile phone and digital camera applications. These products are offered in ROHM's original chip-size packages, which combine the use of bottom and side electrodes to deliver a capacity double the size of conventional models.

To meet a wider range of requirements, ROHM has also expanded its capacitor lineup to include new compact models of ultra-low ESR, functional polymer capacitors.



DISPLAYS

Liquid Crystal Displays

Combining semiconductor, display, and mounting technologies into one module

With our proprietary ultra-thin, miniaturization technology, ROHM's liquid crystal modules are used in large quantities in the sub-displays of mobile phones. We feature a variety of display modes in our monochrome line to allow design freedom in end-products. In terms of color, we have developed a multi-color mode in addition to the normal full-color mode, both featuring lower power consumption. A large number of ROHM LCD modules find usage in printers, facsimiles and audio equipment.



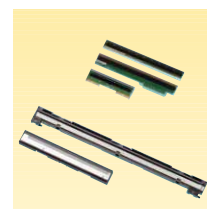
Thermal Printheads / Image Sensor Heads

Integrated innovations for industry-leading performance

Using its leading-edge LSI technology, thin/thick-film hybrid technology and proprietary optical components, ROHM has developed thermal printheads and image sensor heads as essential components for bar code printers, point-of-sale (POS) printers and multifunctional imaging and printing devices. Made with a ceramic substrate that ensures stable operation under high temperature conditions while producing minimal dust, our thermal printheads and image sensor heads offer exceptional reliability.

In the area of thermal printheads for POS, ROHM is developing compact, lightweight heads for high-speed transfer (CLK frequency: 16MHz) in a broad range of drive voltages (3.3V to 5.0V) for faster printing and better image quality. ROHM's original Step-Free technology is used in barcode printers, ensuring a significantly improved level of reliability.

ROHM also offers the FB series of image sensor heads featuring 600/1200dpi and the FE series with 3ch output and high-speed reading capability.

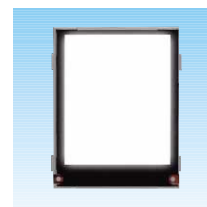


LED Displays

As an integrated semiconductor manufacturer, ROHM has utilized the most advanced technology in order to develop thin, lightweight, low-power consumption custom modules using original high-luminosity LEDs.

Providing a 1,024-level grayscale driver for each of the three colors (red, green and blue), ROHM full-color dot-matrix LED modules are capable of producing and displaying colors close to natural. They enjoy a very favorable reputation in the market, finding use in a variety of innovative applications. Examples include portrait-oriented LED display boards for advertisements and promotional purposes as used in boutiques and showrooms, as well as information boards in public arenas, such as destination screens on trains.

Custom LED backlight modules from ROHM are widely used in vehicles and large household appliances. By taking advantage of our proprietary CAE system, which allows a flexible development approach, ROHM can respond quickly to the increasing demand for thin, lightweight and low-power-consumption backlight modules. Using in-house high-intensity LED products enable our custom LED backlight modules to reduce power consumption significantly.





Management Policies and Financial Data

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Management Policies

Basic Management Policy

ROHM considers that it must allocate the added values produced by the Company, in appropriate proportions, to all its stakeholders, including shareholders, employees and local communities, as well as to the retained earnings for business investment for making the Company more competitive. Thus ROHM regards it essential to obtain the understanding and cooperation of all its stakeholders, to create everlasting, extensive corporate value under continuous improvement. ROHM thereby intends to make its shares more attractive to investors, and this is one of the Company's high-priorities in management.

Accordingly, ROHM is committed to developing the world's market-leading products, including high-value-added system LSI devices for digital information appliances, mobile electronic equipment, and automotive components, which are expected to continue rapid growth, along with optical devices, which are also an area with great potential for growth. ROHM also seeks as a basic policy the enhancement of cost competitiveness through the best use of its distinctive production technologies, and will thereby continue to lead the world electronic component market.

Basic Policy on Distribution of Profits

Regarding profit distribution to shareholders, ROHM will press ahead with measures and policies to live up to their expectations, in thorough consideration of various factors, including the Company's business performance, financial conditions, and estimated fund demands for business investment to improve its corporate value. More specifically, the Company intends to improve the total return ratio, by keeping the dividend rate consecutive in consideration of the consolidated dividend payout ratio, while implementing flexible return-improvement measures such as treasury-stock purchasing in light of cash-flow conditions.

For ROHM to sustain its growth and improve its performance in the semiconductor industry, the market for which is expected to grow in the medium to long term, it is indispensable to have product development capabilities outstripping other manufacturers and to enhance cost competitiveness. With the accelerated sophistication of development and manufacturing technologies, which serve as core factors in such competition, funds needed for investment in R&D and production facilities in the Company's core business areas, that is, semiconductors and optical devices are increasing each year. ROHM considers that, to make appropriate and prompt investment aimed at maintaining and strengthening its international competitiveness and growth potential in a semiconductor industry that is undergoing drastic changes, it is vital, in terms of management, to maintain in reserve, ample funds. Specifically, the Company considers that it will be increasingly necessary to make large-scale investment in construction of production lines for large-diameter 300 mm wafers, 90 nm or smaller ultra-fine processes, and optical devices. ROHM intends to use retained earnings effectively, to improve the Company's corporate value over the medium to long term, as well as to tie up with or acquire Japanese and overseas companies, expecting synergy effects in our business.

Currently the Company has no plan to change the frequency of dividend payment under the new Japanese Corporation Law, which

came into effect recently.

Policy on Changes in Minimum Trading Lot Size

ROHM reduced the minimum trading lot size of its shares from 1,000 to 100. We consider that the change has produced positive results in that the number of shareholders has increased rapidly since then.

Regarding a further reduction in the minimum trading lot size, we intend to make a decision after carefully examining the factors concerned, including cost-benefit performance and the liquidity of shares.

Referenced Corporate Performance Indexes

ROHM intends to make efforts to ensure its earning power by taking various actions, including the development of new products and the reinforcement of sales operations. We attach importance to indexes representing the rate of return, such as EBITDA*, as well as asset turnover ratio, and business investment efficiency.

* EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)

An index obtained by adding interest expenses and depreciation to income before income taxes and minority interests. This index is commonly used to compare corporate earnings internationally.

Medium- to Long-term Corporate Strategies

While expansion of the electronics market is anticipated over the medium to long term in parallel with the advancement of the highly sophisticated information society, international competition is becoming increasingly intense amid the widening fluctuation in demand, encouraging realignment of the industry and the shakeout of uncompetitive businesses.

To ensure stable growth and a strong and well-balanced financial position under these circumstances, a range of measures should be taken, including development of creative, high-value-added products utilizing world leading advanced technologies, enhancement of cost competitiveness, establishment of a global production and distribution network that enables high customer satisfaction in both domestic and overseas markets, and strengthening of service and technical support systems for customers. ROHM intends to attach overriding importance to the integrated development-production system, development of custom-designed products, and quality, as well as to make persistent efforts to formulate and implement measures in these respects.

Specifically, ROHM intends to increase R&D personnel continuously while reinforcing the corporate operations handling digital technologies and digital-analog integration technologies. ROHM also intends to satisfy various needs from customers, especially from those in the digital home appliance market and information and communications equipment market, with larger-scale LSI devices, more sophisticated LSI devices, and lead-time reduction, realized by making good use of our original REAL SOCKET design system, which enables the development of complicated system LSI devices, as well as our REAL PLATFORM, which slashes design lead-time and speeds up the development of system LSI devices. We are also committed to the development of next-generation optical devices, including LEDs that use zinc oxide as the main material, and silicon-carbide-substrate power devices, which

are expected to be far better than conventional silicon-substrate semiconductors in terms of voltage resistance and high-current characteristics. In addition, we intend to upgrade our high-quality, high-reliability product lines to satisfy needs from automotive industries that are becoming increasingly electronic.

As the corporate bases for these technological-reinforcement efforts, ROHM runs the Yokohama Technology Center, Optical Device Research Center and LSI Test Technology Center, leveraging customer-support operations and reinforcing its corporate R&D system for further growth in the future.

To contribute to the development of future technologies, ROHM is actively involved in a wide range of joint R&D projects, including comprehensive industrial-academic collaboration alliances with Kyoto University and other major institutions; joint efforts with the Semiconductor Industry Research Institute Japan, which is a think-tank for the Japanese semiconductor industry; and participation in leading-edge R&D projects, which integrate the wisdom of academic, industrial, and governmental circles. Moreover, ROHM promotes partnerships with other companies wherever necessary to complement our technologies, thus improving the efficiency of its R&D activities.

Regarding the organization of its corporate production system, ROHM is aggressively committed to improving cost competitiveness and reinforcing the corporate supply system for sales to the worldwide market. Specifically, concerning the front-end process of semiconductor production, the Company is pressing ahead with the adoption of larger-diameter wafer process, such as 300 mm wafer process, and microfabrication process. For the back-end process, ROHM intends to powerfully shift production to overseas plants, including those in Thailand, the Philippines and China, while upgrading them. Our existing domestic plants are intended to continue to accumulate the Company's production technologies as the mother plants of the production network of the entire ROHM Group. The production technologies established by those mother plants will then be introduced to the overseas plants, to enable the manufacture and supply of ROHM's high-quality products worldwide.

Concerning product quality, ROHM intends to continue company-wide efforts to further enhance the reliability of its products, implementing quality-improving actions in its manufacturing divisions as well as thoroughly instilling the quality-first policy in technological divisions, including LSI circuit design and manufacturing-technology development. ROHM also intends to proactively commit itself to internally producing materials such as wafers, photomasks and lead frames, thereby developing products that will overwhelm the products of competitors in quality and reliability, while reducing lead-time, thus improving our international competitiveness.

To expand market shares in the growing global markets, ROHM intends to reinforce its corporate customer relations systems including sales and technical support in various locations worldwide, by newly establishing networked quality assurance centers along with sales bases and design centers. At the same time, the Company intends to make continued efforts to achieve more efficient corporate management and swifter decision-making by proceeding with the restructure and integration of corporate organizations in and outside Japan.

To contribute to environmental conservation, the ROHM Group is making across-the-board efforts to establish an environmental management system based on ISO 14001 standards and develop new low-power-consumption, energy-saving products. All the production bases of ROHM in and outside Japan intend to commit themselves continuously to realizing zero emissions through the promotion of waste recycling and to pressing ahead with green procurement and supply. In addition, ROHM intends to proceed with its tree-planting project as part of the fight against global warming. Leading the industry, ROHM has already completed the actions necessary to satisfy the RoHS Directive, which is the environment conservation regulations that will take effect in July 2006 in Europe, as a corporate citizen who performs business in consideration of environmental conservation.

Priority Issues

While the electronics industry is expected to grow in the medium to long term thanks to the increasing demand for digital home information appliances and more sophisticated automobile electronic control systems, technological competition and price wars are also expected to intensify continuously on a global scale. Therefore, it is becoming increasingly necessary to supply internationally competitive products constantly to the market, through sustained efforts toward innovative, high-quality products and technologies and through thorough cost-reduction efforts.

Under these circumstances, the ROHM Group intends to commit itself deeply to improving its business performance, through the development of high-value-added products and technologies in anticipation of future customer needs, improvement of quality and reliability, reinforcement of production and marketing systems, and thorough streamlining and cost-reduction efforts in the entire Group.

Operating Results and Financial Status

1. Operating Results

Review for the Year Ended March 31, 2006

Overall review of results of operations

In the fiscal year ended March 31, 2006, the world economy stayed firm by and large, principally because consumer spending was buoyant year-round in major countries including the U.S., though soaring crude-oil prices and natural disasters had a negative impact. The Japanese economy showed continued recovery, owing mainly to brisk plant and equipment spending and firm consumer spending pulled up by improvement in employment and family-income conditions.

Excluding a part of digital audio/visual equipment, the electronic component market as a whole was sluggish from spring to summer in contrast to the market in the previous year, when it was favorably influenced by the Athens Olympic Games. From summer onwards, market demand was more favorable compared with the recent years, due chiefly to production expansion in the mobile-phone market and personal-computer market and to the brisk expansion of digital audio/visual equipment market including thin TVs.

Regarding markets in different regions, in Japan, production

relocation to other countries continued and intense price competition occurred. However, the thin-TV market stayed brisk and third-generation mobile phones became more common, increasing demand.

In other Asian countries, the markets of conventional audio/visual equipment, such as portable CD players, was extremely slow, but the production of personal computers, mobile phones and digital audio/visual equipment expanded, so that the electronic component market as a whole remained favorable.

Concerning North America and Europe, the markets related to telecommunication equipment were weak and a part of automakers experienced slow sales, which adversely influenced the electronic component market. In Europe, the market remained stagnated, influenced by production shift to other countries, though the mobile-phone market was relatively firm.

Under these circumstances, the ROHM Group made proactive efforts to streamline manufacturing process lines, to invest capital more efficiently, to research for and develop new products, as well as to reinforce customer relations systems including sales and technical support.

Concerning manufacturing process lines, we pressed ahead with the establishment of an integrated production system and made efforts to expand the 300 mm wafer process. We proceeded with the transfer of the production of module-related products to a new plant in Dalian. We also continued to shift production from Japan to our Thailand and Philippines plants and to streamline production systems in the plants in these countries. Furthermore, to be prepared for demand expansion in the future, we started to construct a new plant in each of our production bases in Tianjin, Thailand, and Philippines.

Concerning the development of new products, we proceeded with the development of various system LSI devices to satisfy customer needs for use in mobile phones and digital audio/visual equipment, whose markets are expected to grow further. The other efforts we made include the reinforcement of the product lines of compact-, thin-package power MOSFET*¹ products.

For customer relations including sales and technical support, we opened new sales bases in and outside Japan, and established a design center outside Japan, to reinforce a customer-centered sales system and technical support system. We also opened a QA center near Detroit, U.S., reinforcing our corporate quality assurance network.

As a result of these efforts, ROHM's net sales for the fiscal year ended March 31, 2006, increased 5.1% to ¥387.79 billion over previous year, operating income decreased 10.2% to ¥68.318 billion, and net income increased 7.0% to ¥48.304 billion.

*1 MOSFET

Metal-oxide semiconductor field-effect transistor, featuring low power dissipation.

Divisional review of results of operations

<Integrated circuits>

ROHM's sales of integrated circuits for the fiscal year ended March 31, 2006 increased 7.0% to ¥170.088 billion.

In the home-appliance market, the use of inverter control ICs for LCD back light*² and overdrive processors*³ increased for panel displays such as thin TVs. In addition, the sales of new products

for digital audio/visual equipment expanded, such as audio LSI devices for mobile music players using a hard disk or flash memory and system drivers for digital still cameras and digital video cameras. On the other hand, the market of conventional audio/visual equipment, such as portable CD players, stayed sluggish.

In the mobile-phone market, the employment of integrated application power LSI devices, audio LSI devices, analog front-end LSI devices*⁴ became increasingly common and their sales increased rapidly. Sales of Liquid-crystal display driver LSI devices stayed firm.

Concerning production operations, we continued to switch the production of materials including wafers, photomasks*⁵, and lead frames*⁶ to in-house production. Concerning the front-end process, we reinforced the production system of 300 mm wafer process, and continuously committed ourselves to the development of microfabrication technologies aiming at realizing the industry's most advanced process. To be prepared for demand expansion in the future, we started to build a new plant that will be compatible with the 300 mm wafer process at ROHM HAMAMATSU CO., LTD., a ROHM Group company. Regarding the back-end process, we strengthened our production systems outside Japan, and made efforts to enrich the lines of compact, thin-package products and increase production capacity.

For module products, the sales of IrDA*⁷ communication modules used in mobile phones stayed firm. We made cost-reduction efforts in the production of these products, transferring production to China continuously.

*2 Inverter control ICs for LCD back light

IC devices that power the back light of liquid-crystal displays.

*3 Overdrive processors

LSI devices that speed up the response speed of halftones (medium color tones) on liquid-crystal displays. They improve motion-picture display performance and realize beautiful images.

*4 Analog front-end LSI chips

LSI chips that convert radio waves (analog signals) received by a mobile phone into digital signal data that can be processed.

*5 Photomask

A glass plate used to transfer LSI circuit patterns onto silicon wafers.

*6 Lead frame

Frame components, such as pins, for connection between the silicon chips sealed in a package and the board.

*7 IrDA

An infrared data communications standard commonly used in laptop computers, mobile phones and similar devices.

<Discrete semiconductor devices>

ROHM's sales of discrete semiconductor devices for the fiscal year ended March 31, 2006 increased 6.2% to ¥150.636 billion.

Concerning transistors and diodes, the sales of small-signal transistors were extremely severe, primarily because of price reduction. However, the sales of power MOSFETs and power diodes increased considerably for use in digital audio/visual equipment such as thin TVs and mobile phones.

For laser diodes, our market share of dual-wavelength laser diodes increased tremendously for use in personal-computer combo drives. However, the sales of single-wavelength laser diodes for reading CDs and DVDs lowered, influenced by the stagnant market and intensified price competition.

For LEDs, the sales of blue and white LEDs grew outside Japan, for use in mobile phones.

Regarding production systems, we committed ourselves to improving the production capacity of power devices** such as MOSFETs, which are expected to further increase in demand. We also reinforced our compact package production lines because the demand for compact packages is on the increase for use in mobile phones. In addition, to improve cost competitiveness, we made efforts to reduce material cost and streamline manufacturing processes, and continued to shift production to overseas plants.

***8 Power devices**

Semiconductor devices that control high current and high power. Sophisticated power devices are energy-efficient and low in heat generation.

<Passive components>

ROHM's sales of passive components for the fiscal year ended March 31, 2006 increased 5.9% to ¥24.998 billion.

While competition continued to be severe in international markets, the sales of low ohmic resistors stayed firm, and the sales of new products such as size 0603 chip resistors and multiple-chip compound products increased.

For capacitors, the sales of ceramic capacitors stayed severe mainly because of price competition, while the sales of compact, large-capacity tantalum capacitors of our original construction increased drastically for increased employment in mobile phones.

Regarding production systems, we proceeded with the shift of production to outside Japan; as an example, we built a tantalum capacitor production system in Thailand. We made continued efforts for cost reduction, improving the efficiency of production and supply systems.

<Displays>

ROHM's sales of displays for the fiscal year ended March 31, 2006 decreased 5.7% to ¥42.068 billion.

Concerning printheads, the sales of image sensor heads for multifunction printers**9 and printheads for miniaturized printers for POS (Point-of-Sale) systems stayed brisk.

However, concerning LED displays, the sales of dot-matrix displays such as those for large displays were stagnant.

In addition, the sales of LCD modules for overseas markets such as China were stagnant.

The sales of camera modules also stayed slow, influenced by price competition.

Concerning production systems, we proactively shifted production to the new plant completed in Dalian, China, making continued cost-reduction effort.

***9 Multifunction printer**

A printer capable of performing multiple functions besides printing, such as copying, faxing, scanning etc.

2. Analysis of Financial Status and Operating Results

(1) Business Performance Report

The sales for the fiscal year ended on March 31, 2006 were ¥387,790 million yen, up 5.1% over the previous year. However, because the sales price per product lowered and the expenses and operational cost related to the new introduction of manufacturing

processes and the relocation of production increased, the ratio of gross profit to sales deteriorated 2.9 points. Because of increase in R&D cost, patent royalties payable, commission fees payable such as license application fees, and labor cost, selling, general and administrative expenses rose ¥4,118 million over previous year, resulting in the operating income of ¥68,318 million, down 10.2% from previous year.

In the previous year, ROHM made a profit of ¥333 million from foreign currency exchange gains, while a loss of ¥7,934 million occurred in relation to early retirement, resulting in a decrease in income before income taxes and minority interest.

In this year, the Company recorded a loss on sale and disposal of property, plant and equipment of ¥2,897 million, as well as a loss on early retirement of ¥1,931 million, while an income of ¥6,283 million occurred as a result of increasing in interest and dividend income, as well as an income of ¥4,467 million occurred by a foreign currency exchange gains. Those losses and gains resulted in an increase in income before income taxes and minority interests.

As a result of these conditions, the current net income increased 7.0% over previous year to ¥48,304 million.

(2) Financial Position

<Total Assets as of March 31, 2006>

As of March 31, 2006, total assets amounted to ¥951.442 billion, up ¥84.119 billion over March 31, 2005. The liabilities increased ¥36.271 billion from March 31, 2005 to ¥163.924 billion. The shareholders' equity increased ¥47.885 billion over previous year to ¥787.214 billion.

<The cash flows>

The cash flows from operating activities increased ¥2.629 billion over the previous year. The major factors of this result are that the allowance for depreciation increased ¥9.590 billion and that inventories increased ¥9.021 billion.

The cash flows from investing activities decreased ¥7.904 billion from the previous year, because mainly of a decrease in the amount of ¥43.473 billion due to fluctuations in the increase and decrease of the time deposits, and of an increase in the amount of ¥32.595 billion resulting from the acquisition and sale of securities and investment securities.

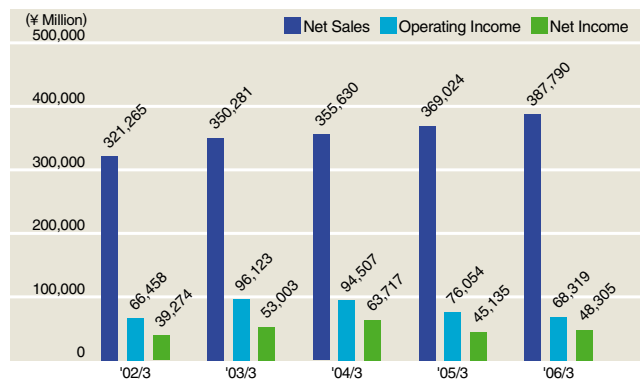
The cash flows from financing activities increased ¥4.727 billion over previous year mainly because expenses concerned with the acquisition of treasury stocks decreased ¥4.812 billion.

As a result, total cash and cash equivalents decreased ¥8.510 billion, so that the balance for the current year amounted to ¥280.465 billion.

Five-Year Summary

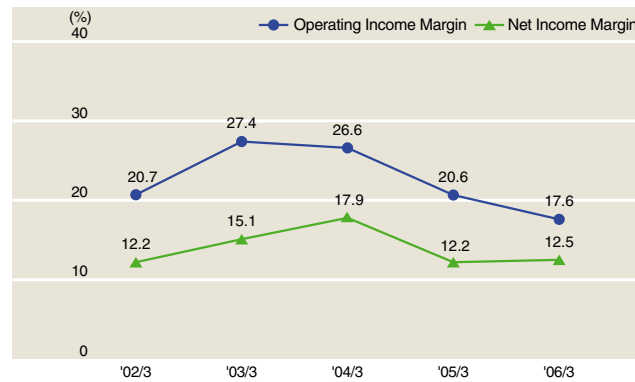
Results of Operations

1. Results of Operations



The overall market was generally slow from spring to summer, excluding a limited sector of the digital AV equipment market; however, market demands took an upturn and stayed firm from summer on compared to an average year. On the other hand, sales prices became lower while the fixed cost grew as a result of a rise in depreciation/amortization due to increase in capital expenditure, placing pressure on the profit margin.

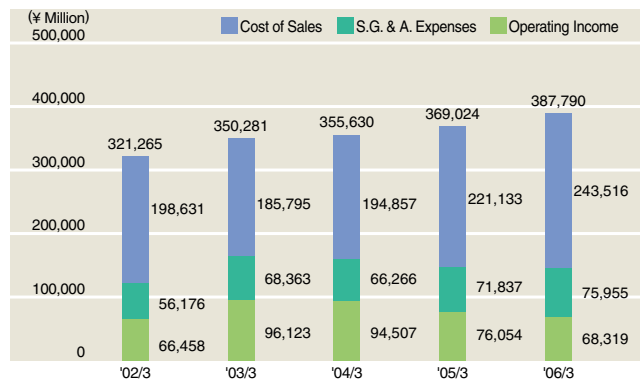
2. Income Margin



The operating income margin lessened but the net income margin improved because of exchange gains and the decrease in extraordinary losses.

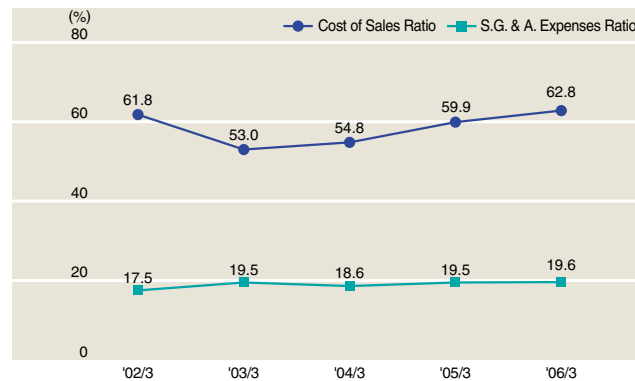
Cost of Sales, Selling, General and Administrative Expenses, and Operating Income

1. Cost of Sales, Selling, General and Administrative Expenses, and Operating Income

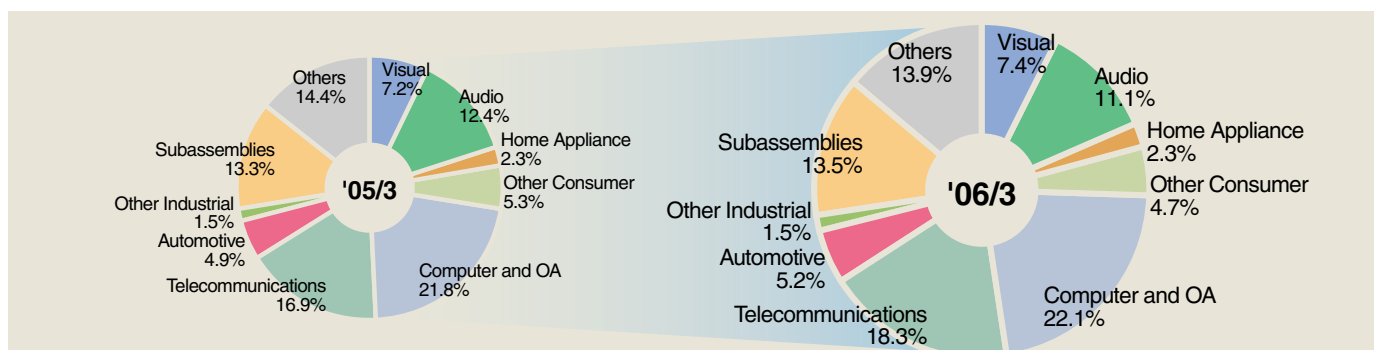


Cost of sales increased resulting from rises in depreciation and others. Selling, general and administrative expenses also increased resulting mainly from rises in R&D expenses. Those increases caused a decline of operating income despite the sales growth.

2. Cost of Sales and Selling, General and Administrative Expenses to Net Sales



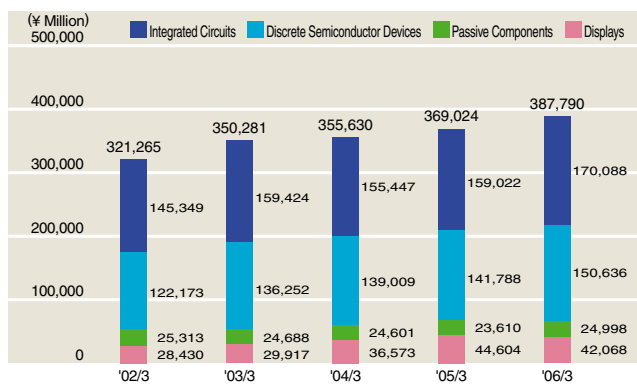
Sales by Application



Note : Data on this page include guesses to some extent. Please use these data for your reference.

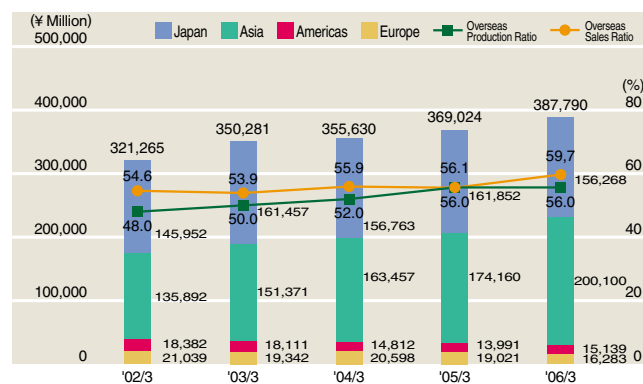
Sales

1. Sales by Product Category



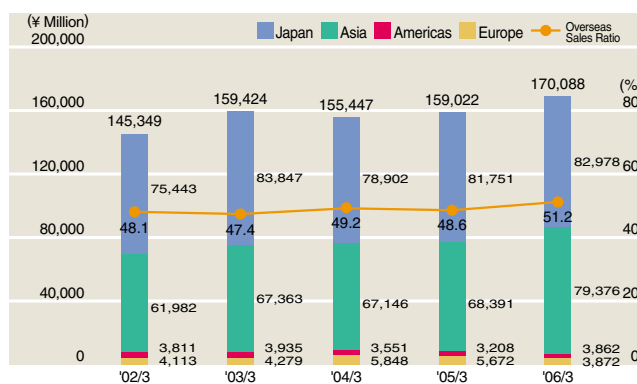
Sales of integrated circuits and discrete semiconductor devices grew, due to the sales of LSI devices for mobile phones stayed favorable, and the number of LSI devices and power discrete products applied in panel displays such as thin TVs increased. On the other hand, in the category of displays, orders for LED displays, LCD modules and camera modules were sluggish.

2. Sales by Geographical Region and Overseas Production Ratio

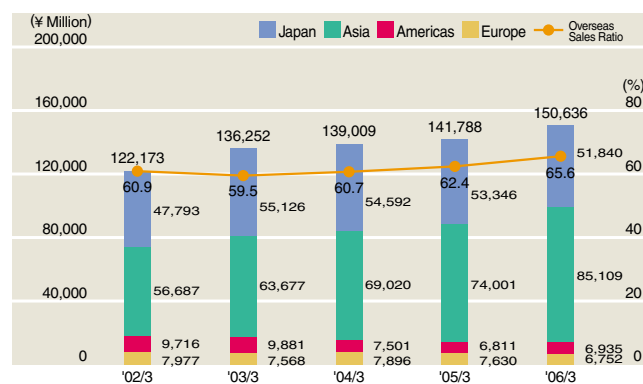


The relocation of production bases from around the world to the Asia region continued, so that sales increased in this region.

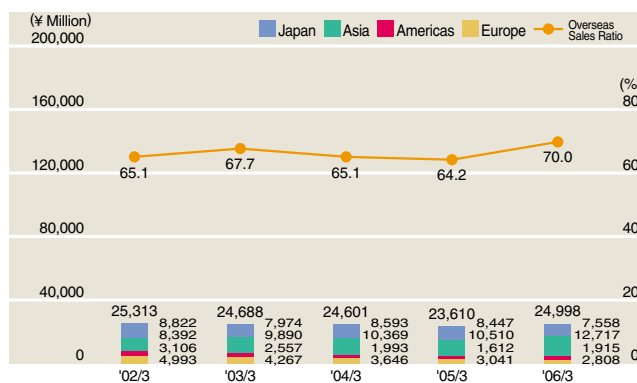
3. Integrated Circuits Sales by Geographical Region



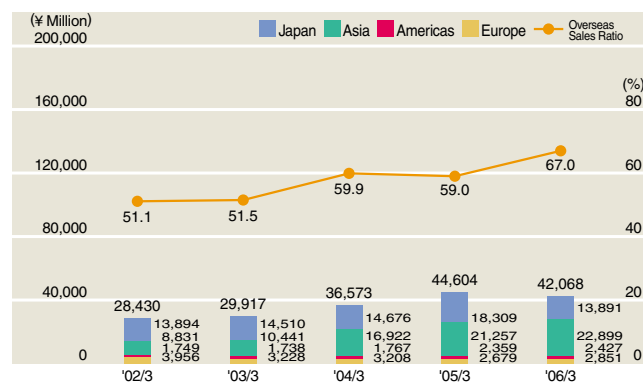
4. Discrete Semiconductor Devices Sales by Geographical Region



5. Passive Components Sales by Geographical Region



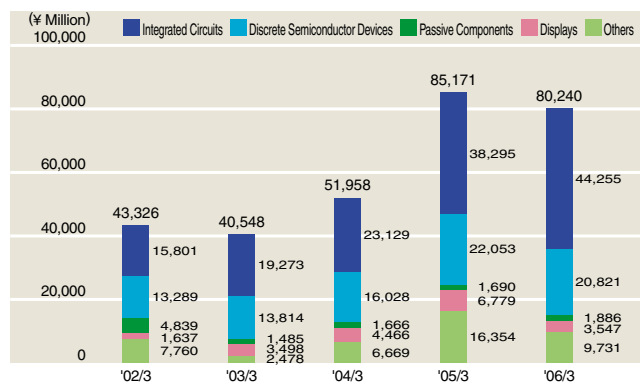
6. Displays Sales by Geographical Region



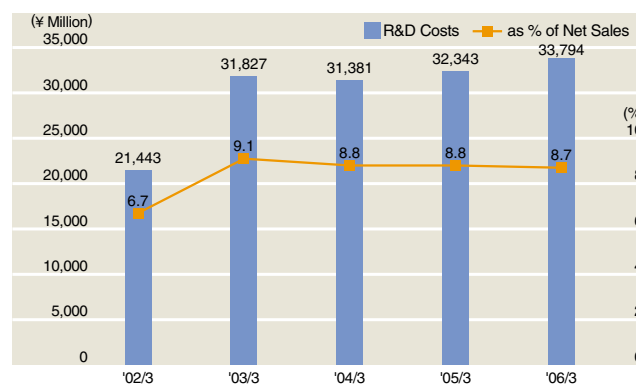
Five-Year Summary

Capital Expenditures and Research and Development Costs

1. Capital Expenditures



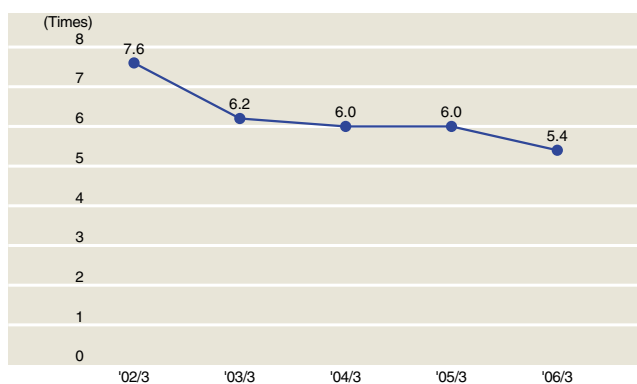
2. Research and Development Costs



We proactively invested in capital expenditure to satisfy market needs and strengthen our competitiveness. Domestically, we reinforced our 300 mm wafer process for LSI production. In the overseas plants, we increased and reinforced the production capacity of assembly lines, mainly for the production of small and thin packages. Concerning research and development, we are committed to the development of new products, especially LSI products for markets having growth potential, such as mobile phones, digital audio/visual equipment, and automotive equipment and device processes. We are also proactively committed to research and development to satisfy future needs, typically those for optical devices, next-generation semiconductors and bioelectronics.

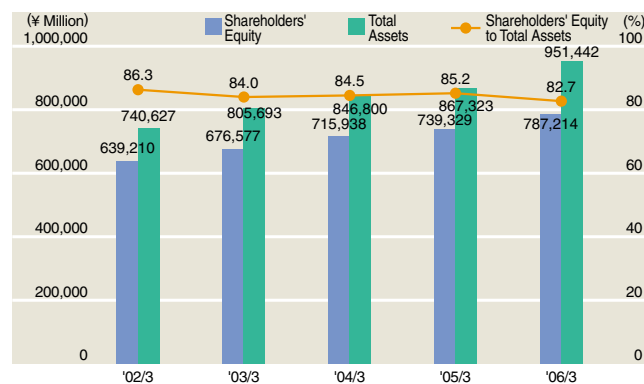
Financial Position

1. Current Ratio



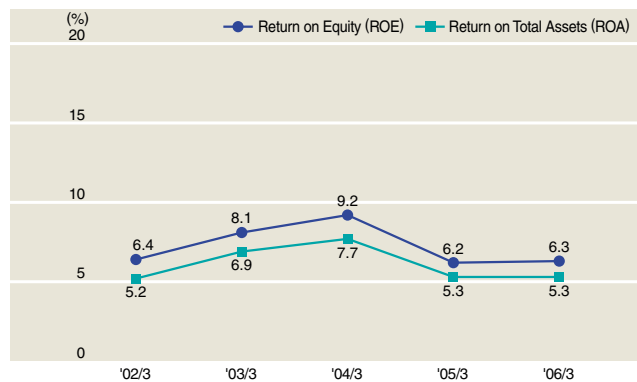
Growth in the total amount of bills for payment, accounts payable, accrued income tax, etc. increased current liabilities, so that current ratio became 5.4 times.

2. Shareholders' Equity and Total Assets



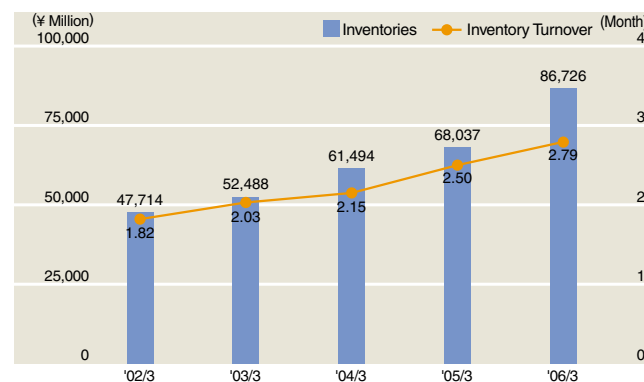
While we purchased treasury stock in the amount of ¥15.1 billion, the net income increased, and the shareholders' equity and total assets increased as a result.

3. Return on Equity (ROE) and Return on Total Assets (ROA)



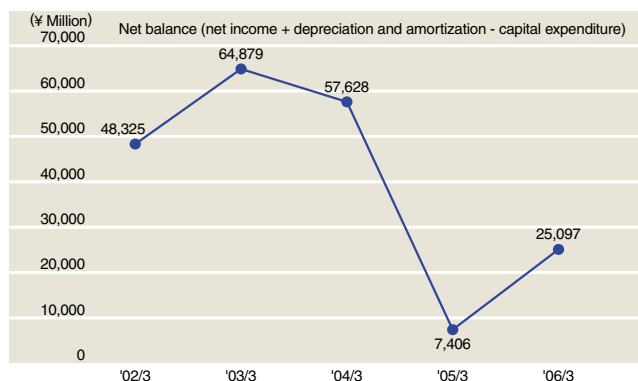
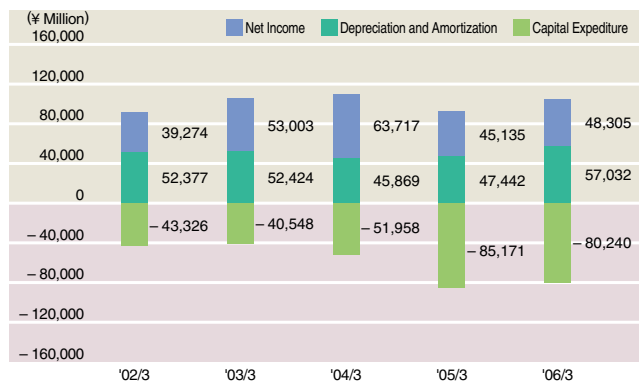
Because the net income, the shareholders' equity and total assets increased, return on equity (ROE) and return on assets (ROA) remained unchanged.

4. Inventories and Inventory Turnover



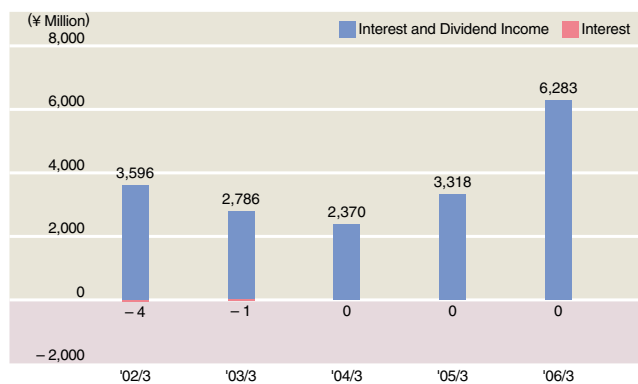
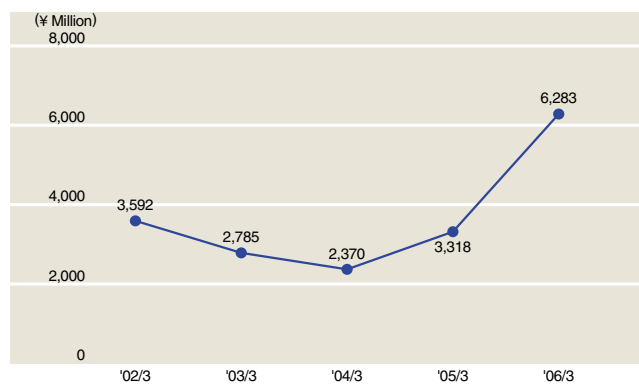
The inventory turnover increased because of an increase in inventories.

Net income, Depreciation, and Capital Expenditure



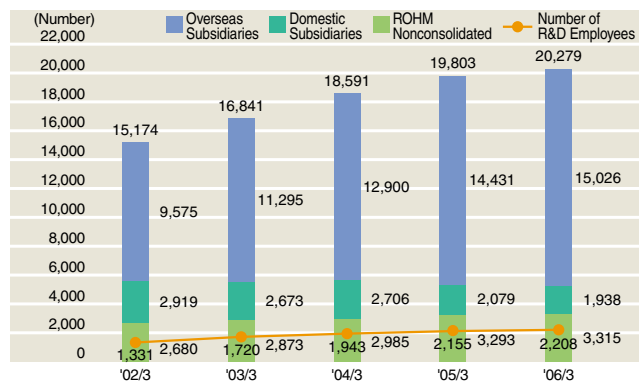
While the depreciation/amortization increased, the net balance increased because the net income increased and capital expenditure decreased.

Net Financial Revenue



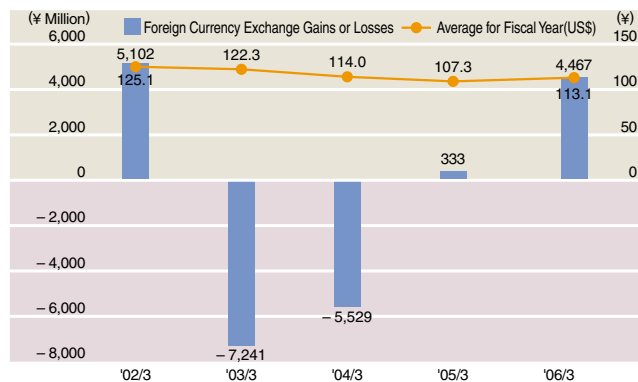
We assign the highest priority to security in managing funds. During the year ended March 2006, mainly because of increase in interest income resulted from rises in interest rates, the net interest expenses improved considerably.

Number of Employees



As a result of shifting production to overseas plants, the number of employees working at overseas production sites increased and the number of those working for affiliated companies in Japan decreased. We intend to continue to increase personnel assigned to research and development in Japan.

Exchange Rate and Foreign Currency Exchange Gains or Losses

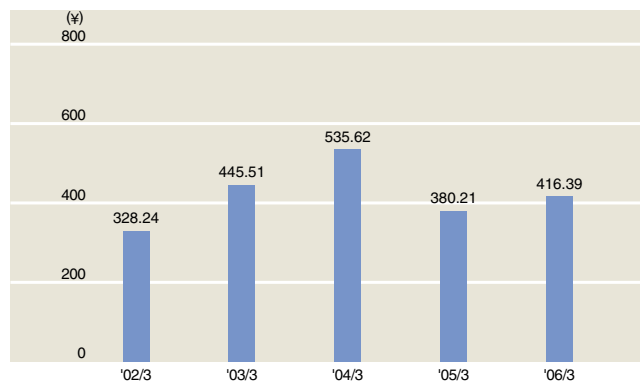


During the year ended March 2006, the yen remained weak in the exchange market, providing us with exchange gains in an amount of 4.5 billion yen.

Five-Year Summary

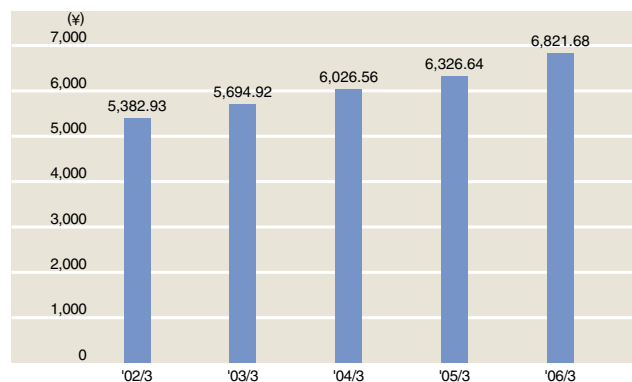
Share-related Information

1. Net Income per Share



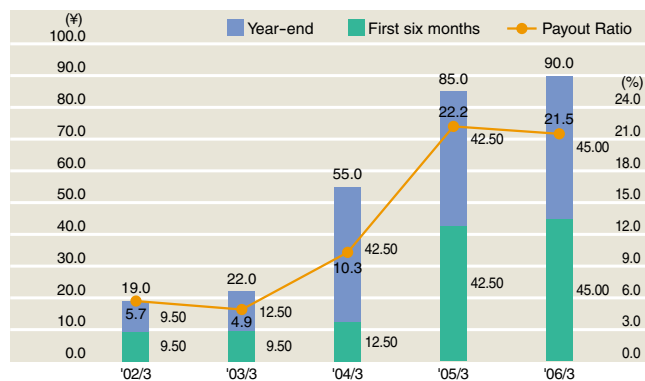
The net income per share increased because the net income increased in total and because the average annual number of shares decreased due to the purchase of treasury stock.

2. Shareholders' Equity per Share



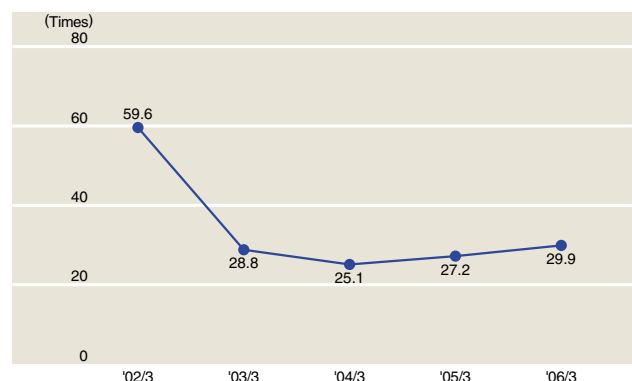
The shareholders' equity per share increased because the shareholders' equity increased in total due to the recording of profits and because the average annual number of shares decreased due to the purchase of treasury stock.

3. Cash Dividends per Share and Payout Ratio

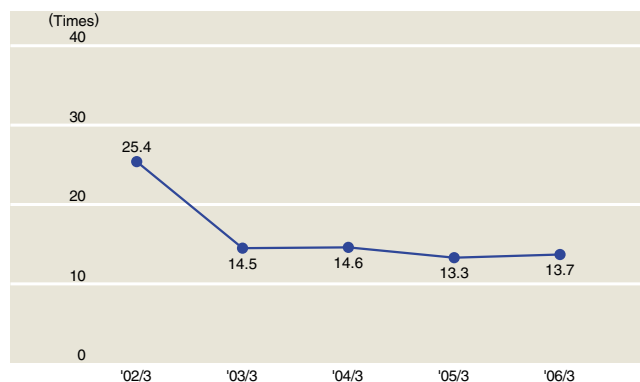


We increased the annual dividends for the year ended in March 2006 to ¥90.00 per share as an effort to increase returns to shareholders, considering our business performance, the demand for funds, and other related factors for the future.

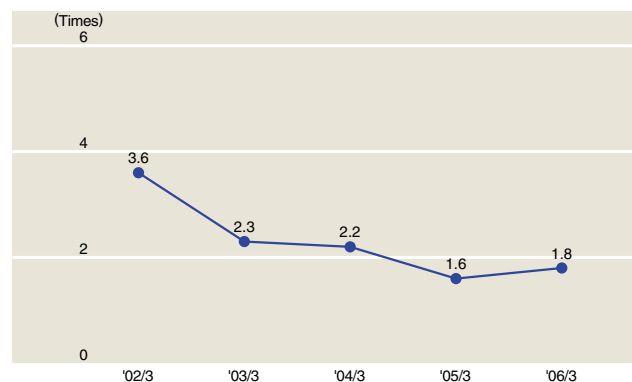
4. Price-earnings Ratio (PER)



5. Price Cash Flow Ratio (PCFR)

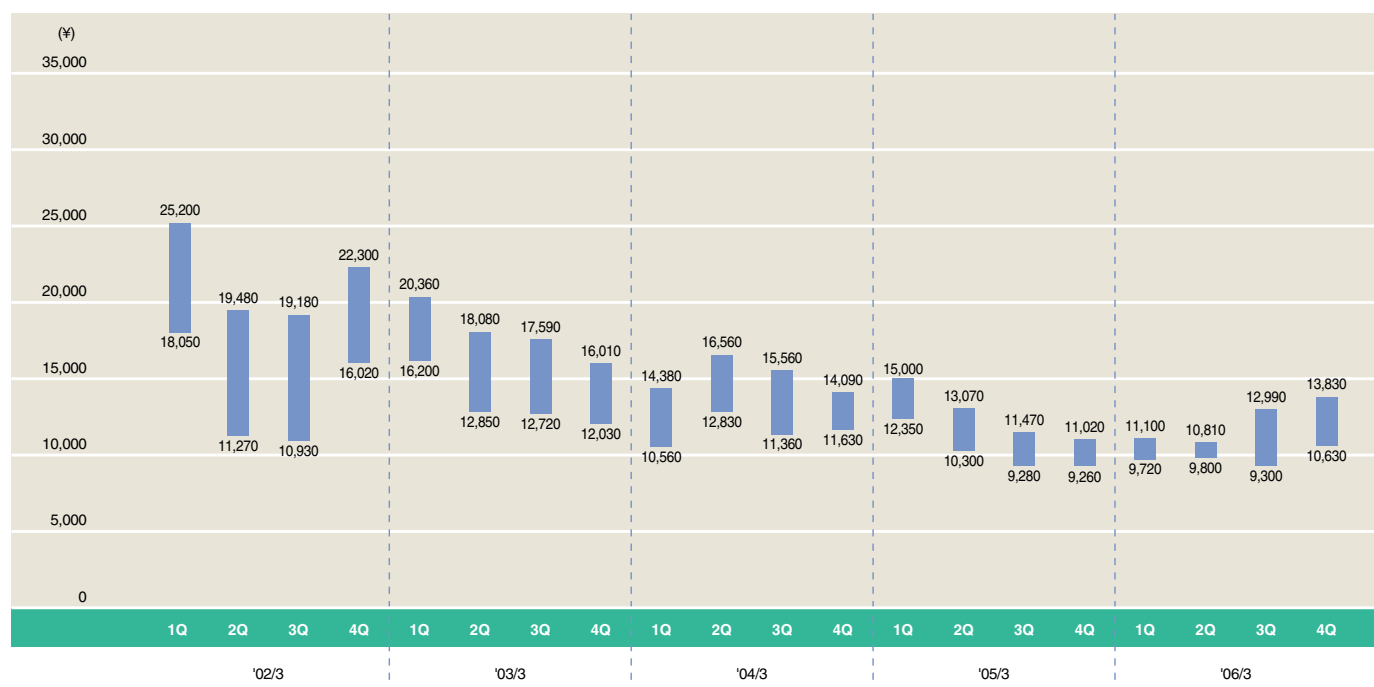


6. Price Book-value Ratio (PBR)



Stock Data

Stock Prices; Quarterly Highs and Lows in Each Year (Osaka Securities Exchange)



Stock Information (as of March 31, 2006)

- Authorized Common Stock 300,000,000
- Issued Common Stock 118,801,388
- Number of Shareholders 27,099

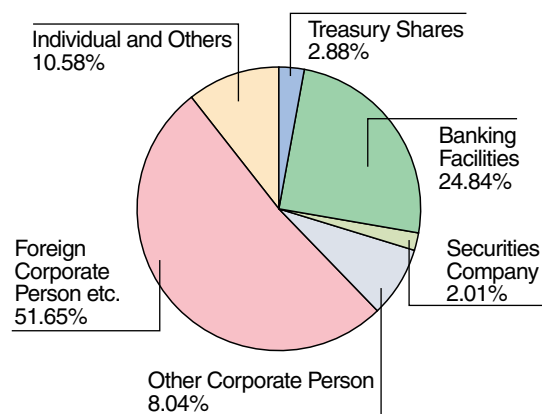
• Major Shareholders

Name	Number of Shares Held (in thousands)	Voting Right Ratio (%)
The Chase Manhattan Bank, N. A. LONDON	8,715	7.55
Rohm Music Foundation	8,000	6.93
The Master Trust Bank of Japan, Ltd.	7,917	6.86
Japan Trustee Service Bank, Ltd.	7,597	6.58
State Street Bank & Trust Company	4,280	3.71
State Street Bank & Trust Company	3,985	3.45
Bank of Kyoto, Ltd.	2,606	2.26
Ken Sato	2,405	2.08
Mellon Bank, N. A. as Agent for its Client Mellon Omnibus US Pension	1,950	1.69
Investors Bank and Trust Company	1,936	1.67

(Note) 1. The number of shares held, and the voting right ratios are rounded down to the nearest thousand and to two decimal places, respectively.

(Note) 2. In addition to the above, the company holds 3,417 thousand shares of treasury stock.

• Shareholder Mix



Notes (Computation)

- **Price-earnings ratio (PER)** = stock price (year-end closing price at Osaka Securities Exchange) / net income per share
- **Price cash flow ratio (PCFR)** = stock price (year-end closing price at Osaka Securities Exchange) / cash flow per share*
*Cash flow per share = (net income + depreciation and amortization) / the average number of shares of common stock (consolidated)
- **Price book-value ratio (PBR)** = stock price (year-end closing price at Osaka Securities Exchange) / net assets per share

The computation of net income per share and cash flow per share is based on the average number of shares of common stock outstanding during each year.

The average number of shares of common stock (consolidated) used in the computation for the fiscal year 2006, 2005, 2004, 2003, and 2002 was 115,768 thousand, 118,562 thousand, 118,784 thousand, 118,743 thousand, 118,671 thousand, respectively.

Eleven-Year Summary

ROHM CO., LTD. and Subsidiaries
Years ended March 31

	1996	1997	1998	1999
For the Year:				
Net sales	¥ 292,280	¥ 297,790	¥ 335,923	¥ 328,631
Cost of sales	169,365	165,436	163,060	185,175
Selling, general and administrative expenses	43,031	46,834	56,260	53,365
Operating income	79,884	85,520	116,603	90,091
Income before income taxes and minority interests	78,303	89,962	119,486	93,340
Income taxes	38,055	42,888	56,453	39,706
Net income	38,199	45,540	60,990	52,235
Capital expenditures	57,676	38,014	51,607	49,202
Depreciation and amortization	31,881	37,563	35,088	41,242

Per Share Information (in yen and U.S. dollars):

Basic net income	¥ 343.63	¥ 393.56	¥ 521.71	¥ 443.14
Diluted net income	332.22	386.15	517.34	441.15
Cash dividends applicable to the year	25.00	19.00	19.00	19.00

At Year-End:

Current assets	¥ 282,750	¥ 299,795	¥ 345,045	¥ 341,076
Current liabilities	114,207	103,520	107,399	80,140
Long-term debt	33,127	12,259	5,064	1,172
Shareholders' equity	292,249	338,541	401,861	452,961
Total assets	459,344	479,063	533,825	550,432
Number of employees	13,739	12,614	12,633	12,675

- Notes:
1. U.S. dollar amounts are provided solely for convenience at the rate of ¥117 to US\$1, the approximate exchange rate at March 31, 2006.
 2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.
 3. Effective April 1, 1997, the Company and certain domestic subsidiaries changed their accounting policy for retirement benefits for directors and corporate auditors from the cash basis to the accrual basis. The cumulative effect on prior year of this change, amounting to ¥1,843 million, was amortized over a period of five years beginning with fiscal 1998.
 4. Effective April 1, 1999, the Company and its domestic subsidiaries changed their accounting method or adopted a new accounting standard as follows:
 - (1) changed their accounting method for employees' retirement plans. The annual provision for retirement benefits was calculated to state the liability for retirement benefits at the amount of the expected benefits at the retirement date, less the fair value of the plan assets. The cumulative effect of this change, amounting to ¥5,076 million, was charged to income and "Income before income taxes and minority interests" was decreased by ¥2,277 million for the year ended March 31, 2000.
 - (2) adopted a new accounting standard for research and development cost. The cumulative effect of this adoption, amounting to ¥2,146 million, was charged to income and "Operating Income" and "Income before income taxes and minority interests" were decreased by ¥2,193 million and ¥4,339 million, respectively for the year ended March 31, 2000.
 - (3) changed their accounting method for interperiod allocation of income taxes in accordance with new accounting standards which are based on the asset and liability method. The cumulative effect of the change on interperiod tax allocation in prior years in the amount of ¥8,136 million is included as an adjustment to retained earnings as of April 1, 1999. The effect of this change was to decrease "Net Income" by ¥3,021 million for the year ended March 31, 2000.
 5. Effective April 1, 2000, the Company and its domestic subsidiaries adopted (1) a new accounting standard for financial instruments, (2) a new accounting standard for employees' retirement benefits, and (3) a revised accounting standard for foreign currency transactions. The effect of these adoptions to the consolidated statement of income was immaterial for the year ended March 31, 2001.
 6. Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock. Certain retroactive adjustments of previously reported per share information have been made to conform with current method. Diluted net income per share for 2006, 2005 and 2004 are not disclosed because there is no outstanding potentially dilutive securities.
 7. Effective April 1, 2005, the Group adopted a new accounting standard for impairment of fixed assets. There is no effect of this adoption to the consolidated statement of income for the year ended March 31, 2006.
 8. Effective April 1, 2005, the Group changed consolidation policy relating some foreign subsidiaries, whose fiscal year end is December 31, which differs from the Company's fiscal year end, March 31. In the past, the Company had consolidated these subsidiaries using their December 31 financial statements. In the year ended March 31, 2006, the Company consolidated such subsidiaries using their hard close as of March 31. The effect of this change to the consolidated statement of income was immaterial for the year ended March 31, 2006.

Millions of yen							Thousands of U.S. dollars
2000	2001	2002	2003	2004	2005	2006	2006
¥ 360,080	¥ 409,335	¥ 321,265	¥ 350,281	¥ 355,630	¥ 369,024	¥ 387,790	\$ 3,314,444
179,380	215,366	198,631	185,795	194,857	221,133	243,516	2,081,333
58,358	56,226	56,176	68,363	66,266	71,837	75,955	649,188
122,342	137,743	66,458	96,123	94,507	76,054	68,319	583,923
114,902	147,059	68,129	90,476	101,070	70,842	73,858	631,265
46,469	60,581	28,829	37,479	37,268	25,667	25,490	217,863
66,727	86,165	39,274	53,003	63,717	45,135	48,305	412,863
57,997	125,020	43,326	40,548	51,958	85,171	80,240	685,812
38,759	53,082	52,377	52,424	45,869	47,442	57,032	487,453
¥ 562.97	¥ 722.68	¥ 328.24	¥ 445.51	¥ 535.62	¥ 380.21	¥ 416.39	\$ 3.56
561.63	721.47	327.89	445.30				
19.00	19.00	19.00	22.00	55.00	85.00	90.00	0.77
¥ 407,524	¥ 449,684	¥ 445,094	¥ 519,996	¥ 530,121	¥ 512,990	¥ 568,112	\$ 4,855,658
98,477	136,765	58,579	83,681	88,321	85,964	105,779	904,094
678	579						
509,718	591,409	639,210	676,577	715,938	739,329	787,214	6,728,325
648,336	764,495	740,627	805,693	846,800	867,323	951,442	8,131,983
13,659	15,316	15,174	16,841	18,591	19,803	20,279	

Consolidated Balance Sheets

ROHM CO., LTD. and Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 280,465	¥ 288,975	\$ 2,397,137
Short-term investments (Note 3)	69,617	39,538	595,017
Notes and accounts receivable:			
Trade	102,049	93,079	872,214
Other	1,232	1,722	10,530
Allowance for doubtful notes and accounts	(718)	(595)	(6,137)
Inventories (Note 4)	86,726	68,037	741,248
Deferred tax assets (Note 8)	17,788	12,139	152,034
Prepaid pension cost (Note 5)	3,895	3,677	33,291
Refundable income taxes	1,032	1,646	8,820
Prepaid expenses and other	6,026	4,772	51,504
Total current assets	<u>568,112</u>	<u>512,990</u>	<u>4,855,658</u>
Property, Plant and Equipment:			
Land	67,542	64,582	577,282
Buildings	173,012	156,327	1,478,735
Machinery and equipment (Note 10)	467,109	395,478	3,992,385
Construction in progress	21,909	33,182	187,256
Total	<u>729,572</u>	<u>649,569</u>	<u>6,235,658</u>
Accumulated depreciation	<u>(446,109)</u>	<u>(395,610)</u>	<u>(3,812,897)</u>
Net property, plant and equipment	<u>283,463</u>	<u>253,959</u>	<u>2,422,761</u>
Investments and Other Assets:			
Investment securities (Note 3)	87,526	89,785	748,085
Deferred tax assets (Note 8)	8,056	7,254	68,855
Other	4,285	3,335	36,624
Total investments and other assets	<u>99,867</u>	<u>100,374</u>	<u>853,564</u>
Total	<u>¥ 951,442</u>	<u>¥ 867,323</u>	<u>\$ 8,131,983</u>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current Liabilities:			
Notes and accounts payable:			
Trade	¥ 27,623	¥ 22,153	\$ 236,094
Construction and other	48,333	42,328	413,102
Accrued income taxes	16,012	8,874	136,855
Deferred tax liabilities (Note 8)	539	477	4,607
Accrued expenses and other	13,272	12,132	113,436
Total current liabilities	<u>105,779</u>	<u>85,964</u>	<u>904,094</u>
Long-term Liabilities:			
Liability for retirement benefits (Note 5)	3,059	2,792	26,145
Deferred tax liabilities (Note 8)	55,041	38,897	470,436
Other	45		385
Total long-term liabilities	<u>58,145</u>	<u>41,689</u>	<u>496,966</u>
Minority Interests	<u>304</u>	<u>341</u>	<u>2,598</u>
Shareholders' Equity (Notes 6 and 11):			
Common stock - authorized, 300,000,000 shares; issued, 118,801,388 shares	86,969	86,969	743,325
Capital surplus	102,404	102,404	875,248
Retained earnings	639,761	601,689	5,468,043
Net unrealized gain on available-for-sale securities (Note 3)	6,525	2,570	55,769
Foreign currency translation adjustments	(13,075)	(34,062)	(111,752)
Total	<u>822,584</u>	<u>759,570</u>	<u>7,030,633</u>
Treasury stock-at cost 3,417,119 shares in 2006 and 1,950,553 shares in 2005	(35,370)	(20,241)	(302,308)
Total shareholders' equity	<u>787,214</u>	<u>739,329</u>	<u>6,728,325</u>
Total	<u>¥ 951,442</u>	<u>¥ 867,323</u>	<u>\$ 8,131,983</u>

Consolidated Statements of Income

ROHM CO., LTD. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Net Sales	¥ 387,790	¥ 369,024	¥ 355,630	\$ 3,314,444
Operating Cost and Expenses :				
Cost of sales	243,516	221,133	194,857	2,081,333
Selling, general and administrative expenses (Note 7) ..	75,955	71,837	66,266	649,188
Total operating cost and expenses	319,471	292,970	261,123	2,730,521
Operating Income	68,319	76,054	94,507	583,923
Other Income (Expenses):				
Interest and dividend income	6,283	3,318	2,370	53,701
Foreign currency exchange gains (losses) - net	4,467	333	(5,529)	38,179
Gain on transfer of the substitutional portion of the governmental pension program (Note 5)			10,900	
Loss on transfer to a defined contribution pension plan (Note 5)			(2,205)	
Loss on early retirement (Note 5)	(1,931)	(7,934)		(16,504)
Loss on sale and disposal of property, plant and equipment	(2,897)	(566)	(1,621)	(24,761)
Other - net	(383)	(363)	2,648	(3,273)
Total other income (expenses) - net	5,539	(5,212)	6,563	47,342
Income before Income Taxes and Minority Interests	73,858	70,842	101,070	631,265
Income Taxes (Note 8):				
Current	25,297	20,975	26,731	216,214
Deferred	193	4,692	10,537	1,649
Total income taxes	25,490	25,667	37,268	217,863
Minority Interests	(63)	(40)	(85)	(539)
Net Income	¥ 48,305	¥ 45,135	¥ 63,717	\$ 412,863
Per Share Information (Note 2 (n)):		Yen		U.S. dollars
Basic net income	¥ 416.39	¥ 380.21	¥ 535.62	\$ 3.56
Cash dividends applicable to the year	90.00	85.00	55.00	0.77

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ROHM CO., LTD. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Outstanding number of shares of common stock	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Net unrealized gain on available- for-sale securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at April 1, 2003	118,785,890	¥ 86,969	¥ 102,404	¥ 506,101	¥ 709	¥ (19,363)	¥ (243)	¥ 676,577
Net income				63,717				63,717
Decrease in retained earnings due to decrease in ownership of an associated company				(5)				(5)
Cash dividends, ¥25.00 per share				(2,970)				(2,970)
Bonuses to directors				(93)				(93)
Net unrealized gain on available-for-sale securities					1,964			1,964
Foreign currency translation adjustments						(23,194)		(23,194)
Purchase of treasury stock	(4,253)						(58)	(58)
Balance at March 31, 2004	<u>118,781,637</u>	<u>86,969</u>	<u>102,404</u>	<u>566,750</u>	<u>2,673</u>	<u>(42,557)</u>	<u>(301)</u>	<u>715,938</u>
Net income				45,135				45,135
Reserve for employees' welfare fund				(8)				(8)
Cash dividends, ¥85.00 per share				(10,096)				(10,096)
Bonuses to directors				(92)				(92)
Net unrealized gain on available-for-sale securities					(103)			(103)
Foreign currency translation adjustments						8,495		8,495
Purchase of treasury stock	(1,930,802)						(19,940)	(19,940)
Balance at March 31, 2005	<u>116,850,835</u>	<u>86,969</u>	<u>102,404</u>	<u>601,689</u>	<u>2,570</u>	<u>(34,062)</u>	<u>(20,241)</u>	<u>739,329</u>
Net income				48,305				48,305
Reserve for employees' welfare fund				(1)				(1)
Cash dividends, ¥87.50 per share				(10,181)				(10,181)
Bonuses to directors				(51)				(51)
Net unrealized gain on available-for-sale securities					3,955			3,955
Foreign currency translation adjustments						20,987		20,987
Purchase of treasury stock	(1,466,566)						(15,129)	(15,129)
Balance at March 31, 2006	<u>115,384,269</u>	<u>¥ 86,969</u>	<u>¥ 102,404</u>	<u>¥ 639,761</u>	<u>¥ 6,525</u>	<u>¥ (13,075)</u>	<u>¥ (35,370)</u>	<u>¥ 787,214</u>

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Net unrealized gain on available- for-sale securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2005	\$ 743,325	\$ 875,248	\$ 5,142,641	\$ 21,966	\$ (291,128)	\$ (173,000)	\$ 6,319,052
Net income			412,863				412,863
Reserve for employees' welfare fund			(8)				(8)
Cash dividends, \$0.75 per share			(87,017)				(87,017)
Bonuses to directors			(436)				(436)
Net unrealized gain on available-for-sale securities				33,803			33,803
Foreign currency translation adjustments					179,376		179,376
Purchase of treasury stock						(129,308)	(129,308)
Balance at March 31, 2006	<u>\$ 743,325</u>	<u>\$ 875,248</u>	<u>\$ 5,468,043</u>	<u>\$ 55,769</u>	<u>\$ (111,752)</u>	<u>\$ (302,308)</u>	<u>\$ 6,728,325</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ROHM CO., LTD. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating Activities:				
Income before income taxes and minority interests	¥ 73,858	¥ 70,842	¥ 101,070	\$ 631,265
Adjustments for:				
Depreciation and amortization	57,032	47,442	45,869	487,453
Amortization of goodwill - net	(41)	668	17	(350)
Interest and dividends income	(6,283)	(3,318)	(2,370)	(53,701)
Foreign currency exchange losses (gains) - net	(8,997)	(1,321)	2,016	(76,897)
Increase (decrease) in net liability for retirement benefits	(107)	(6,000)	(9,129)	(915)
Write-down of investment securities	8	284	9	68
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivables - trade	(5,421)	716	(10,822)	(46,333)
Decrease (increase) in inventories	(14,274)	(5,253)	(12,143)	(122,000)
Increase (decrease) in notes and accounts payables - trade	5,072	(1,630)	6,605	43,350
Other - net	4,495	5,036	2,752	38,419
Sub-total	105,342	107,466	123,874	900,359
Interest and dividends - received	6,653	3,510	2,569	56,863
Compensation for expropriation - received		1,384		
Income taxes - paid	(17,447)	(20,441)	(48,077)	(149,120)
Net cash provided by operating activities	94,548	91,919	78,366	808,102
Investing Activities:				
Decrease (increase) in short-term investments and investment securities - net	(19,535)	(8,656)	(28,097)	(166,966)
Purchases of property, plant and equipment	(76,068)	(78,754)	(45,221)	(650,154)
Other - net	270	(19)	1,181	2,308
Net cash used in investing activities	(95,333)	(87,429)	(72,137)	(814,812)
Financing Activities:				
Purchase of treasury stock	(15,129)	(19,940)	(58)	(129,308)
Dividends paid	(10,181)	(10,096)	(2,970)	(87,017)
Other - net	(1)	(1)	(1)	(8)
Net cash used in financing activities	(25,311)	(30,037)	(3,029)	(216,333)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	17,586	3,944	(15,172)	150,308
Net Increase (Decrease) in Cash and Cash Equivalents	(8,510)	(21,603)	(11,972)	(72,735)
Cash and Cash Equivalents at Beginning of Year	288,975	310,578	322,550	2,469,872
Cash and Cash Equivalents at End of Year	¥ 280,465	¥ 288,975	¥ 310,578	\$ 2,397,137

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ROHM CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117 to \$1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The significant difference between the equity in net assets acquired at the respective dates of acquisition and the cost of the Company's investments in subsidiaries and associated companies, is being amortized over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation.

All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Effective April 1, 2005, the Group changed consolidation policy relating ROHM SEMICONDUCTOR CHINA CO., LTD. and four other foreign subsidiaries, whose fiscal year end is December 31, which differs from the Company's fiscal year end, March 31. In the past, the Company had consolidated these subsidiaries using their December 31 financial statements. In the year ended March 31, 2006, the Company consolidated such subsidiaries using their hard close as of March 31. The effect of this change to the consolidated statement of income was immaterial for the year ended March 31, 2006.

(b) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificates of deposit investing in bonds, all of which mature or become due within three months of the date of acquisition.

(c) Debt and equity securities

Debt and equity securities are classified and accounted for depending on management's intent.

Available-for-sale securities, which represent securities not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. The cost of available-for-sale securities sold is determined based on the moving average method.

The Group classified all debt and equity securities as available-for-sale securities.

(d) Inventories

Inventories are stated principally at cost determined by the moving average method.

Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

(e) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation is computed principally by the declining-balance method over the estimated useful lives of the assets.

Estimated useful lives of the assets are principally as follows:

Buildings 3 to 50 years

Machinery and equipment 2 to 10 years

(f) Long-lived assets

In August 2002, the Business Accounting Council (the "BAC") issued a "Statement of Opinion, Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (the "ASBJ") issued Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The adoption of this new accounting standard did not affect the consolidated statement of income for the year ended March 31, 2006.

(g) Liability for retirement benefits

The Company and certain domestic subsidiaries have a pension plan for employees; non-contributory funded defined benefit pension plan and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The Company and certain foreign subsidiaries also have defined contribution pension plans.

The contributory funded defined benefit pension plan, which was established under the Japanese Welfare Pension Insurance Law, covered a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company.

In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval of exemption from the future obligation by the Ministry of Health, Labor and Welfare on December 16, 2002.

The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labor and Welfare on December 1, 2003. Thereafter, the Company transferred the substitutional portion of the pension obligations and related assets to the government on March 26, 2004 and recognized ¥10,900 million as "Gain on transfer of the substitutional portion of the governmental pension program" in other income for the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended March 31, 2004.

According to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company and certain domestic subsidiaries implemented a defined contribution pension plan on March 1, 2005 by which the former corporate portion of the contributory funded defined benefit pension plan was terminated. For this transition the Company and certain domestic subsidiaries estimated and charged a loss of ¥2,205 million as "Loss on transfer to a defined contribution pension plan" for the year ended March 31, 2004 applying accounting treatment specified in the guidance issued by the ASBJ. The difference between actual loss and the estimation was charged to income and was immaterial for the year ended March 31, 2005.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

(h) Research and development costs

Research and development costs are charged to "Selling, general and administrative expenses" as incurred.

(i) Leases

All leases of the Company and its domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

(j) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(k) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

(l) Foreign currency financial statements

The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders’ equity, which is translated at the historical rates. Differences arising from such translation were shown as “Foreign currency translation adjustments” in a separate component of shareholders’ equity.

Revenue and expense accounts of foreign subsidiaries and an associated company are translated into Japanese yen at the average exchange rates.

(m) Derivatives and hedging activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purpose.

Monetary receivables and payables denominated in foreign currencies, for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the forward contracts qualify for hedge accounting.

(n) Per share information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible debt at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. However, diluted net income per share is not disclosed because there is no outstanding potentially dilutive securities.

The average number of shares used to compute basic net income per share for the years ended March 31, 2006, 2005 and 2004 were 115,768 thousand shares, 118,562 thousand shares and 118,784 thousand shares, respectively.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(o) New Accounting Pronouncements**Business Combination and Business Separation**

On October 31, 2003, the BAC issued a Statement of Opinion, “Accounting for Business Combinations”, and on December 27, 2005 the ASBJ issued “Accounting Standard for Business Separations” and Guidance No.10, “Guidance for Accounting Standard for Business Combinations and Business Separations”. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- the consideration for the business combination consists solely of common shares with voting rights,
- the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

Notes to Consolidated Financial Statements

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- there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued “Accounting Standard for Stock Options” and “related guidance”. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders’ equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

On November 29, 2005, the ASBJ issued “Bonuses to Directors and Corporate Auditors”. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. Debt and equity securities

Debt and equity securities held by the Group as of March 31, 2006 and 2005 were classified and included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Securities classified as:			
Available-for-sale:			
Cash and cash equivalents	¥ 3,172	¥ 21,040	\$ 27,111
Short-term investments	36,002	37,135	307,710
Investment securities	87,513	89,776	747,974
Total	<u>¥ 126,687</u>	<u>¥ 147,951</u>	<u>\$ 1,082,795</u>

Information regarding each category of the marketable securities included in “Cash and cash equivalents”, “Short-term investments” and “Investment securities” and classified as available-for-sale at March 31, 2006 and 2005 were as follows:

	Millions of yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 8,914	¥ 11,715	¥ (45)	¥ 20,584
Government and corporate bonds	101,772	8	(759)	101,021
Total	<u>¥ 110,686</u>	<u>¥ 11,723</u>	<u>¥ (804)</u>	<u>¥ 121,605</u>

	Millions of yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 7,911	¥ 5,239	¥ 690	¥ 12,460
Government and corporate bonds	113,192	117	281	113,028
Other	21,005	35		21,040
Total	<u>¥ 142,108</u>	<u>¥ 5,391</u>	<u>¥ 971</u>	<u>¥ 146,528</u>

	Thousands of U.S. dollars			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 76,188	\$ 100,129	\$ (385)	\$ 175,932
Government and corporate bonds	869,846	68	(6,487)	863,427
Total	<u>\$ 946,034</u>	<u>\$ 100,197</u>	<u>\$ (6,872)</u>	<u>\$ 1,039,359</u>

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Available-for-sale securities included in “Cash and cash equivalents”, “Short-term investments” and “Investment securities” whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying values		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Equity securities	¥ 1,053	¥ 1,006	\$ 9,000
Corporate bonds	857	417	7,325
Certificates of deposit	3,172		27,111
Total	¥ 5,082	¥ 1,423	\$ 43,436

Proceeds from sales of available-for-sale securities were ¥22,893 million (\$195,667 thousand) and ¥204 million for the years ended March 31, 2006 and 2005, respectively. Gross realized gains and losses on these sales, computed on the moving average basis, were ¥37 million (\$316 thousand) and ¥150 million (\$1,282 thousand) for the year ended March 31, 2006. Gross realized gains on these sales were ¥150 million for the year ended March 31, 2005.

The aggregate maturities of securities classified as available-for-sale at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Due in one year or less	¥ 39,134	¥ 37,033
Due in one to five years	64,210	75,107	548,803
Due in five to ten years	2,033	1,075	17,376
Total	¥ 105,377	¥ 113,215	\$ 900,658

4. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Finished products	¥ 26,844	¥ 18,995
Semi-finished products and work in process	30,986	23,660	264,838
Raw materials and supplies	28,896	25,382	246,974
Total	¥ 86,726	¥ 68,037	\$ 741,248

5. Retirement Plans

The Company and certain subsidiaries have retirement plans for employees, directors and corporate auditors.

Under non-contributory funded defined benefit pension plan, employees terminating their employment are entitled to lump-sum and annuity payments based on their rate of pay at the time of termination, length of service and certain other factors. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to a greater payment than in the case of voluntary termination.

“Liability for retirement benefits” includes retirement benefits for directors of ¥2,069 million (\$17,683 thousand) and for directors and corporate auditors of ¥1,987 million at March 31, 2006 and 2005, respectively.

The net liability for employees’ retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥ 17,131	¥ 15,966	\$ 146,419
Fair value of plan assets	(22,399)	(17,005)	(191,444)
Unrecognized actuarial gain (loss)	2,363	(1,833)	20,196
Net asset	(2,905)	(2,872)	(24,829)
Prepaid pension cost	3,895	3,677	33,291
Liability for retirement benefits	¥ 990	¥ 805	\$ 8,462

The components of net periodic pension costs for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost	¥ 1,641	¥ 1,974	¥ 1,536	\$ 14,026
Interest cost	346	545	866	2,957
Expected return on plan assets	(372)	(429)	(501)	(3,179)
Recognized actuarial loss	317	757	1,765	2,709
Amortization of prior service credit			(593)	
Gain on transfer of the substitutional portion of the governmental pension program			(10,900)	
Loss on transfer to a defined contribution pension plan			2,205	
Other	428	89	93	3,658
Net periodic benefit costs	¥ 2,360	¥ 2,936	¥ (5,529)	\$ 20,171

Besides the above costs, the Group recognized ¥1,931 million (\$16,504 thousand) and ¥7,934 million as “Loss on early retirement” in the consolidated statements of income for the year ended March 31, 2006 and 2005, respectively.

Assumptions used for the years ended March 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Discount rate	2.0%	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%	2.0%
Allocation method of the retirement benefits expected to be paid at the retirement date	Straight-line method based on years of service	Straight-line method based on years of service	Straight-line method based on years of service
Amortization period of prior service credit			10 years
Recognition period of actuarial gain / loss	10 years	10 years	10 years

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6. Shareholders' Equity

Through April 30, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

The Company purchased 963 thousand shares and 1,927 thousand shares of common stock from the market at an aggregate cost of ¥10,093 million (\$86,265 thousand) and ¥19,894 million during the fiscal year ended March 31, 2006 and 2005 with resolution of the Company's Board of Directors held on February 4, 2005.

Also, the Company purchased 500 thousand shares of common stock from the market at an aggregate cost of ¥4,997 million (\$42,709 thousand) during the fiscal year ended March 31, 2006 with resolution of the Company's general shareholders meeting held on June 29, 2005.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥ 319,916 million (\$ 2,734,325 thousand) as of March 31, 2006, based on the amount recorded in the Company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of

additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

7. Research and Development Costs

Research and development costs charged to income were ¥33,794 million (\$288,838 thousand), ¥32,343 million and ¥31,381 million for the years ended March 31, 2006, 2005 and 2004, respectively.

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8. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.6% for fiscal 2006 and 2005 and 41.9% for fiscal 2004. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from approximately 41.9% to 40.6%, effective for years beginning on or after April 1, 2004.

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Inventories	¥ 8,686	¥ 7,645	\$ 74,239
Depreciation	11,564	11,527	98,838
Tax loss carryforwards	3,211	3,637	27,444
Accrued expenses	1,998	1,553	17,077
Foreign tax credit	6,525	1,278	55,769
Other	4,690	5,259	40,086
Valuation Allowance	(1,469)	(1,054)	(12,556)
Total	<u>35,205</u>	<u>29,845</u>	<u>300,897</u>
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	(58,690)	(46,069)	(501,624)
Prepaid pension cost	(1,512)	(1,493)	(12,923)
Other	(4,739)	(2,264)	(40,504)
Total	<u>(64,941)</u>	<u>(49,826)</u>	<u>(555,051)</u>
Net deferred tax liabilities	<u>¥ (29,736)</u>	<u>¥ (19,981)</u>	<u>\$ (254,154)</u>

Deferred tax assets (liabilities) were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current Assets - Deferred tax assets	¥ 17,788	¥ 12,139	\$ 152,034
Investments and Other Assets - Deferred tax assets	8,056	7,254	68,855
Current Liabilities - Deferred tax liabilities	(539)	(477)	(4,607)
Long-term Liabilities - Deferred tax liabilities	(55,041)	(38,897)	(470,436)
Net deferred tax liabilities	<u>¥ (29,736)</u>	<u>¥ (19,981)</u>	<u>\$ (254,154)</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Normal effective tax rate	40.6%	40.6%	41.9%
Lower income tax rates applicable to income in certain foreign countries	(3.0)	(3.0)	(4.4)
Tax credit for research and development expenses	(2.7)	(2.5)	(1.4)
Other-net	(0.4)	1.1	0.8
Actual effective tax rate	<u>34.5%</u>	<u>36.2%</u>	<u>36.9%</u>

9. Derivatives

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative contracts outstanding at March 31, 2006 and 2005 were immaterial.

10. Leases

The Company and certain subsidiaries lease certain machinery, computer equipment and other assets. Total lease payments under finance leases for the years ended March 31, 2006, 2005 and 2004 were ¥17 million (\$145 thousand), ¥20 million and ¥31 million, respectively.

Pro forma information at March 31, 2006 and 2005, on an “as if capitalized” basis for finance leases that do not transfer ownership of the leased property to the lessee were as follows:

	Millions of yen		Thousands of U.S. dollars
	Machinery and equipment		Machinery and equipment
	2006	2005	2006
Acquisition cost	¥ 44	¥ 52	\$ 376
Accumulated depreciation	25	25	214
Net leased property	<u>¥ 19</u>	<u>¥ 27</u>	<u>\$ 162</u>

Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

Pro forma obligations under finance leases on an “as if capitalized” basis at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 13	¥ 14	\$ 111
Due after one year	6	13	51
Total	¥ 19	¥ 27	\$ 162

The imputed interest expense portion is included in the above obligations under finance leases.

Depreciation expenses which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method were ¥17 million (\$145 thousand), ¥20 million and ¥31 million for the years ended March 31, 2006, 2005 and 2004, respectively.

11. Subsequent Event

Appropriations of retained earnings

The following appropriations of retained earnings as of March 31, 2006 were approved at the Company's general shareholders meeting held on June 29, 2006.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥45.00 (\$0.38) per share	¥ 5,192	\$ 44,376
Bonuses to directors	44	376

12. Segment Information

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2006, 2005 and 2004 was as follows:

(a) Industry segments

The Group's main operations are manufacturing and distributing electronic components. Under Japanese accounting regulations, the Group is not required to disclose industry segment information because its main industry segment represented more than 90% of its total operations.

(b) Geographical segments

The geographical segments of the Group for the years ended March 31, 2006, 2005 and 2004 were summarized as follows:

	Millions of yen					
	2006					
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 156,654	¥ 199,218	¥ 13,525	¥ 18,393		¥ 387,790
Interarea transfer	55,503	136,863	386	302	¥ (193,054)	
Total sales	212,157	336,081	13,911	18,695	(193,054)	387,790
Operating expenses	198,190	275,929	15,062	19,162	(188,872)	319,471
Operating income (loss)	¥ 13,967	¥ 60,152	¥ (1,151)	¥ (467)	¥ (4,182)	¥ 68,319
Total assets	¥ 450,559	¥ 315,026	¥ 14,782	¥ 16,042	¥ 155,033	¥ 951,442

Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

	Millions of yen					
	2005					
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 162,816	¥ 172,729	¥ 13,112	¥ 20,367		¥ 369,024
Interarea transfer	58,289	115,210	220	874	¥ (174,593)	
Total sales	<u>221,105</u>	<u>287,939</u>	<u>13,332</u>	<u>21,241</u>	<u>(174,593)</u>	<u>369,024</u>
Operating expenses	188,003	243,004	14,344	21,165	(173,546)	292,970
Operating income (loss)	<u>¥ 33,102</u>	<u>¥ 44,935</u>	<u>¥ (1,012)</u>	<u>¥ 76</u>	<u>¥ (1,047)</u>	<u>¥ 76,054</u>
Total assets	<u>¥ 364,147</u>	<u>¥ 293,783</u>	<u>¥ 30,346</u>	<u>¥ 16,790</u>	<u>¥ 162,257</u>	<u>¥ 867,323</u>

	Millions of yen					
	2004					
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 158,766	¥ 161,086	¥ 14,088	¥ 21,690		¥ 355,630
Interarea transfer	53,200	107,034	235	407	¥ (160,876)	
Total sales	<u>211,966</u>	<u>268,120</u>	<u>14,323</u>	<u>22,097</u>	<u>(160,876)</u>	<u>355,630</u>
Operating expenses	172,892	212,321	14,906	21,141	(160,137)	261,123
Operating income (loss)	<u>¥ 39,074</u>	<u>¥ 55,799</u>	<u>¥ (583)</u>	<u>¥ 956</u>	<u>¥ (739)</u>	<u>¥ 94,507</u>
Total assets	<u>¥ 372,752</u>	<u>¥ 252,675</u>	<u>¥ 32,248</u>	<u>¥ 16,495</u>	<u>¥ 172,630</u>	<u>¥ 846,800</u>

Thousands of U.S. dollars						
2006						
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 1,338,923	\$ 1,702,718	\$ 115,598	\$ 157,205		\$ 3,314,444
Interarea transfer	474,385	1,169,769	3,299	2,581	\$(1,650,034)	
Total sales	1,813,308	2,872,487	118,897	159,786	(1,650,034)	3,314,444
Operating expenses	1,693,932	2,358,367	128,735	163,777	(1,614,290)	2,730,521
Operating income (loss)	\$ 119,376	\$ 514,120	\$ (9,838)	\$ (3,991)	\$ (35,744)	\$ 583,923
Total assets	\$ 3,850,932	\$ 2,692,530	\$ 126,342	\$ 137,111	\$ 1,325,068	\$ 8,131,983

Sales and assets are summarized by geographic area based on the countries where subsidiaries are located.

(c) Sales to foreign customers

Sales to foreign customers for the years ended March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Asia	¥ 200,100	¥ 174,160	¥ 163,457	\$ 1,710,257
Americas	15,139	13,990	14,812	129,393
Europe	16,283	19,021	20,598	139,171
Total sales to foreign customers	¥ 231,522	¥ 207,171	¥ 198,867	\$ 1,978,821

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
ROHM CO., LTD.:

We have audited the accompanying consolidated balance sheets of ROHM CO., LTD. and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ROHM CO., LTD. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

Member of
Deloitte Touche Tohmatsu

Principal Subsidiaries

Domestic

Corporate name	Location	Principal business	Capital % owned by ROHM CO., LTD.
ROHM HAMAMATSU CO., LTD.	Shizuoka	Manufacture of ROHM products (monolithic ICs)	¥ 400 million 100.0%
ROHM WAKO DEVICE CO., LTD.	Okayama	Manufacture of ROHM products (monolithic ICs and diodes)	¥ 450 million 75.0% (100.0%)
ROHM APOLLO DEVICE CO., LTD.	Fukuoka	Manufacture of ROHM products (monolithic ICs and transistors)	¥ 492 million 75.0% (100.0%)
ROHM TSUKUBA CO., LTD.	Ibaraki	Manufacture of ROHM products (transistors)	¥ 450 million 100.0%
ROHM WAKO CO., LTD.	Okayama	Manufacture of ROHM products (diodes, LEDs, laser diodes and LED displays)	¥ 450 million 100.0%
ROHM APOLLO CO., LTD.	Fukuoka	Manufacture of ROHM products (transistors, diodes and tantalum capacitors)	¥ 450 million 100.0%
ROHM FUKUOKA CO., LTD.	Fukuoka	Manufacture of ROHM products (monolithic ICs, resistors and capacitors)	¥ 385 million 100.0%
ROHM AMAGI CO., LTD.	Fukuoka	Manufacture of ROHM products (power modules, photo link modules, LCDs, thermal heads, image sensor heads and others)	¥ 300 million 100.0%
ROHM MECHATECH CO., LTD.	Kyoto	Manufacture of lead frames and molding dies	¥ 98 million 100.0%
ROHM LOGISTEC CO., LTD.	Okayama	Distribution of ROHM products	¥ 20 million 100.0%
NARITA GIKEN CO., LTD.	Hyogo	Development and design of electronic circuitry	¥ 80 million 93.7%

Overseas

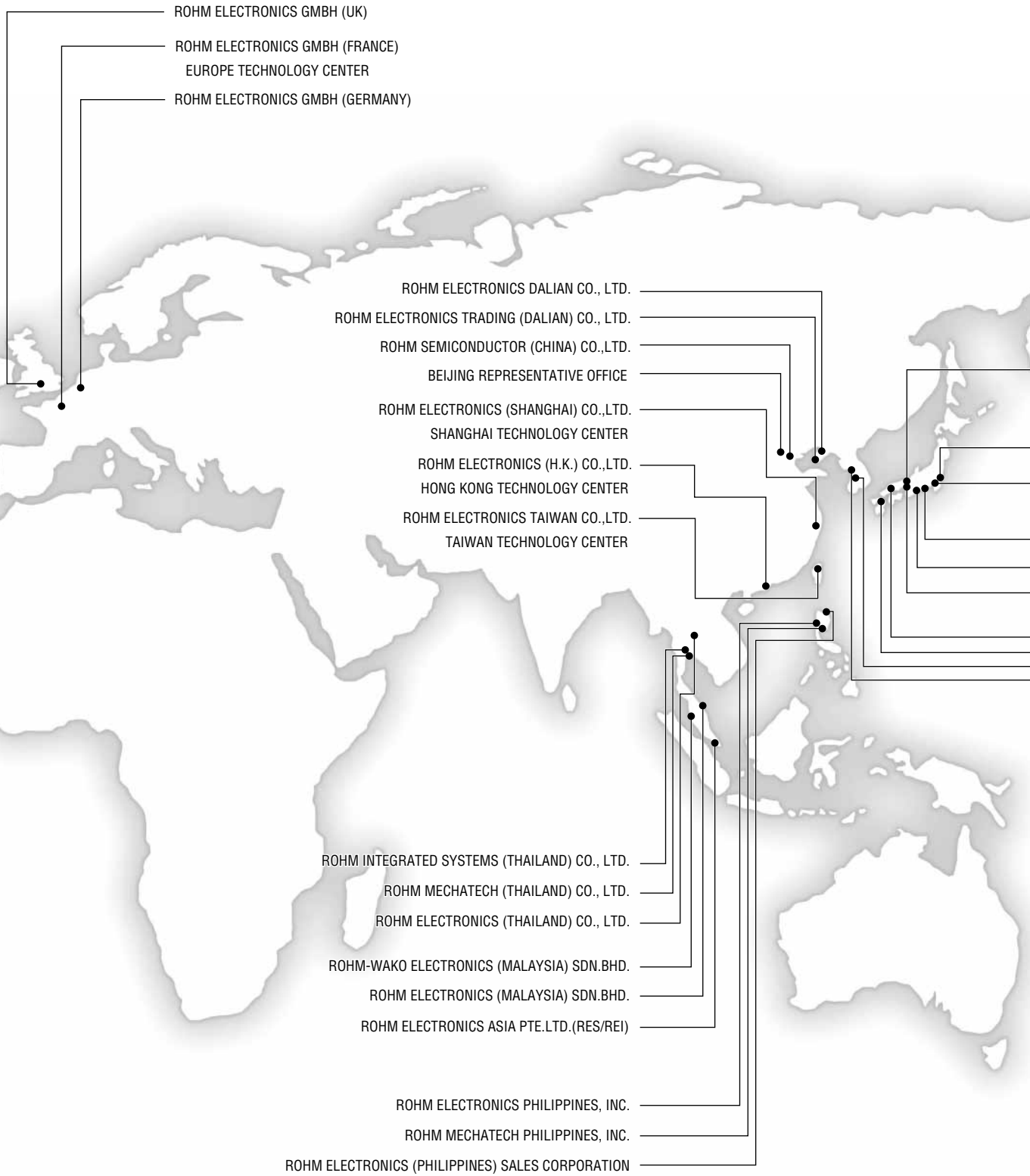
Corporate name	Location	Principal business	Capital % owned by ROHM CO., LTD.
ROHM KOREA CORPORATION	Seoul, Korea	Manufacture of ROHM products (monolithic ICs, transistors, diodes, LEDs, sensors, resistors, LED displays and capacitors)	Won 9,654 million 0% (100.0%)
ROHM-WAKO ELECTRONICS (MALAYSIA) SDN. BHD	Kelantan, Malaysia	Manufacture of ROHM products (diodes and LEDs)	MS 53,400 thousand 0% (100.0%)
ROHM INTEGRATED SYSTEMS (THAILAND) CO., LTD.	Pathumthani, Thailand	Manufacture of ROHM products (monolithic ICs, transistors, diodes, resistors and capacitors)	B 1,115,500 thousand 0% (100.0%)
ROHM APOLLO SEMICONDUCTOR PHILIPPINES, INC.	Cavite, Philippines	Manufacture of ROHM products (transistors and diodes)	P 406,580 thousand 0% (100.0%)
ROHM ELECTRONICS PHILIPPINES, INC.	Cavite, Philippines	Manufacture of ROHM products (monolithic ICs, resistors and capacitors)	P 1,034,350 thousand 0% (100.0%)
ROHM ELECTRONICS DALIAN CO., LTD.	Dalian, China	Manufacture of ROHM products (power modules, LCDs, thermal heads, image sensor heads, photo link modules and others)	¥ 7,967 million 0% (100.0%)
ROHM SEMICONDUCTOR (CHINA) CO., LTD.	Tianjin, China	Manufacture of ROHM products (diodes, LEDs, laser diodes, LED displays, sensors, resistors, capacitors and transistors)	¥ 10,290 million 0% (100.0%)
ROHM MECHATECH PHILIPPINES, INC.	Cavite, Philippines	Manufacture of lead frames and molding dies	P 150,000 thousand 25.0% (100.0%)
ROHM MECHATECH (THAILAND) CO., LTD.	Pathumthani, Thailand	Manufacture of lead frames and molding dies	B 100,000 thousand 0% (100.0%)
ROHM ELECTRONICS U.S.A., LLC	California, U. S. A.	Sales of ROHM products	US\$ 27,906 thousand 0% (100.0%)
(EASTERN SALES DIVISION)	Georgia, U. S. A.	Sales of ROHM products	
(CENTRAL SALES DIVISION)	Texas, U. S. A.	Sales of ROHM products	
(WESTERN SALES DIVISION)	California, U. S. A.	Sales of ROHM products	
ROHM ELECTRONICS GMBH	Willich-Munchheide, Germany	Sales of ROHM products	EURO 512 thousand 0% (100.0%)
(GERMANY SALES DIVISION)	Willich-Munchheide, Germany	Sales of ROHM products	
(UK SALES DIVISION)	Milton Keynes, United Kingdom	Sales of ROHM products	
(FRANCE SALES DIVISION)	Paris, France	Sales of ROHM products	
ROHM ELECTRONICS (H.K.) CO., LTD.	Kowloon, Hong Kong	Sales of ROHM products	HK\$ 27,000 thousand 0% (100.0%)
ROHM ELECTRONICS (SHANGHAI) CO., LTD.	Shanghai, China	Sales of ROHM products	US\$ 200 thousand 0% (100.0%)
ROHM ELECTRONICS TRADING (DALIAN) CO., LTD.	Dalian, China	Sales of ROHM products	US\$ 200 thousand 0% (100.0%)
ROHM ELECTRONICS TAIWAN CO., LTD.	Taiwan	Sales of ROHM products	NT\$ 140,500 thousand 0% (100.0%)
ROHM ELECTRONICS KOREA CORPORATION	Seoul, Korea	Sales of ROHM products	Won 1,000 million 0% (100.0%)
ROHM ELECTRONICS ASIA PTE. LTD.	Singapore	Administrative responsibility for subsidiaries in Asia Sales of ROHM products	S\$ 90,630 thousand 100.0%
ROHM ELECTRONICS (MALAYSIA) SDN. BHD.	Petaling Jaya, Malaysia	Sales of ROHM products	MS 700 thousand 0% (49.0%)
ROHM ELECTRONICS (PHILIPPINES) SALES CORPORATION	Muntinlupa City, Philippines	Sales of ROHM products	P 13,250 thousand 0% (100.0%)
ROHM ELECTRONICS (THAILAND) CO., LTD.	Bangkok, Thailand	Sales of ROHM products	B 104,000 thousand 0% (100.0%)
ROHM U.S.A., INC.	California, U. S. A.	Administrative responsibility for subsidiaries in North and South America	US\$ 133,642 thousand 100.0%

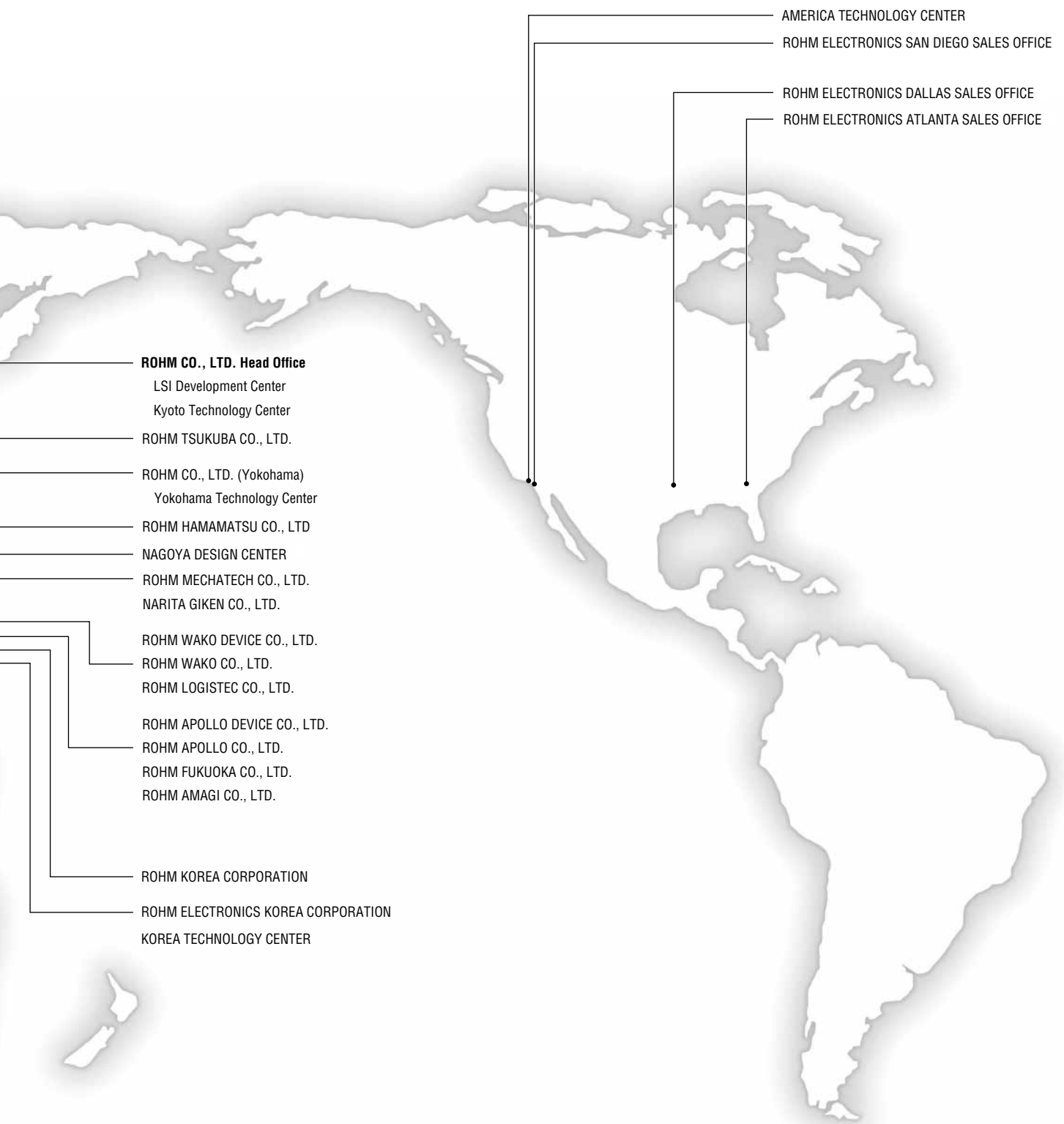
Note: The percentages in parentheses indicate indirect equity ownership by ROHM CO., LTD.

ROHM APOLLO SEMICONDUCTOR PHILIPPINES, INC. merged with ROHM ELECTRONICS PHILIPPINES, INC. in April 2006.

(As of March 31, 2006)

The ROHM Group Overseas Branches





ROHM CO., LTD. Head Office

LSI Development Center
Kyoto Technology Center

ROHM TSUKUBA CO., LTD.

ROHM CO., LTD. (Yokohama)
Yokohama Technology Center

ROHM HAMAMATSU CO., LTD.

NAGOYA DESIGN CENTER

ROHM MECHATECH CO., LTD.

NARITA GIKEN CO., LTD.

ROHM WAKO DEVICE CO., LTD.

ROHM WAKO CO., LTD.

ROHM LOGISTEC CO., LTD.

ROHM APOLLO DEVICE CO., LTD.

ROHM APOLLO CO., LTD.

ROHM FUKUOKA CO., LTD.

ROHM AMAGI CO., LTD.

ROHM KOREA CORPORATION

ROHM ELECTRONICS KOREA CORPORATION

KOREA TECHNOLOGY CENTER

AMERICA TECHNOLOGY CENTER

ROHM ELECTRONICS SAN DIEGO SALES OFFICE

ROHM ELECTRONICS DALLAS SALES OFFICE

ROHM ELECTRONICS ATLANTA SALES OFFICE

Board of Directors

President

Ken Sato

Managing Director

Junichi Hikita

Directors

Akitaka Idei

Naotoshi Watanabe

Satoshi Sawamura

Nobuo Hatta

Hidemi Takasu

Toru Okada

Osamu Hattori

Corporate Auditors

Yoshiaki Shibata

Yasuhito Tamaki

Shinya Murao

Toshiki Shimozono

Haruo Kitamura

(As of June 29, 2006)

Corporate Data

ROHM CO., LTD.

Head Office

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Kyoto 615-8585, Japan
TEL: (075) 311-2121
FAX: (075) 315-0172

Technology Centers

<Domestic>

LSI DEVELOPMENT CENTER

21, Saiin Mizosaki-cho, Ukyo-ku, Kyoto 615-8585, Japan

Date of Establishment

September 17, 1958

KYOTO TECHNOLOGY CENTER

579-32, Higashi Shiokoji-cho, Karasuma Nishi-iru, Shiokoji-dori, Shimogyo-ku,
Kyoto 600-8216, Japan

Shareholders' Equity

¥787,214 million

YOKOHAMA TECHNOLOGY CENTER

2-4-8, Shin Yokohama, Kohoku-ku, Yokohama 222-8575, Japan

Common Stock

Authorized: 300,000,000
Issued: 118,801,388

<Overseas>

AMERICA TECHNOLOGY CENTER

10145 Pacific Heights Blvd., Suite 1000, San Diego, CA 92121-4214 U.S.A.

Number of Employees

20,279

EUROPE TECHNOLOGY CENTER

12 rue d'oradour Sur Glane 75015 PARIS, France

Stock Listings

Tokyo Stock Exchange
Osaka Securities Exchange

HONG KONG TECHNOLOGY CENTER

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Hong Kong

Transfer Agent

Mitsubishi UFJ Trust and Banking
Corporation
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Chiyoda-ku, Tokyo 100-0005, Japan

SHANGHAI TECHNOLOGY CENTER

2701, UNITED PLAZA, 1468 Nanjing Road West, Shanghai, 200040, China

TAIWAN TECHNOLOGY CENTER

3F, No.6, Sec.3. Min Chuan E. Road, Taipei, Taiwan

KOREA TECHNOLOGY CENTER

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(As of March 31, 2006)

Excellence in Electronics



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