



# Financial Section

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In the fiscal year ended March 31, 2004, the world economy as a whole remained sluggish in the first half of the year due to the effects of international conflicts and SARS, as well as continuous employment uncertainty mainly in the U.S. However, in the second half, with the U.S. housing investment and consumer spending showing improvement, as well as with signs of economic recovery in Asia following the SARS scare, the world economy took an upturn.

The Japanese economy also remained slow in the first half of the year, but some signs of recovery finally appeared after the summer, including a stock market upturn and various economic indicators showing continuing improvement.

In the electronic components industry, in the first half of the year the market recovery resulting from certain seasonal factors remained slow and the demand for electronic components was weak, except those for some components for digital audio/video equipment such as flash memories. Following the autumn lull, however, supported by steady consumer spending and increasing prevalence of digital still cameras and other digital audio/video equipment, the electronic component market remained steady and did not show the decline seen in previous years.

In Japan, the demand for electronic components remained strong, especially in the second half of the year, due to a steady growth in production of digital audio/video equipment such as DVD recorders and digital still cameras, as well as the increasing sophistication of cellular phones. The Asian electronics market, despite its slowdown in spring due to the effects of SARS, remained brisk as a whole due to the continued production shift from the U.S., Europe, Japan and other parts of the world, as well as a strong growth not only in export but also in consumer spending in China and other Asian countries.

In the U.S., while consumer spending was strong, the electronics market remained slow, affected by the continued production shift to

Asia and the communications equipment market failing to attain full-fledged recovery. The European market, supported by an increase in demand for electronic components resulting from increasing sophistication of cellular phones, remained stable despite the continued production shift to Asia just as in the U.S.

Under these circumstances, ROHM concentrated its efforts, as in the previous year, on capital investment efficiency improvement and streamlining of the manufacturing process, so as to ensure profits. The Company also continued the shift of domestic production lines to overseas plants in Thailand, the Philippines, China and some other countries. Moreover, in an effort to establish a system to respond to future market growth from the medium- to long-term viewpoints, ROHM purchased a semiconductor manufacturing plant in Tsukuba, Ibaraki Prefecture, of LSI Logic Japan Semiconductor Inc., the Japanese subsidiary of the U.S. company, LSI Logic Corporation, so as to secure sufficient production capacity in anticipation of a growth in demand for semiconductor products.

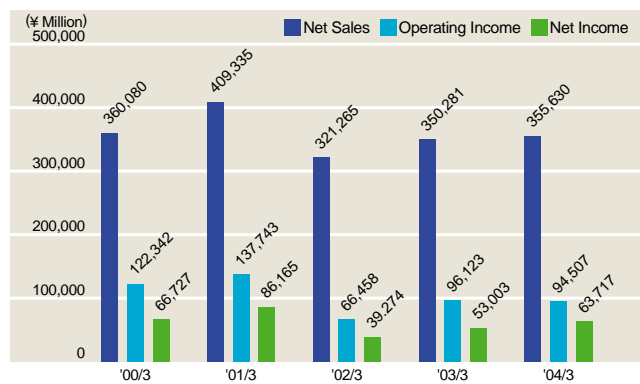
In addition, ROHM took a progressive approach to the development of innovative products ahead of the market needs, enhancing its product line intended for cellular phones and digital audio/video equipment, as well as the operation of the Optical Device Research Center, which serves as an R&D and production base for optical devices, the market for which is expected to undergo rapid growth.

ROHM has also strengthened its marketing system through the establishment of a customer-focused marketing organization.

As a result of these aggressive efforts, ROHM's net sales for the fiscal year ended March 31, 2004, increased 1.5% to ¥355.63 billion from the previous year, and net income was up 20.2% to ¥63.717 billion although operating income was down 1.7% to ¥94.507 billion.

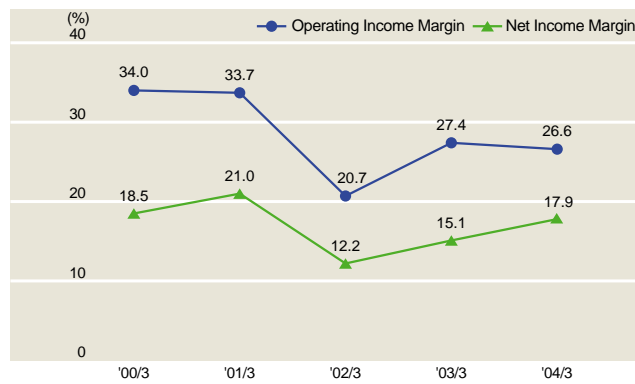
## Results of operations

### 1. Results of operations



In the year ended March 31, 2004, despite the business downturn in the first half of the year due to the effects of international conflicts and SARS, the Company's business took an upturn in the second half, supported by economic recovery following the SARS scare and increasing prevalence of digital audio/video equipment.

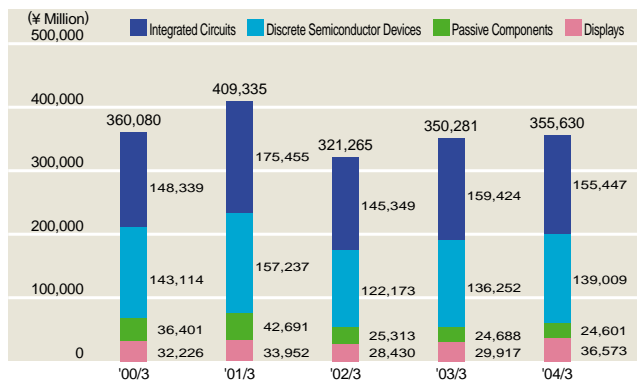
### 2. Income margin



Operating income margin declined slightly due to the appreciation of the yen, while net income margin improved because a gain of 10.9 billion yen was accounted for as extraordinary gains as a result of the transfer of the substitutional portion of the governmental pension program.

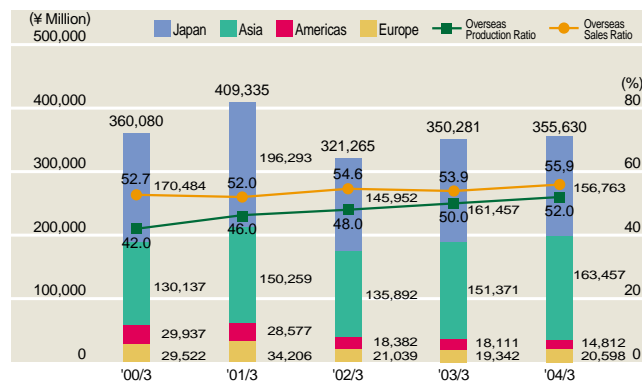
# Sales

## 1. Sales by product category



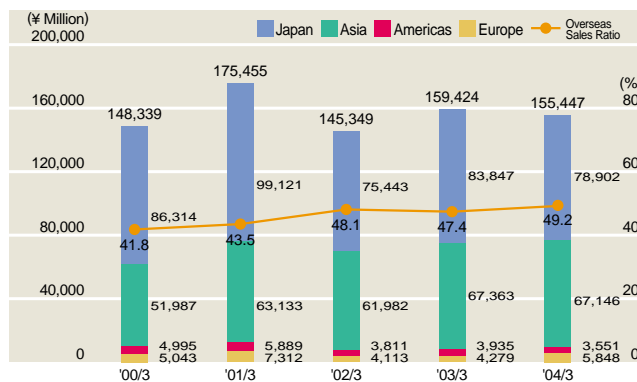
Despite the slow recovery of the market as a whole, sales of LCD modules for cellular phones, image sensor heads and printheads increased in the display category. In the area of discrete semiconductor devices, blue and white LEDs sold favorably.

## 2. Sales by geographical region and overseas production ratio

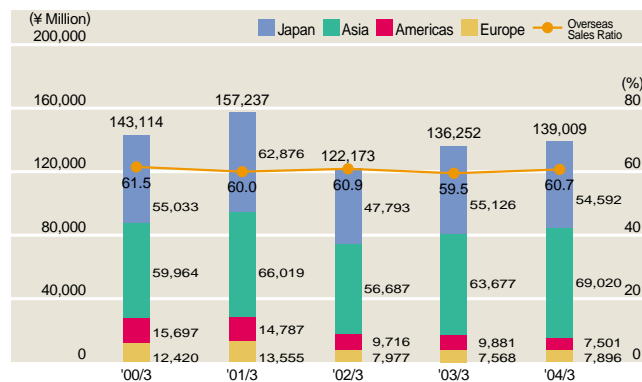


Sales increased in Asia due to an accelerated shift of electronics equipment production to Asia from other parts of the world. Overseas production ratio was 52.0%, up from 50.0% in the previous year as a result of the Company's enhanced production systems at production bases in Asia.

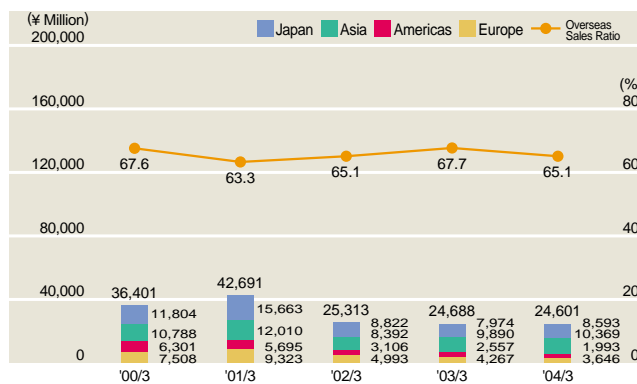
## 3. Integrated circuits sales by geographical region



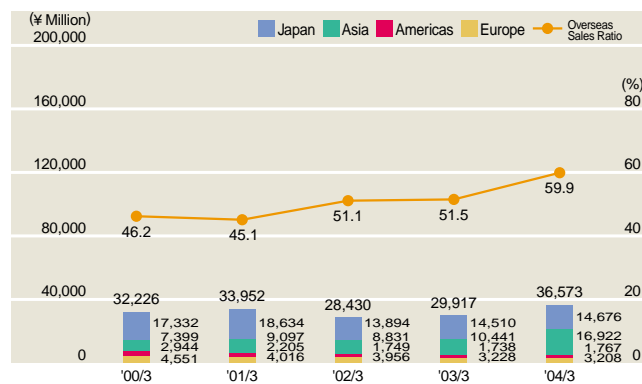
## 4. Discrete semiconductor devices sales by geographical region



## 5. Passive components sales by geographical region

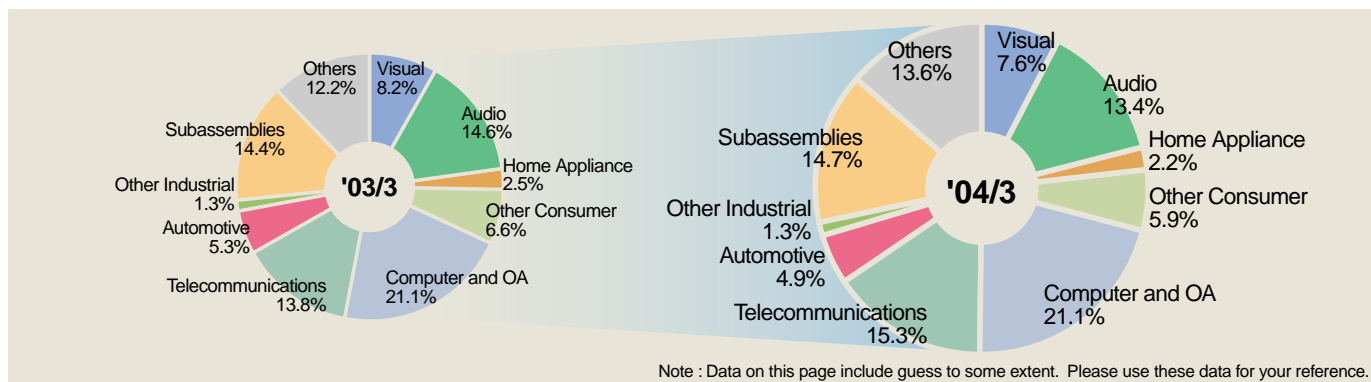


## 6. Displays sales by geographical region



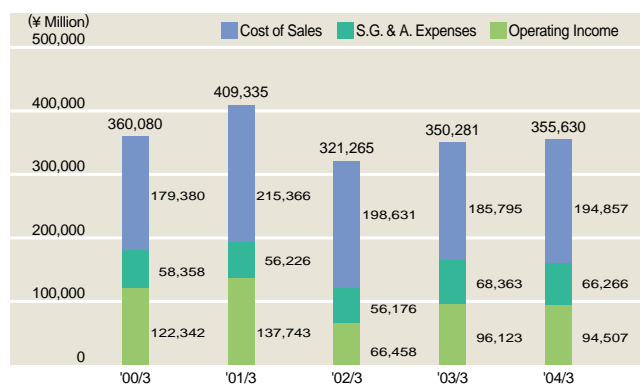
# Financial Review

## 7. Sales by application

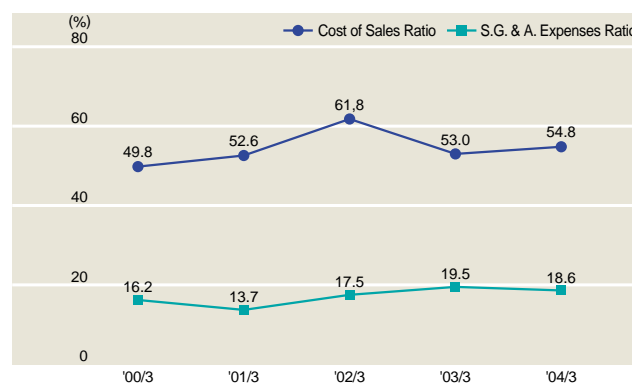


## Cost of sales, selling, general and administrative expenses, and operating income

### 1. Cost of sales, selling, general and administrative expenses, and operating income



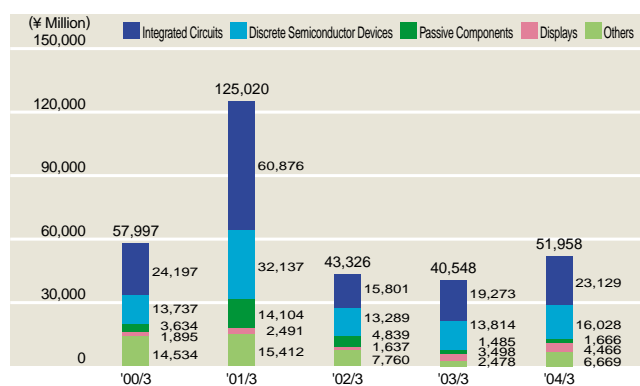
### 2. Cost of sales and selling, general and administrative expenses to net sales



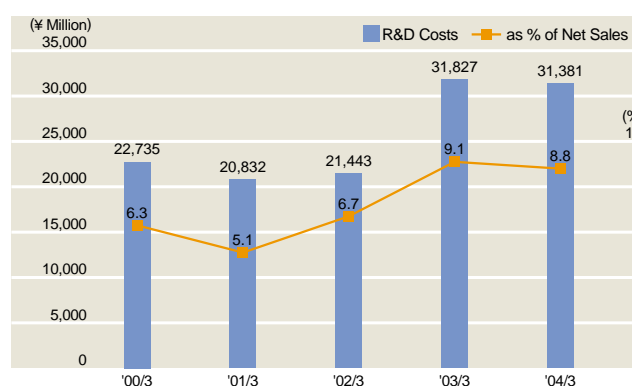
While sales remained at almost the same level for the year, rises in manufacturing expenses and labor costs contributed to the growth in the cost of sales. Selling, general and administrative expenses showed a slight decline.

## Capital expenditures and research and development costs

### 1. Capital expenditures



### 2. Research and development costs



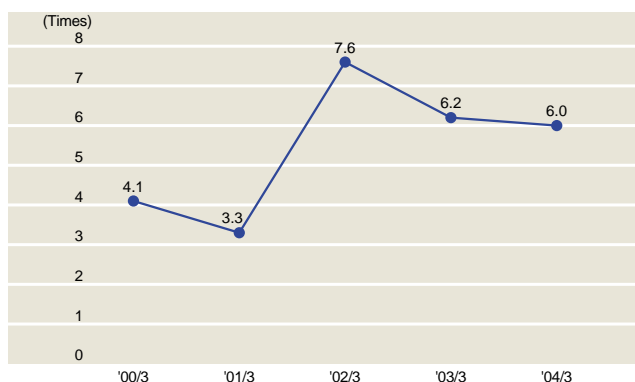
To respond quickly to the increasing digitalization and strengthen cost competitiveness, ROHM made active investment, including that in the development of a miniature and thin package product line and a 0.13 μm fine process, as well as in the establishment of a prototype production line for 300 mm wafers.

Moreover, in an effort to enhance its production system for discrete semiconductor devices, the Company purchased a semiconductor manufacturing plant in Tsukuba, Ibaraki Prefecture, of LSI Logic Japan Semiconductor Inc.

As part of R&D efforts, besides improving R&D efficiency, ROHM is actively proceeding with the development of future technologies in a wide range of fields.

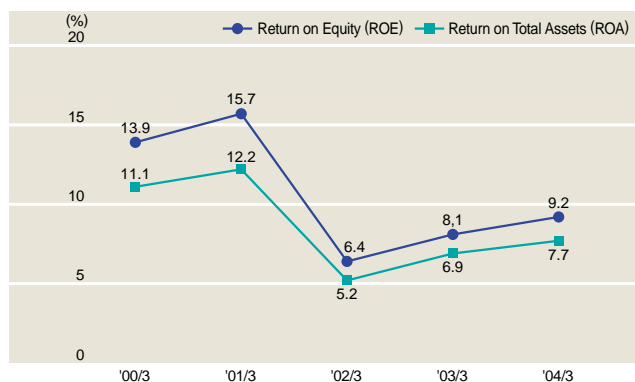
## Financial position

### 1. Current ratio



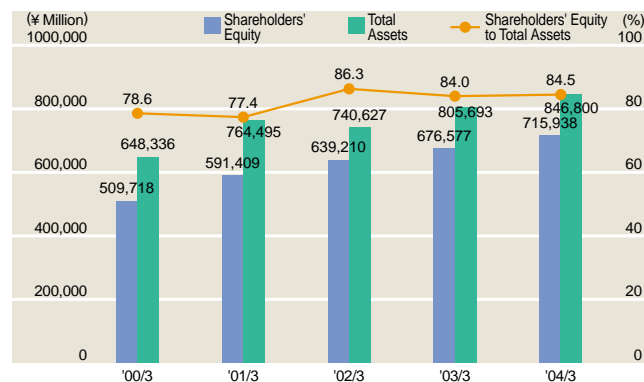
Current ratio remained at almost the same levels as the previous year, with no major changes in current assets and liabilities.

### 3. Return on equity (ROE) and return on total assets (ROA)



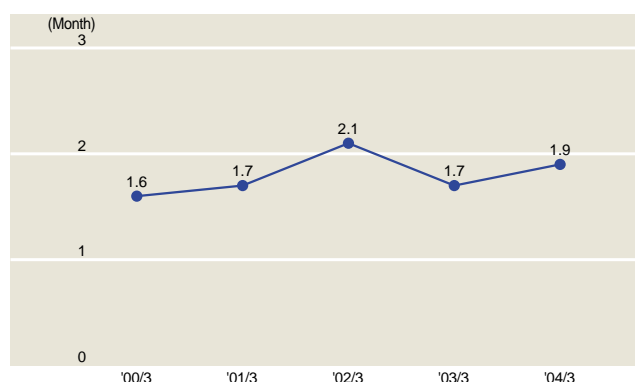
Return on equity (ROE) and return on total assets (ROA) improved due to profit increase.

### 2. Shareholders' equity and total assets



With the increase in the Company's profits, shareholders' equity and total assets are on the rise each year.

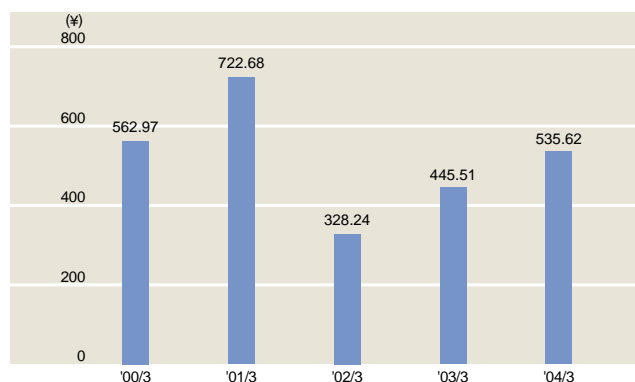
### 4. Inventory turnover



Inventory turnover period lengthened to 1.9 months due to an increase in inventories resulting from an increase in backlog of orders as of the end of the year under review.

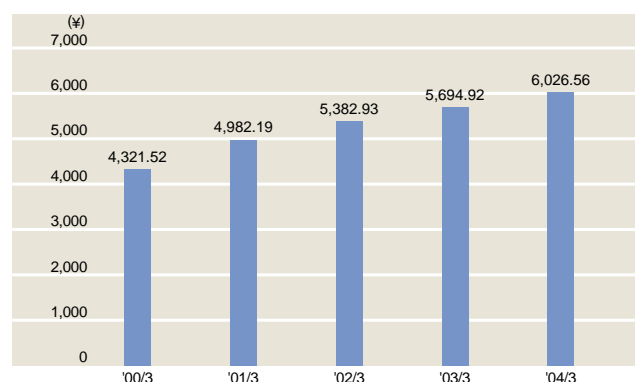
## Per share information

### 1. Net income per share



Net income per share increased by ¥90 to ¥535.62 as the Company's net income improved.

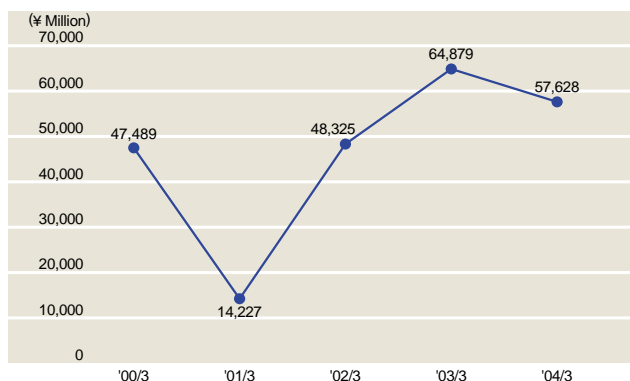
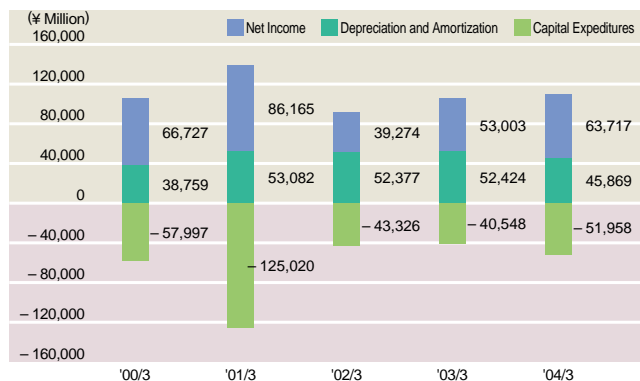
### 2. Shareholders' equity per share



Shareholders' equity per share increased to ¥6,026.56 due to the Company showing steady profits each year.

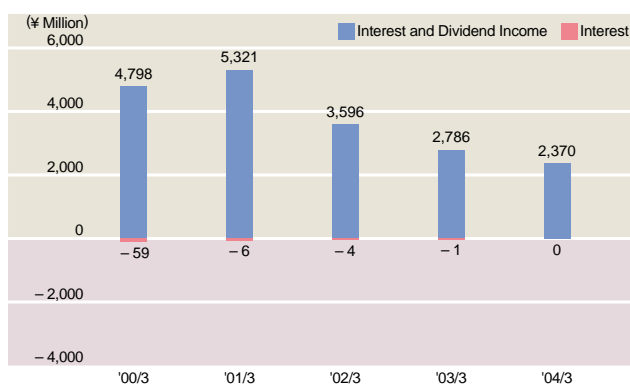
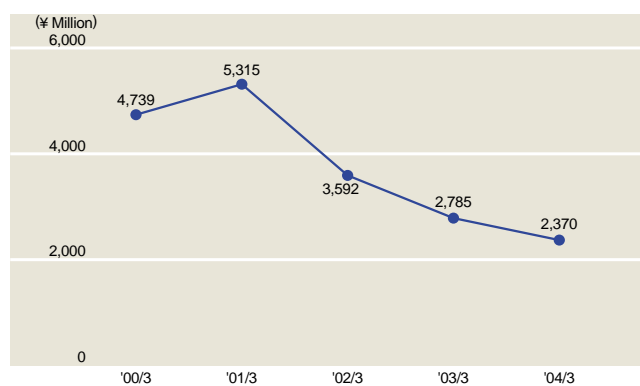
# Financial Review

## Net income, Depreciation, and Capital expenditure



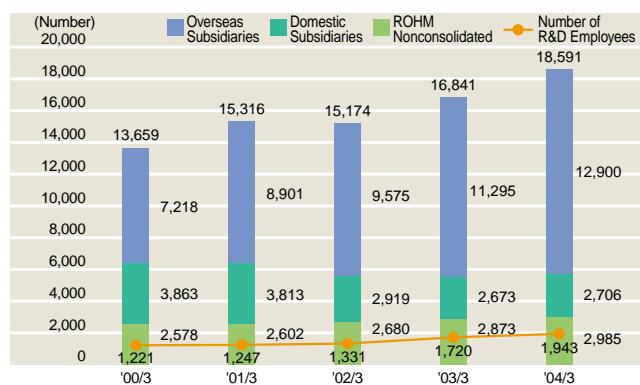
Net balance (net income + depreciation and amortization - capital expenditure)

## Net financial revenue



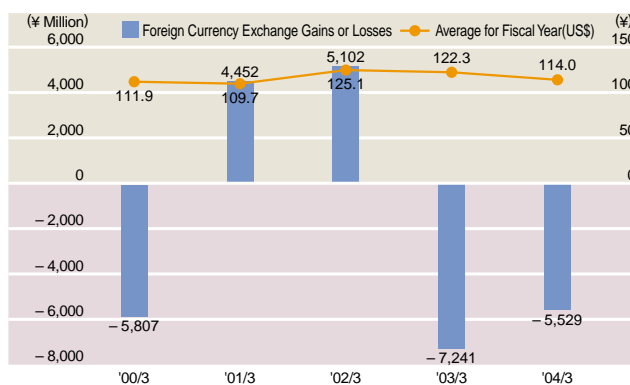
In fund management, ROHM places top priority on safety. The Company recorded a ¥2.3 billion surplus in net financial revenue under the prolonged low interest rate condition in Japan.

## Number of employees



With the shift to overseas production, the number of employees is increasing at overseas production bases. The Company has also been augmenting personnel for research and development, chiefly in Japan.

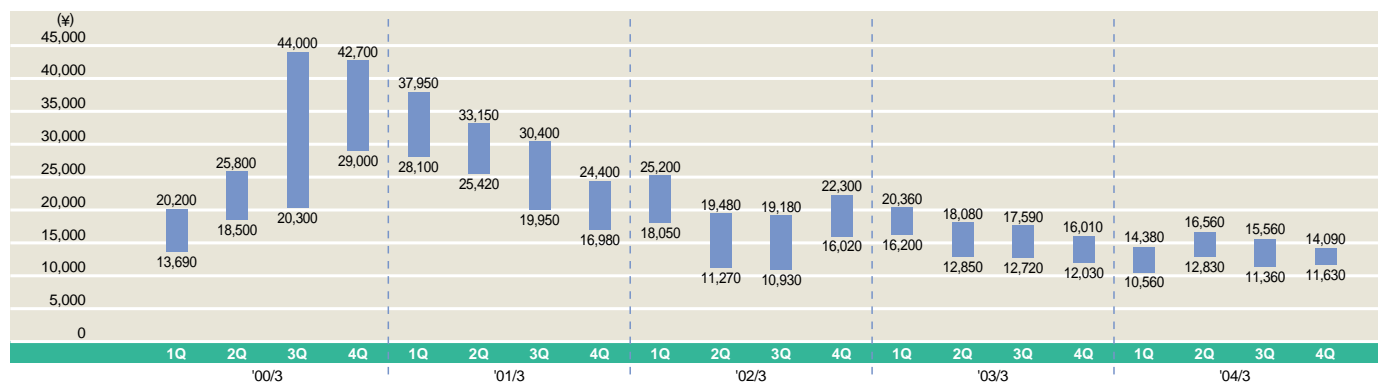
## Exchange rate and foreign currency exchange gains or losses



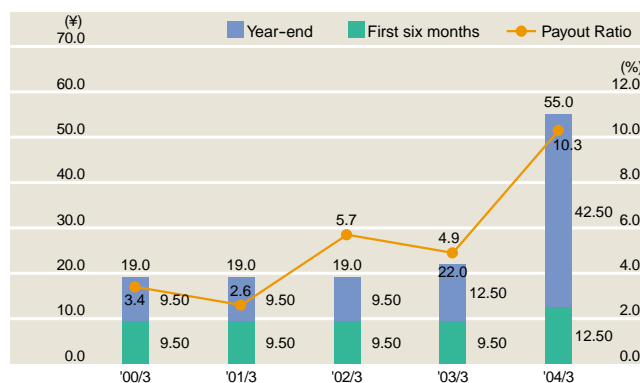
The average yen-dollar exchange rate during this year was ¥114.0. The Company made a loss of ¥5.5 billion from exchange losses resulting from the appreciation of the yen.

## Stock data

### 1. Stock prices; Quarterly highs and lows in each year (Osaka Securities Exchange)

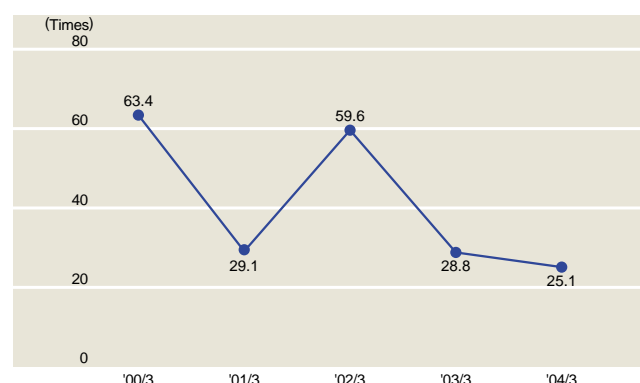


### 2. Cash dividends per share and payout ratio

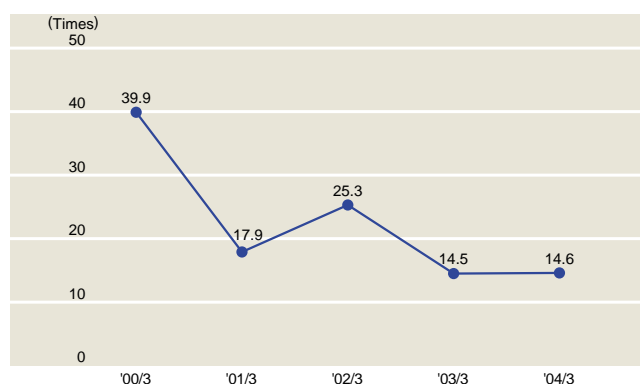


The Company has decided to pay annual dividends of ¥55.00 per share in light of business performance of the fiscal year ended March 31, 2004, expected demand for funds, and other factors.

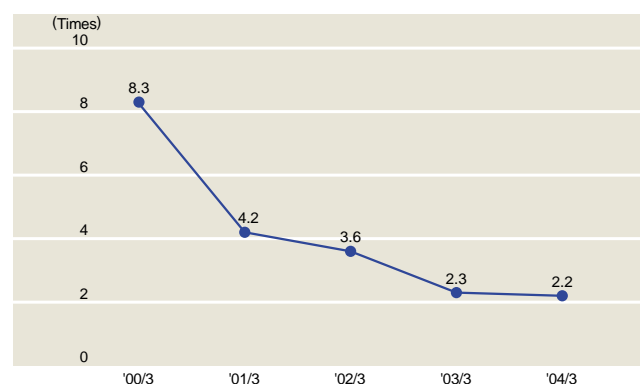
### 3. Price-earnings ratio (PER)



### 4. Price cash flow ratio (PCFR)



### 5. Price book-value ratio (PBR)



#### 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)/number of outstanding shares
- **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 common shares outstanding (consolidated) used in the computation for the fiscal year 2004, 2003, 2002, 2001, and 2000 was 118,784 thousand, 118,743 thousand, 118,671 thousand, 118,599 thousand and 117,777 thousand, respectively.

# Eleven-Year Summary

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

	1994	1995	1996	1997
<b>For the Year:</b>				
Net sales	¥199,988	¥241,493	¥ 292,280	¥ 297,790
Cost of sales	138,063	153,792	169,365	165,436
Selling, general and administrative expenses	36,134	40,757	43,031	46,834
Operating income	25,791	46,944	79,884	85,520
Income before income taxes and minority interests	23,046	45,030	78,303	89,962
Income taxes	10,899	23,589	38,055	42,888
Net income	12,512	22,685	38,199	45,540
Capital expenditures	27,131	37,895	57,676	38,014
Depreciation and amortization	25,590	36,074	31,881	37,563

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

Basic net income	¥ 123.79	¥ 214.10	¥ 343.63	¥ 393.56
Diluted net income	118.77	198.98	332.22	386.15
Cash dividends applicable to the year	14.50	19.00	25.00	19.00

## At Year-End:

Current assets	¥ 208,575	¥ 243,194	¥ 282,750	¥ 299,795
Current liabilities	63,147	88,193	114,207	103,520
Long-term debt	81,081	58,308	33,127	12,259
Shareholders' equity	201,618	236,609	292,249	338,541
Total assets	363,324	401,265	459,344	479,063
Number of employees	13,240	13,566	13,739	12,614

- Notes:
1. U.S. dollar amounts are provided solely for convenience at the rate of ¥106 to US\$1, the approximate exchange rate at March 31, 2004.
  2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.
  3. Certain retroactive adjustments of previously reported per share information have been made to conform with current method (see Note 2(m) to consolidated financial statements). Diluted net income per share for 2004 is not disclosed because there is no outstanding potentially dilutive securities.
  4. Effective April 1, 1994, the main foreign subsidiaries changed the method of depreciation for property, plant and equipment from the straight-line method to the declining-balance method. The effect of this change was to decrease "Income before income taxes and minority interests" for the year ended March 31, 1995, by ¥2,412 million.
  5. 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 (see Note 2(f) to consolidated financial statements).
  6. 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.
  7. 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.

Millions of yen							Thousands of U.S. dollars
1998	1999	2000	2001	2002	2003	2004	2004
¥ 335,923	¥ 328,631	¥ 360,080	¥ 409,335	¥ 321,265	¥ 350,281	<b>¥ 355,630</b>	<b>\$ 3,355,000</b>
163,060	185,175	179,380	215,366	198,631	185,795	<b>194,857</b>	<b>1,838,274</b>
56,260	53,365	58,358	56,226	56,176	68,363	<b>66,266</b>	<b>625,151</b>
116,603	90,091	122,342	137,743	66,458	96,123	<b>94,507</b>	<b>891,575</b>
119,486	93,340	114,902	147,059	68,129	90,476	<b>101,070</b>	<b>953,491</b>
56,453	39,706	46,469	60,581	28,829	37,479	<b>37,268</b>	<b>351,585</b>
60,990	52,235	66,727	86,165	39,274	53,003	<b>63,717</b>	<b>601,104</b>
51,607	49,202	57,997	125,020	43,326	40,548	<b>51,958</b>	<b>490,170</b>
35,088	41,242	38,759	53,082	52,377	52,424	<b>45,869</b>	<b>432,726</b>
¥ 521.71	¥ 443.14	¥ 562.97	¥ 722.68	¥ 328.24	¥ 445.51	<b>¥ 535.62</b>	<b>\$ 5.05</b>
517.34	441.15	561.63	721.47	327.89	445.30		
19.00	19.00	19.00	19.00	19.00	22.00	<b>55.00</b>	<b>0.52</b>
¥ 345,045	¥ 341,076	¥ 407,524	¥ 449,684	¥ 445,094	¥ 519,996	<b>¥ 530,121</b>	<b>\$ 5,001,142</b>
107,399	80,140	98,477	136,765	58,579	83,681	<b>88,321</b>	<b>833,217</b>
5,064	1,172	678	579				
401,861	452,961	509,718	591,409	639,210	676,577	<b>715,938</b>	<b>6,754,132</b>
533,825	550,432	648,336	764,495	740,627	805,693	<b>846,800</b>	<b>7,988,679</b>
12,633	12,675	13,659	15,316	15,174	16,841	<b>18,591</b>	

# Consolidated Balance Sheets

ROHM CO., LTD. and Subsidiaries  
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current Assets:</b>			
Cash and cash equivalents (Note 3) . . . . .	¥ 310,578	¥ 322,550	\$ 2,929,981
Short-term investments (Note 3) . . . . .	35,423	35,466	334,179
Notes and accounts receivable:			
Trade . . . . .	92,508	84,351	872,717
Other . . . . .	5,851	2,964	55,198
Allowance for doubtful notes and accounts . . . . .	(503)	(591)	(4,745)
Inventories (Note 4) . . . . .	61,494	52,488	580,132
Deferred tax assets (Note 8) . . . . .	12,425	14,160	117,217
Prepaid pension cost (Note 5) . . . . .	4,356	4,753	41,094
Refundable income taxes . . . . .	3,560		33,585
Prepaid expenses and other . . . . .	4,429	3,855	41,784
Total current assets . . . . .	<u>530,121</u>	<u>519,996</u>	<u>5,001,142</u>
<b>Property, Plant and Equipment:</b>			
Land . . . . .	53,968	52,537	509,132
Buildings . . . . .	150,282	146,665	1,417,755
Machinery and equipment (Note 10) . . . . .	355,761	340,014	3,356,236
Construction in progress . . . . .	23,592	17,779	222,566
Total . . . . .	<u>583,603</u>	<u>556,995</u>	<u>5,505,689</u>
Accumulated depreciation . . . . .	<u>(365,976)</u>	<u>(340,793)</u>	<u>(3,452,604)</u>
Net property, plant and equipment . . . . .	<u>217,627</u>	<u>216,202</u>	<u>2,053,085</u>
<b>Investments and Other Assets:</b>			
Investment securities (Note 3) . . . . .	89,085	57,366	840,424
Deferred tax assets (Note 8) . . . . .	5,794	6,966	54,660
Other (Note 2(a)) . . . . .	4,173	5,163	39,368
Total investments and other assets . . . . .	<u>99,052</u>	<u>69,495</u>	<u>934,452</u>
<b>Total</b> . . . . .	<u>¥ 846,800</u>	<u>¥ 805,693</u>	<u>\$ 7,988,679</u>

See notes to consolidated financial statements.

## LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current Liabilities:</b>			
Notes and accounts payable:			
Trade .....	¥ 23,432	¥ 17,866	\$ 221,057
Construction and other .....	42,539	24,228	401,311
Accrued income taxes .....	10,400	28,733	98,113
Deferred tax liabilities (Note 8) .....	381	747	3,594
Accrued expenses and other .....	11,569	12,107	109,142
Total current liabilities .....	<u>88,321</u>	<u>83,681</u>	<u>833,217</u>
<b>Long-term Liabilities:</b>			
Liability for retirement benefits (Note 5) .....	9,388	18,937	88,566
Deferred tax liabilities (Note 8) .....	32,858	26,253	309,981
Total long-term liabilities .....	<u>42,246</u>	<u>45,190</u>	<u>398,547</u>
<b>Minority Interests</b> .....	<u>295</u>	<u>245</u>	<u>2,783</u>
<b>Shareholders' Equity (Notes 6 and 12):</b>			
Common stock - authorized, 300,000,000 shares; issued, 118,801,388 shares .....	86,969	86,969	820,462
Capital surplus .....	102,404	102,404	966,075
Retained earnings .....	566,750	506,101	5,346,698
Net unrealized gain on available-for-sale securities (Note 3) .....	2,673	709	25,217
Foreign currency translation adjustments .....	(42,557)	(19,363)	(401,480)
Total .....	<u>716,239</u>	<u>676,820</u>	<u>6,756,972</u>
Treasury stock-at cost			
19,751 shares in 2004 and 15,498 shares in 2003 .....	(301)	(243)	(2,840)
Total shareholders' equity .....	<u>715,938</u>	<u>676,577</u>	<u>6,754,132</u>
<b>Total</b> .....	<u>¥ 846,800</u>	<u>¥ 805,693</u>	<u>\$ 7,988,679</u>

# Consolidated Statements of Income

ROHM CO., LTD. and Subsidiaries  
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
<b>Net Sales</b> .....	<b>¥ 355,630</b>	¥ 350,281	¥ 321,265	<b>\$ 3,355,000</b>
<b>Operating Cost and Expenses :</b>				
Cost of sales .....	<b>194,857</b>	185,795	198,631	<b>1,838,274</b>
Selling, general and administrative expenses (Note 7) ..	<b>66,266</b>	68,363	56,176	<b>625,151</b>
Total operating cost and expenses .....	<b>261,123</b>	254,158	254,807	<b>2,463,425</b>
<b>Operating Income</b> .....	<b>94,507</b>	96,123	66,458	<b>891,575</b>
<b>Other Income (Expenses):</b>				
Interest and dividend income .....	<b>2,370</b>	2,786	3,596	<b>22,358</b>
Interest expense .....		(1)	(4)	
Foreign currency exchange gains (losses) - net .....	<b>(5,529)</b>	(7,241)	5,102	<b>(52,160)</b>
Gain on transfer of the substitutional portion of the governmental pension program (Note 5) .....	<b>10,900</b>			<b>102,830</b>
Loss on transfer to a defined contribution pension plan (Note 5) .....	<b>(2,205)</b>			<b>(20,802)</b>
Special retirement expense (Note 5) .....			(5,436)	
Other - net .....	<b>1,027</b>	(1,191)	(1,587)	<b>9,690</b>
Total other income (expenses) - net .....	<b>6,563</b>	(5,647)	1,671	<b>61,916</b>
<b>Income before Income Taxes and Minority Interests</b> .....	<b>101,070</b>	90,476	68,129	<b>953,491</b>
<b>Income Taxes (Note 8):</b>				
Current .....	<b>26,731</b>	35,281	22,621	<b>252,179</b>
Deferred .....	<b>10,537</b>	2,198	6,208	<b>99,406</b>
Total income taxes .....	<b>37,268</b>	37,479	28,829	<b>351,585</b>
<b>Minority Interests</b> .....	<b>(85)</b>	6	(26)	<b>(802)</b>
<b>Net Income</b> .....	<b>¥ 63,717</b>	¥ 53,003	¥ 39,274	<b>\$ 601,104</b>
<b>Per Share Information (Notes 2(m) and 11):</b>		Yen		U.S. dollars
Basic net income .....	<b>¥ 535.62</b>	¥ 445.51	¥ 328.24	<b>\$ 5.05</b>
Diluted net income .....		445.30	327.89	
Cash dividends applicable to the year .....	<b>55.00</b>	22.00	19.00	<b>0.52</b>

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

ROHM CO., LTD. and Subsidiaries  
Years ended March 31, 2004, 2003 and 2002

	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
<b>Balance at April 1, 2001</b> . . . . .	118,613,291	¥ 86,687	¥ 102,122	¥ 419,179	¥ 788	¥ (17,348)	¥ (19)	¥ 591,409
Net income . . . . .				39,274				39,274
Conversion of convertible debt . . . . .	76,305	115	115					230
Cash dividends, ¥19.00 per share . . . . .				(2,254)				(2,254)
Bonuses to directors . . . . .				(456)				(456)
Net unrealized gain on available-for-sale securities . . . . .					209			209
Foreign currency translation adjustments . . . . .						10,820		10,820
Purchase of treasury stock . . . . .	(1,606)						(22)	(22)
<b>Balance at March 31, 2002</b> . . . . .	118,687,990	86,802	102,237	455,743	997	(6,528)	(41)	639,210
Net income . . . . .				53,003				53,003
Conversion of convertible debt . . . . .	111,061	167	167					334
Conversion of convertible debt by issuance of treasury stock . . . . .	4,716			(69)			83	14
Cash dividends, ¥19.00 per share . . . . .				(2,255)				(2,255)
Bonuses to directors . . . . .				(321)				(321)
Net unrealized gain on available-for-sale securities . . . . .					(288)			(288)
Foreign currency translation adjustments . . . . .						(12,835)		(12,835)
Purchase of treasury stock . . . . .	(17,877)						(285)	(285)
<b>Balance at March 31, 2003</b> . . . . .	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)
<b>Balance at March 31, 2004</b> . . . . .	<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>

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
<b>Balance at March 31, 2003</b> . . . . .	\$ 820,462	\$ 966,075	\$ 4,774,538	\$ 6,689	\$ (182,670)	\$ (2,292)	\$ 6,382,802
Net income . . . . .			601,104				601,104
Decrease in retained earnings due to decrease in ownership of an associated company . . . . .			(47)				(47)
Cash dividends, \$0.24 per share . . . . .			(28,019)				(28,019)
Bonuses to directors . . . . .			(878)				(878)
Net unrealized gain on available-for-sale securities . . . . .				18,528			18,528
Foreign currency translation adjustments . . . . .					(218,810)		(218,810)
Purchase of treasury stock . . . . .						(548)	(548)
<b>Balance at March 31, 2004</b> . . . . .	<u>\$ 820,462</u>	<u>\$ 966,075</u>	<u>\$ 5,346,698</u>	<u>\$ 25,217</u>	<u>\$ (401,480)</u>	<u>\$ (2,840)</u>	<u>\$ 6,754,132</u>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

ROHM CO., LTD. and Subsidiaries  
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
<b>Operating Activities:</b>				
Income before income taxes and minority interests	¥ 101,070	¥ 90,476	¥ 68,129	\$ 953,491
Adjustments for:				
Depreciation and amortization	45,869	52,424	52,377	432,726
Amortization of goodwill - net	17	(261)	(83)	160
Interest and dividends income	(2,370)	(2,786)	(3,596)	(22,358)
Foreign currency exchange losses (gains) - net	2,016	4,983	(4,066)	19,019
Increase (decrease) in net liability for retirement benefits	(8,978)	1,529	493	(84,698)
Write-down of investment securities	9	803	1,992	85
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivables - trade	(10,822)	(901)	15,203	(102,094)
Decrease (increase) in inventories	(12,143)	(7,655)	19,427	(114,557)
Increase (decrease) in notes and accounts payables - trade	6,605	570	(5,470)	62,311
Other - net	2,601	(420)	1,001	24,538
Sub-total	123,874	138,762	145,407	1,168,623
Interest and dividends - received	2,569	3,037	3,753	24,236
Interest - paid		(1)	(4)	
Income taxes - paid	(48,077)	(867)	(64,431)	(453,557)
Net cash provided by operating activities	78,366	140,931	84,725	739,302
<b>Investing Activities:</b>				
Decrease (increase) in short-term investments and investment securities - net	(28,097)	(3,664)	12,857	(265,066)
Purchases of property, plant and equipment	(45,221)	(35,828)	(79,440)	(426,613)
Other - net	1,181	1,110	(1,120)	11,141
Net cash used in investing activities	(72,137)	(38,382)	(67,703)	(680,538)
<b>Financing Activities:</b>				
Dividends paid	(2,970)	(2,255)	(2,254)	(28,019)
Other - net	(59)	(290)	52	(556)
Net cash used in financing activities	(3,029)	(2,545)	(2,202)	(28,575)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(15,172)	(7,794)	5,973	(143,133)
Net Increase (Decrease) in Cash and Cash Equivalents	(11,972)	92,210	20,793	(112,944)
Cash and Cash Equivalents at Beginning of Year	322,550	230,340	209,547	3,042,925
Cash and Cash Equivalents at End of Year	¥ 310,578	¥ 322,550	¥ 230,340	\$ 2,929,981
<b>Noncash Financing Activities:</b>				
Stock issued on conversion of convertible debt		¥ 320	¥ 230	
Conversion of convertible debt by issuance of treasury stock		14		

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 ¥106 to \$1, the approximate rate of exchange at March 31, 2004. 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.

Pursuant to agreements on October 21, 1999 between the Company and ROHM WAKO CO., LTD. and ROHM APOLLO CO., LTD., the two subsidiaries became wholly-owned subsidiaries of the Company on April 1, 2000, by utilizing the share exchange procedures under the Japanese Commercial Code (the "Code"). The excess of the acquisition costs over the Company's equity in the fair value of the subsidiaries' consolidated net assets is recorded as "Goodwill" in "Investments and Other Assets".

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.

### (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, certificate of deposits, and mutual funds 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) Liability for retirement benefits

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

Certain foreign subsidiaries also have local employees' defined contribution pension plans.

The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers 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.

In the current year, 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. 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 (\$102,830 thousand) 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 will

implement a defined contribution pension plan in the next fiscal year by which the former qualified defined benefit pension plan will be terminated. The Company and certain domestic subsidiaries applied accounting treatment specified in a guidance issued by the Accounting Standards Board of Japan (the "ASBJ"). The effect of this transfer was to decrease income before income taxes and minority interests by ¥2,205 million (\$20,802 thousand) and was recorded as "Loss on transfer to a defined contribution pension plan" in the income statement for the year ended March 31, 2004.

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 years of this change, amounting to ¥1,843 million, was amortized over a period of five years beginning with fiscal 1998.

Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

## (g) Research and development costs

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

## (h) 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.

## (i) 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.

**(j) 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.

**(k) 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.

**(l) Derivatives and hedging activities**

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate 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.

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income when paid or received.

**(m) Per share information**

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the ASBJ.

Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the

weighted-average number of common shares outstanding in each 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. Basic net income and diluted net income per share for the years ended March 31, 2004, 2003 and 2002 are computed in accordance with the new standard. However, diluted net income per share for 2004 is not disclosed because there is no outstanding potentially dilutive securities.

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.

**(n) New Accounting Pronouncements**

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 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 new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that 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 Group is currently in the process of adopting these pronouncements, and is not able to determine the effect of adoption.

# Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

## 3. Debt and equity securities

Debt and equity securities held by the Group as of March 31, 2004 and 2003 were classified and included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Securities classified as:			
Available-for-sale:			
Cash and cash equivalents . . . . .	¥ 21,032	¥ 26,136	\$ 198,415
Short-term investments . . . . .	17,650	21,825	166,510
Investment securities . . . . .	89,080	57,339	840,377
Total . . . . .	<u>¥ 127,762</u>	<u>¥ 105,300</u>	<u>\$ 1,205,302</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, 2004 and 2003 were as follows:

	Millions of yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . . . .	¥ 2,976	¥ 4,378	¥ 6	¥ 7,348
Government and corporate bonds . . . . .	98,464	239	182	98,521
Other . . . . .	21,006	69		21,075
Total . . . . .	<u>¥ 122,446</u>	<u>¥ 4,686</u>	<u>¥ 188</u>	<u>¥ 126,944</u>

	Millions of yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . . . .	¥ 2,853	¥ 1,315	¥ 308	¥ 3,860
Government and corporate bonds . . . . .	74,236	263	102	74,397
Other . . . . .	21,006	16		21,022
Total . . . . .	<u>¥ 98,095</u>	<u>¥ 1,594</u>	<u>¥ 410</u>	<u>¥ 99,279</u>

	Thousands of U.S. dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities . . . . .	\$ 28,075	\$ 41,302	\$ 57	\$ 69,320
Government and corporate bonds . . . . .	928,906	2,255	1,717	929,444
Other . . . . .	198,170	651		198,821
Total . . . . .	<u>\$ 1,155,151</u>	<u>\$ 44,208</u>	<u>\$ 1,774</u>	<u>\$ 1,197,585</u>

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, 2004 and 2003 were as follows:

	Carrying values		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Equity securities .....	¥ 818	¥ 907	\$ 7,717
Mutual funds investing in bonds (included in “Cash and cash equivalents”) .....		5,114	
Total .....	<u>¥ 818</u>	<u>¥ 6,021</u>	<u>\$ 7,717</u>

Proceeds from sales of available-for-sale securities were ¥1,811 million (\$17,085 thousand) and ¥7 million for the years ended March 31, 2004 and 2003, respectively. Gross realized gains and losses on these sales, computed on the moving average basis, were ¥3 million (\$28 thousand) and ¥8 million (\$75 thousand), respectively, for the year ended March 31, 2004 and ¥2 million and ¥0 million, respectively, for the year ended March 31, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Due in one year or less .....	¥ 17,550	¥ 21,769
Due in one to five years .....	78,321	51,890	738,878
Due in five to ten years .....	2,056		19,396
Total .....	<u>¥ 97,927</u>	<u>¥ 73,659</u>	<u>\$ 923,840</u>

#### 4. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Finished products .....	¥ 18,062	¥ 14,648
Semi-finished products and work in process .....	20,679	17,697	195,085
Raw materials and supplies .....	22,753	20,143	214,651
Total .....	<u>¥ 61,494</u>	<u>¥ 52,488</u>	<u>\$ 580,132</u>

# Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

## 5. Retirement Plans

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

Under these retirement plans, 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 and corporate auditors of ¥1,983 million (\$18,708 thousand) and ¥2,135 million at March 31, 2004 and 2003, respectively.

The net liability for employees’ retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation . . . . .	¥ 28,947	¥ 52,381	\$ 273,085
Fair value of plan assets . . . . .	(21,887)	(28,566)	(206,481)
Unrecognized actuarial loss . . . . .	(4,011)	(20,069)	(37,840)
Unrecognized prior service credit . . . . .		8,303	
Net liability . . . . .	3,049	12,049	28,764
Prepaid pension cost . . . . .	4,356	4,753	41,094
Liability for retirement benefits . . . . .	¥ 7,405	¥ 16,802	\$ 69,858

As of March 31, 2002, unrecognized prior service credit arose due to amendments made by the Company and certain subsidiaries to the articles of the pension plans to increase the eligibility age of participants for pension benefits.

The components of net periodic pension costs for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Service cost . . . . .	¥ 1,536	¥ 2,111	¥ 2,670	\$ 14,490
Interest cost . . . . .	866	1,233	1,412	8,170
Expected return on plan assets . . . . .	(501)	(822)	(1,026)	(4,726)
Recognized actuarial loss . . . . .	1,765	1,264	577	16,651
Amortization of prior service credit . . . . .	(593)	(580)	(70)	(5,594)
Gain on transfer of the substitutional portion of the governmental pension program . . . . .	(10,900)			(102,830)
Loss on transfer to a defined contribution pension plan . . . . .	2,205			20,802
Other . . . . .	93	207		877
Net periodic benefit costs . . . . .	¥ (5,529)	¥ 3,413	¥ 3,563	\$ (52,160)

Besides the above costs, the Group paid a special retirement allowance amounting to ¥5,436 million during the year ended March 31, 2002 and charged it to income.

Assumptions used for the years ended March 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Discount rate . . . . .	<b>2.0%</b>	2.0%	2.5%
Expected rate of return on plan assets . . . . .	<b>2.0%</b>	2.5%	3.0%
Allocation method of the retirement benefits expected to be paid at the retirement date . .	<b>Straight-line method based on years of service</b>	Straight-line method based on years of service	Straight-line method based on years of service
Amortization period of prior service credit . . .	<b>10 years</b>	10 years	10 years
Recognition period of actuarial gain / loss . . .	<b>10 years</b>	10 years	10 years

## 6. Shareholders' Equity

Japanese companies are subject to the Code to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded 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 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 as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of common stock may be available for dividends by resolution of the shareholders. 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 revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥308,202 million (\$2,907,566 thousand) as of March 31, 2004, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to 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.

## 7. Research and Development Costs

Research and development costs charged to income were ¥31,381 million (\$296,047 thousand), ¥31,827

million and ¥21,443 million for the years ended March 31, 2004, 2003 and 2002, respectively.

# Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

## 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 41.9% for fiscal 2004, 2003 and 2002. 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 effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2003 was immaterial.

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Inventories	¥ 8,248	¥ 7,748	\$ 77,811
Depreciation	11,761	11,253	110,953
Accrued expenses	1,636	1,667	15,434
Liability for retirement benefits	3,559	7,458	33,576
Other	5,738	8,015	54,132
Total	<u>30,942</u>	<u>36,141</u>	<u>291,906</u>
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	(41,752)	(38,623)	(393,887)
Prepaid pension cost	(1,769)	(1,991)	(16,689)
Refundable enterprise tax	(284)		(2,679)
Other	(2,157)	(1,401)	(20,349)
Total	<u>(45,962)</u>	<u>(42,015)</u>	<u>(433,604)</u>
Net deferred tax liabilities	<u>¥ (15,020)</u>	<u>¥ (5,874)</u>	<u>\$ (141,698)</u>

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current Assets - Deferred tax assets	¥ 12,425	¥ 14,160	\$ 117,217
Investments and Other Assets - Deferred tax assets	5,794	6,966	54,660
Current Liabilities - Deferred tax liabilities	(381)	(747)	(3,594)
Long-term Liabilities - Deferred tax liabilities	(32,858)	(26,253)	(309,981)
Net deferred tax liabilities	<u>¥ (15,020)</u>	<u>¥ (5,874)</u>	<u>\$ (141,698)</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 year ended March 31, 2004 was as follows:

	2004
Normal effective tax rate .....	<b>41.9%</b>
Lower income tax rates applicable to income in certain foreign countries .....	<b>(4.4)</b>
Tax credit for research and development expenses .....	<b>(1.4)</b>
Other-net .....	<b>0.8</b>
Actual effective tax rate .....	<b>36.9%</b>

Above information for 2003 and 2002 is not shown because the difference between the statutory tax rate and the actual effective tax rate was immaterial.

## 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, 2004 and 2003 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, 2004, 2003 and 2002 were ¥27 million (\$255 thousand), ¥44 million and ¥104 million, respectively.

Pro forma information at March 31, 2004 and 2003, 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
	2004	2003	2004
Acquisition cost .....	¥ 172	¥ 215	\$ 1,623
Accumulated depreciation .....	145	171	1,368
Net leased property .....	<u>¥ 27</u>	<u>¥ 44</u>	<u>\$ 255</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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year . . . . .	¥ 17	¥ 30	\$ 161
Due after one year . . . . .	10	14	94
Total . . . . .	<u>¥ 27</u>	<u>¥ 44</u>	<u>\$ 255</u>

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 ¥27 million (\$255 thousand), ¥44 million and ¥104 million for the years ended March 31, 2004, 2003 and 2002, respectively.

## 11. Net Income Per Share

The average number of shares used to compute basic net income per share for the year ended March 31, 2004 was 118,784 thousand shares.

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2003 and 2002, were as follows:

	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average shares	EPS
<b>For the year ended March 31, 2003</b>			
Basic EPS			
Net income available to common shareholders . . . . .	¥ 52,902	118,743	¥ 445.51
Effect of Dilutive Securities			
Convertible debt . . . . .	1	57	
Diluted EPS			
Net income for computation . . . . .	<u>¥ 52,903</u>	<u>118,800</u>	<u>¥ 445.30</u>
<b>For the year ended March 31, 2002</b>			
Basic EPS			
Net income available to common shareholders . . . . .	¥ 38,953	118,671	¥ 328.24
Effect of Dilutive Securities			
Convertible debt . . . . .	2	134	
Diluted EPS			
Net income for computation . . . . .	<u>¥ 38,955</u>	<u>118,805</u>	<u>¥ 327.89</u>

## 12. Subsequent Events

### Appropriations of retained earnings

The following appropriations of retained earnings as of March 31, 2004 were approved at the Company's shareholders' meeting held on June 29, 2004.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥42.50 (\$0.40) per share . . . . .	¥ 5,048	\$ 47,623
Bonuses to directors . . . . .	45	425

## 13. Segment Information

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2004, 2003 and 2002 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, 2004, 2003 and 2002 were summarized as follows:

	Millions of yen					Consolidated
	2004					
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	
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 . . . . .	211,966	268,120	14,323	22,097	(160,876)	355,630
Operating expenses . . . . .	172,892	212,321	14,906	21,141	(160,137)	261,123
Operating income (loss) . . . . .	¥ 39,074	¥ 55,799	¥ (583)	¥ 956	¥ (739)	¥ 94,507
Total assets . . . . .	¥ 372,752	¥ 252,675	¥ 32,248	¥ 16,495	¥ 172,630	¥ 846,800

# Notes to Consolidated Financial Statements

ROHM CO., LTD. and Subsidiaries

Millions of yen						
2003						
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers . . . .	¥ 164,399	¥ 148,016	¥ 17,420	¥ 20,446		¥ 350,281
Interarea transfer . . . .	55,369	103,305	296	366	¥ (159,336)	
Total sales . . . . .	219,768	251,321	17,716	20,812	(159,336)	350,281
Operating expenses . . .	174,163	202,028	17,524	19,674	(159,231)	254,158
Operating income . . . .	<u>¥ 45,605</u>	<u>¥ 49,293</u>	<u>¥ 192</u>	<u>¥ 1,138</u>	<u>¥ (105)</u>	<u>¥ 96,123</u>
Total assets . . . . .	<u>¥ 359,655</u>	<u>¥ 242,582</u>	<u>¥ 35,177</u>	<u>¥ 15,062</u>	<u>¥ 153,217</u>	<u>¥ 805,693</u>

Millions of yen						
2002						
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers . . . .	¥ 148,777	¥ 132,617	¥ 17,084	¥ 22,787		¥ 321,265
Interarea transfer . . . .	68,844	81,368	4,745	1,567	¥ (156,524)	
Total sales . . . . .	217,621	213,985	21,829	24,354	(156,524)	321,265
Operating expenses . . .	189,806	176,375	21,642	23,483	(156,499)	254,807
Operating income . . . .	<u>¥ 27,815</u>	<u>¥ 37,610</u>	<u>¥ 187</u>	<u>¥ 871</u>	<u>¥ (25)</u>	<u>¥ 66,458</u>
Total assets . . . . .	<u>¥ 365,422</u>	<u>¥ 230,459</u>	<u>¥ 38,943</u>	<u>¥ 13,441</u>	<u>¥ 92,362</u>	<u>¥ 740,627</u>

Thousands of U.S. dollars

	2004					Consolidated
	Japan	Asia	Americas	Europe	Eliminations/ Corporate	
Sales to customers . . . . .	\$ 1,497,792	\$ 1,519,679	\$ 132,906	\$ 204,623		\$ 3,355,000
Interarea transfer . . . . .	501,887	1,009,755	2,217	3,839	\$(1,517,698)	
Total sales . . . . .	1,999,679	2,529,434	135,123	208,462	(1,517,698)	3,355,000
Operating expenses . . . . .	1,631,057	2,003,028	140,623	199,443	(1,510,726)	2,463,425
Operating income (loss) . .	\$ 368,622	\$ 526,406	\$ (5,500)	\$ 9,019	\$ (6,972)	\$ 891,575
Total assets . . . . .	\$ 3,516,528	\$ 2,383,727	\$ 304,226	\$ 155,613	\$ 1,628,585	\$ 7,988,679

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, 2004, 2003 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Asia . . . . .	¥ 163,457	¥ 151,371	¥ 135,892	\$ 1,542,047
Americas . . . . .	14,812	18,111	18,382	139,736
Europe . . . . .	20,598	19,342	21,039	194,321
Total sales to foreign customers . . . . .	¥ 198,867	¥ 188,824	¥ 175,313	\$ 1,876,104