Corporate Governance

Basic Policy Concerning Corporate Governance

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

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

(1) Organizational structure and operation

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

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

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

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

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

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

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

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

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

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

Major assistants in the audits

8 CPAs and 5 assistant CPAs

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

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

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

(2) Investor relations activities

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

(3) Efforts to ensure respect for stakeholders

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

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

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

Basic Policy and Current Status concerning Internal Control System

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

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

1 Directors' noncompliance with the laws, regulations, or Articles of Incorporation in performing their duties is deterred, based on the "Guidelines for Ethics in the Business of the ROHM GROUP," Board of Directors regulations, and other relevant rules.

2 Directors with a thorough knowledge of their own areas of expertise have responsibility and authority for business operations of their respective areas, hold discussions regularly, and supervise each other.

3 Every Director/Corporate Auditor promptly notifies the Board of Directors and the Board of Corporate Auditors of any violation of laws, regulations or in-house rules by any Director when the violation comes to be known by the Director/Corporate Auditor.

4 The internal "Compliance Hotline" system for reporting compliance concerns and issues has been established and is used to find violation by any Director of laws, regulations or in-house rules and to take prevention measures against any recurrence.

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

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

1 All materials related to Directors' decision-making and decisions regarding execution of their duties, including minutes and other materials pertaining to general shareholders' meetings, minutes and other materials pertaining to the Board of Directors meetings, circulars sent around for managerial decisions, and materials pertaining to annual business planning, are maintained in written form. Retention periods and other instructions for management of such documents comply with established laws, regulations and in-house rules.

2 All instructions to different units of the Company, Group companies or other relevant sectors are issued in written form in principle, and are maintained in a manner that is accessible by Directors, Corporate Auditors etc. upon request.

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

1 For environmental and safety risk management, ROHM has established various in-house committees, including the Central Health and Safety Committee and the Environment Conservation Committee, as well as subcommittees there under (e.g. subcommittee responsible for greenhouse gases), and, through daily activities of those committees, prevents risks and addresses unavoidable risks in a proper and ethical fashion.

2 ROHM has organized an in-house Risk Control Committee as an overall risk management function, which sets out risk management rules and policies and controls and reviews the activities of various sections in charge of the management of their own risks.

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

1 The number of members of the Board of Directors with executive authority has been reduced to ensure swift and proper executive decision-making.

2 The Board of Directors consists of Directors with a thorough knowledge of their respective areas of responsibility, and each Director, based on segregation of duties, executes his/her own specific duties.

3 Regarding matters that may have a significant impact on business management, expeditious decision-making is performed, as appropriate, at the Board of Directors meetings or by consultation via circular (documents sent around for managerial decision) according to in-house rules.

4 Company standards of risk management, information management and other in-house management procedures are created, documented and implemented.

5 To strengthen the competitiveness of the ROHM Group and to secure appropriate profits, a profit plan is prepared annually for each Group company and operating division specifying the target profit, for use in performance management.

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

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

2 In an effort to ensure that efficient actions are taken regarding compliance matters inherent in different areas of management, various committees have been established, including the Information Disclosure Committee, the Central Health and Safety Committee and the Environment Conservation Committee, to check the status of compliance and conduct enlightenment activities across the Group.

3 The internal control system is being enhanced prior to full-scale introduction of a system to evaluate and audit internal control concerning financial reporting.

4 To ensure sound and appropriate financial reporting, a system has been established in which written testimonies must be submitted by the relevant responsible persons of different ranks (including those persons of subsidiaries) to prove the soundness of financial reporting.

5 The internal "Compliance Hotline" system for reporting compliance concerns and issues has been established and is used to determine any violation by any employee of laws, regulations or in-house rules in the course of performing his/her duties and to take prevention measures against recurrence.

6 Internal audits are conducted to check the work of employees, thus ensuring compliance with established laws, regulations, Articles of Incorporation as well as making necessary improvements for streamlining of work processes.

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

1 Documented standards applicable across the ROHM Group are prepared and implemented.

2 Some directors/auditors of the ROHM Group companies are appointed from among the staff members of ROHM CO., LTD. or its subsidiaries to supervise and ensure sound and appropriate business operations.

3 A system is introduced that requires, in the case of important matters or issues at subsidiaries, consultation with ROHM CO., LTD. via a circular sent around for managerial decisions so that each sector of the Company exercises control across all the Group companies.

4 The internal control system is being improved and enhanced to cover not only the Company but also its major subsidiaries, prior to full-scale introduction of a system to ensure sound and appropriate financial reporting, including procedures for auditing financial reporting.

5 The Company's auditing department conducts internal audits of the Group companies.

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

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

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

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

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

1 Every Director makes reports to Corporate Auditors, as needed, regarding the presence or absence of any violation of laws, regulations or in-house rules by any Director with regard to the performance of his/her duties, or of any breach of duty of care by any Director, or of any fact that may cause material damage to the Company.

2 The Company has the Compliance Committee, the Risk Control Committee, and the Information Disclosure Committee, each of which makes a report regularly to Corporate Auditors by means of minutes.

3 The Company maintains a system in which processes and results of execution of business operations are communicated to Corporate Auditors as deemed appropriate by presenting reports, circulars sent around for managerial decision and by other means.

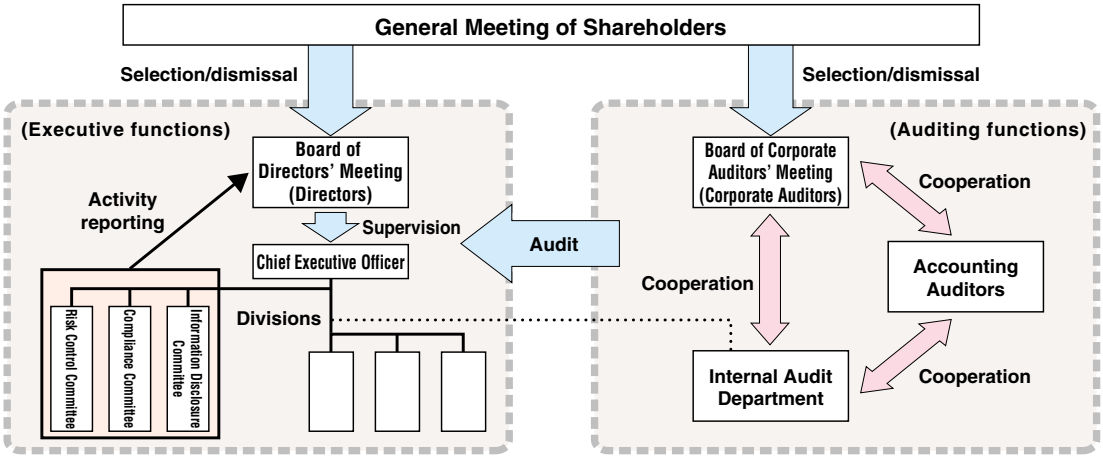
(10) Other systems to ensure effective audits by Corporate Auditors

1 Directors make reports on the current status of the internal control system at the request of the Board of Corporate Auditors.

2 The Internal Audit Department will be expanded and enhanced considerably to strengthen cooperation with Corporate Auditors.

3 All Corporate Auditors are appointed from outside the Company and include legal experts, accounting experts, and those from government ministries/agencies and financial circles so as to establish a sophisticated and capable auditing system with a high degree of independence.

<ROHM Corporate Governance System>



Risk Management

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

(1) Risks Associated with Market Changes

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

(2) Exchange Risks

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

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

(3) Risks of Product Defects

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

(4) Legal Risks

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

(5) Natural Disasters and Geopolitical Risks

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

(6) Other Risks and Corporate Risk Management System

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

Other Information

Defense against Takeover

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