

# Corporate Governance

## Basic Policy concerning Corporate Governance

In line with the social trend that mandates effective corporate governance, ROHM acknowledges that it is an entity supported by all its stakeholders including shareholders, customers, business partners, local communities and employees. Based on this acknowledgment, ROHM believes that its business operations and activities must be founded on corporate fairness, soundness and transparency and positions establishment of the corporate governance as an extremely important issue. Under this acknowledgment, ROHM has been carrying out various activities to prioritize the enhancement of corporate values in consideration of its stakeholders.

## Structure of Management Organization for Executive Decision-making, Implementation, Supervision and Other Corporate Governance System

### (1) Organizational structure and operation

ROHM believes that an agile and effective management system with emphasis on competitive enhancements in the semiconductor industry, where the business environment is undergoing accelerated change, can be established so Directors familiar with ROHM's businesses and technologies have executive power and supervise each other. As part of the executive supervision, ROHM maintains the existing auditing system, which is implemented only by outside Corporate Auditors, based on the idea that internal supervision over the executive branch will function sufficiently by improving and enhancing the system.

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 and exchange their opinions. The Corporate Auditors also work in cooperation with ROHM's Internal Auditing Department. The activities of the Internal Auditing Department are communicated to the Corporate Auditors by means of a monthly report.

Other functions of ROHM's outside Corporate Auditors include: auditing ROHM's divisions and affiliates by dividing the audit tasks among the Corporate Auditors according to their experience and expertise and attending the Board of Directors and the Board of Corporate Auditors to make necessary comments to the management from the viewpoints of respective areas of expertise. To support the outside Corporate Auditors, ROHM's auditing system requires that the materials related to the Directors' decision-making (minutes of the Board of Directors, circulars sent around for managerial decisions, etc.) are reviewed on a regular basis, and that major divisions of ROHM make reports of their operations and other information via the monthly report. Additionally, the Internal Audit Department, consisting of six staff members including the Department Chief, audits individual divisions and affiliates of ROHM by interviewing executives and employees, inspecting documents and sets of accounts and regularly communicates the audit results to the Corporate Auditors. Various findings from day-to-day audit activities are also communicated from full-time Corporate Auditors to part-time Corporate Auditors at the Board of Corporate Auditors and on other occasions as needed.

To determine remuneration and bonuses for the Directors, ROHM has adopted a performance pay system, in which remuneration and bonuses for the Directors are decided using the consolidated profit of the relevant fiscal year as the performance indicator, to clarify the management responsibilities of the Directors. The total amount of remuneration paid to all Directors is disclosed in the annual securities reports and other relevant announcements.

Compensation and other payments made to Directors for the year ended

March 31, 2007: ¥423 million

(Notes)

1. The amount of compensation paid to Directors does not include the amount of employee salaries paid to employee Directors.
2. A resolution was passed at the 48th general shareholders' meeting on June 29, 2006, setting maximum annual compensation for Directors at ¥600 million.
3. The amount of compensation paid to Directors includes bonuses to Directors for the year ended March 31, 2007 (¥58 million), and provision for retirement benefits for Directors and Corporate Auditors for the same year (¥82 million).

### (2) Matters related to functions such as performance of business operation, audits, supervision, designation of certified public accountants and decision on remuneration

The Articles of Incorporation limit the number of directors on the Board of Directors to ten in order to encourage sufficient discussion whilst allowing adequate and swift decision making. Additionally, one outside Director was designated to enhance mutual supervision among the Directors. With five Corporate Auditors, ROHM reinforces auditing functions by overseeing all implementations. The Auditors are committed to building a fair management supervision system through legally stipulated audits.

The Corporate Auditors attend important meetings such as the Board of Directors and audit the individual divisions of ROHM and its affiliates together with the Internal Audit Department by holding meetings with those in managerial positions and by inspecting documents and reports. Through these audits ROHM checks whether the Directors perform their duties in compliance with the existing laws, whether ROHM's internal control is well maintained and operated, whether the in-house rules are well observed, and whether the soundness of ROHM's assets is ensured.

All Auditors - Corporate Auditors, Internal Audit Department and Accounting Auditors- regularly have report meetings, consistently maintain close cooperation and coordination and proactively exchange their information and opinions. Sharing the information obtained through their individual audits enhances the accuracy of the audits and constantly improves the operation process.

ROHM is under contract with Deloitte Touche Tohmatsu for its accounting audits and abides by Japanese Corporation Law and Financial Instruments and 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, 2008, the number of consecutive years they have been engaged in auditing ROHM and information on the 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 (4 years), Yasuhiro Onishi (1 year), Hiroyuki Asaga (6 years)

Major assistants in the audits

6 CPAs and 9 assistant CPAs and clerical personnel

## 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 four weeks

prior to each meeting and has enabled its shareholders to exercise their voting rights via the Internet connection from PCs and mobile phones. In addition, based on the findings of surveys on shareholders, ROHM takes various actions including promotion of investor relations activities, facilitation of the process to exercise voting rights and preparing an English version of notices of general shareholders' meetings.

## **(2) Investor relations activities**

In Japan, the financial results briefings given by two or more Directors are held twice a year to provide domestic securities analysts and corporate investors with information on business results, forecasts and strategies.

For overseas investors, regular briefings are held once a year in the US and Europe.

Furthermore, ROHM has an investor relations section on its homepage that provides a wealth of information including legally stipulated disclosure documents such as financial reports, voluntary information including annual reports, materials for financial results briefings, performance trend charts and long-term financial data, an IR calendar and information on paperwork for shareholders.

## **(3) Efforts to ensure respect for stakeholders**

ROHM expresses its intention to respect all stakeholders surrounding ROHM through the publication of CSR (Corporate Social Responsibility) reports. As part of efforts to ensure due respect for stakeholders, ROHM also strives to enlighten and educate its employees by distributing the 'Guidelines for Ethics in the Business of the ROHM Group'.

ROHM has also introduced an environmental management system applicable to all ROHM Group companies based on ISO 14001 to actively and continuously contribute to environmental conservation. As for CSR activities, ROHM also promotes business operations based on the idea that the sustainable development as a corporate citizen fulfills social corporate responsibility. Specifically, ROHM makes constant efforts to build up and maintain favorable relations with local communities and society through various activities including donations of research institutions to universities and active involvement in charitable activities intended for local communities such as sponsoring and supporting various types of events.

Regarding provision of information to stakeholders, ROHM's policies on information disclosure to stakeholders are outlined in in-house rules on information disclosure including the requirements for fairness and legal compliance.

## **Basic Policy and Current Status concerning Internal Control System**

Enhancement of the internal control system is one of the most important management issues, and the ROHM Group is not only committed to maintaining proper business processes across the whole Group, but also to ensuring reliable financial reporting, thereby fulfilling corporate social responsibility. ROHM is advancing the establishment and enhancement of its internal control system based on the following specific policies.

### **(1) System for ensuring 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 any violation by any Director, of the laws, regulations or in-house rules and to take preventive measures against any recurrence.
- 5) All Corporate Auditors are appointed from outside the Company to constantly monitor how the Directors perform their duties in compliance with established laws, regulations, and Articles of Incorporation.

### **(2) System regarding storage and management of information on the execution of Directors' duties**

- 1) All materials related to the Directors' decision-making process as well as information regarding the execution of their duties are maintained in written form. This may include minutes and other materials pertaining to general shareholders' meetings, materials pertaining to the Board of Directors meetings, circulars sent around for managerial decisions, and materials pertaining to annual business planning. 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 and other relevant parties upon request.
- 3) Information pertaining to the execution of duties of Directors is properly retained and controlled by related units, etc., and insider information is disclosed on a timely basis and properly through the Corporate public relations units under the control of the Information Disclosure Committee.

### **(3) Rules and system regarding the management of risk of loss**

- 1) ROHM has organized an in-house Risk Control Committee as an overall risk management function. The committee sets out risk management policies on the basis of the risk management regulations formulated at the committee. The committee extracts and analyzes all the potential risks that may occur in performing tasks, and decides countermeasures against them, and at the same time, reviews and controls the activities of various entities in management regarding potential risks.
- 2) ROHM has established different in-house committees including the Central Health and Safety Committee, Fire Prevention Committee, and the Environmental Conservation Committee as well as subcommittees, and through daily activities of those committees, prevents risks and addresses unavoidable risks in a proper and ethical manner.

### **(4) System for ensuring 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 the segregation of duties, executes his/her own specific duties.

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- 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) Documented company standards of risk management, information management and other in-house management procedures are strictly observed.
- 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 for ensuring 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 the compliance activities of the Group as a whole. The responsible persons of functions of each Group company are appointed as compliance leaders in order to make sure that everyone in the function is thoroughly conversant with awareness of compliance and legal compliance.
- 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 Compliance Committee, the Information Disclosure Committee, the Central Health and Safety Committee and the Environmental Conservation Committee, to check the status of compliance and conduct enlightenment activities across the Group.
- 3) Under the control of the Information Disclosure Committee, each unit makes efforts to properly manage insider information, provide education and enlightenment to employees, and prevent insider trading.
- 4) Through addressing the system for evaluating and audit internal control concerning financial reporting, the internal control system is being enhanced and the reliability of financial reporting is secured.
- 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, ensur-

ing compliance with the established laws, regulations, Articles of Incorporation, and making necessary improvements for streamlining of work processes.

## (6) System for ensuring 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 the staff members of ROHM Co., Ltd. or its subsidiaries to supervise and ensure sound and appropriate business operations.
- 3) A compliance system similar to that of ROHM is organized in subsidiaries for enhancing deployment and cooperation of compliance activities.
- 4) A system is operated 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.
- 5) The internal control system is being improved and enhanced in order to cover not only the Company but also its major subsidiaries through addressing a system for ensuring sound and appropriate financial reporting which include procedures for auditing financial reporting.
- 6) 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

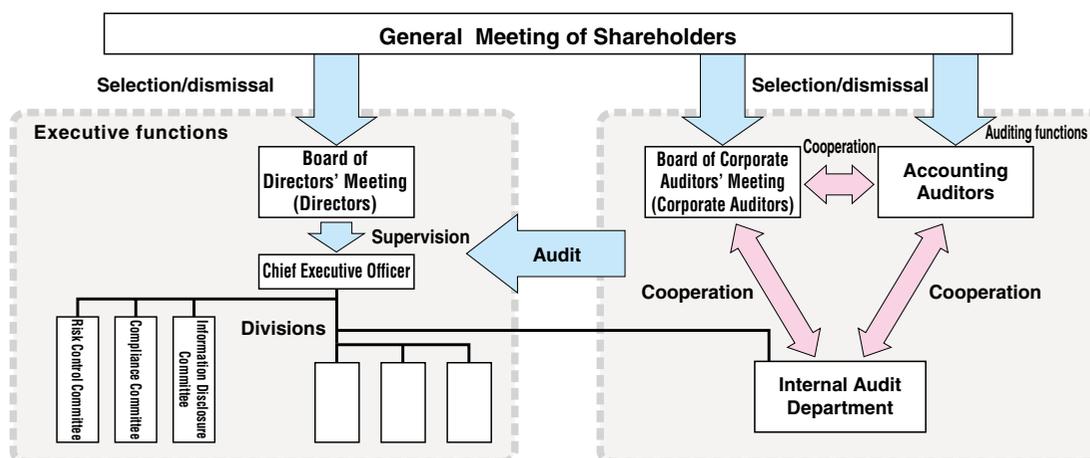
When requested by a Corporate Auditor, support staff with necessary practical skills is provided.

## (8) Independence of the employees indicated in (7) above from Directors

Corporate Auditors’ support staff members shall not hold a post or engage in any activity related to the implementation of the Company’s business operations. Any personnel changes involving them shall require the prior approval of the Board of Corporate Auditors. In the personnel performance evaluation process, 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 system reports to Corporate Auditors

### <ROHM Corporate Governance System>



- 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 by any Director, or of any fact that may cause material damage to the Company.
- 2) The Compliance Committee, the Risk Control Committee, the Information Disclosure Committee, and other committees make a report regularly to Corporate Auditors by means of minutes.
- 3) The Company maintains a system in which the processes and results of execution of business operations are communicated to Corporate Auditors as deemed appropriate by presenting reports and circulars sent around for managerial decisions as well as 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 to establish a sophisticated and capable auditing system with a high degree of independence.

### **Risk Management**

The following are the risks that may have great impacts on the ROHM Group's financial status and operating results.

#### **(1) Risks associated with market changes**

The semiconductor industry and electronics component industry are subject to sudden, abrupt changes in market conditions, as original equipment manufacturers 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 as well as 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 ROHM 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 affects our business performance, while a weak yen has a favorable influence.

#### **(3) Risks of product defects**

As stated in the Company Mission, the ROHM Group regards "quality" as a top persistent priority. Our products are produced under severe quality control measures. 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 ROHM 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 such original technologies. The ROHM Group has a specialized 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, the ROHM Group complies with all the relevant laws and regulations in all the fields the ROHM Group does business in: monitoring gas emissions, drainage, harmful-material utilization and handling, waste treatment, and soil/underground water pollution. However, The ROHM Group may shoulder legal responsibilities in this respect, because of a difference in views among those concerned or unexpected events. Such cases would possibly have an adverse influence on our business performance.

#### **(5) Natural disasters and geopolitical risks**

The ROHM Group performs development and manufacturing 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, or political uncertainty or international conflicts. Our business performance may be affected in cases where these events prevent us supplying products to customers.

#### **(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 during the course of business activities, such as logistics risks, material procurement risks, and information system risks.

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.

### **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 called 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. Should the bidder fail to comply, the Board will take prescribed measures (including issuance of stock acquisition right certificates). Details are available on the Company's website.