

To Our Shareholders and Friends

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

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



Ambrosial Gaze



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

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

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

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



The Concept of Zen

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

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

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



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

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

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

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



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

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

Social Responsibility

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

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

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



Taizo-in: Genshin no niwa, Yoko-en

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

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

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

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

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

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



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

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

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

Distribution of Profits to Shareholders

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

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

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

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Ken Sato
President



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Tea House and an Open Field

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

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

(Photo by Katsuhiko Mizuno)