



Overall Review of Business Results

The electronics market is expected to continue its growth over the medium to long term, driven by growing demand globally for mobile phones and digital home appliances such as flat-screen TVs. In the information and communications equipment segment, mobile phone demand is expanding in emerging markets including the BRICs^(*). Moreover, in advanced nations, where mobile phones are already popular, there is increasing replacement demand for handsets that incorporate more sophisticated multimedia capabilities such as high-speed data transmission and videotelephony. Likewise, in the area of digital audio/visual equipment, demand for flat-screen TVs and portable digital audio equipment is increasing rapidly, and production of digital cameras and DVD recorders remains high. Automotive industries are also becoming increasingly electronic, resulting in the number of semiconductors incorporated in automobiles being on the increase. Under these circumstances, ROHM is committed to developing and producing products of the utmost quality, consistently identifying new customer needs ahead of competitors, while making continued efforts to improve technical support for customers and enriching quality assurance systems.

Inspire Innovation



Development of New Technologies and Products

ROHM's bases for technological development include the RVLSI Research Center, Optical Device Research Center and the Kyoto Technology Center, which are located at the headquarters premises in Kyoto, as well as the Yokohama Technology Center. At these technological bases, more than 2,000 engineers are engaged in the development of products and production technologies, as well as in R&D on next-generation technologies with an eye to future electronics market potential. 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 through optimizing the Company's digital, analog, and combined digital/analog technologies required by circuit blocks used in electronic equipment.

The Company's LSI product development efforts continue to focus on products for use in digital home appliances, mobile phones and automotive electronics. ROHM is enhancing its product lineup for the digital home appliance market, particularly for flat-screen TVs. For mobile phones, ROHM is committed to the development of products not only for the Japanese mobile phone market but also for overseas markets, intending to become a worldwide supplier of mobile phone devices. As for products for use in automotive electronics, ROHM is making continued efforts to develop products of high quality and high reliability, both of which have been the strengths of ROHM products since its founding. ROHM is also committed to developing and upgrading industry-leading LSI development tools and platforms, including its "REAL SOCKET" design



system that enables the development of system-in-package LSIs based on chip-on-chip technology, as well as its system LSI development platform "REAL PLATFORM" that enables the design of highly sophisticated system LSIs simultaneously with the design of set systems.

Concerning discrete semiconductors and module products, ROHM continues to be committed to enriching its MOSFETs^{(*)2} and power diode products. The Company has launched the commercial production of high-speed switching MOSFETs as well as diodes and LEDs available in the world's smallest packages, quickly meeting increasing needs such as miniaturization and low power consumption for flat-screen TV and mobile-phone applications, which are growing in demand. In addition, focusing on the lighting market with considerable growth potential, ROHM is advancing the commercial production of LED products such as high-color-rendering, low-power-consumption LEDs and high-efficiency LED driver modules.

Regarding next-generation technologies, ROHM carries out extensive R&D activities at its Research and Development Headquarters, which consists of R&D centers for Next-Generation Semiconductors, Composite Devices, Nano-Bionics, New Material Devices, Display Devices, Photonics^{(*)3}, Solid State Lighting^{(*)4}, Advanced Compound Semiconductors, and other technologies. To improve the efficiency of these R&D activities, ROHM is actively involved in collaboration with Kyoto University and other major universities and institutions within and outside Japan, as well as with companies from different industrial sectors. Recent achievements include trial-produced SiC power devices (Schottky diodes and MOSFETs), which are highly rated by customers. They are now in the course of preparation for commercial production. Research on LEDs that emit polarized light and ultrahigh-efficient blue-violet laser diodes is also gaining in achievements. The joint research project between ROHM and Kyoto University, "Development of Laser Diodes Using Photonic Technology," has been covered by Nature, the world's most prestigious science magazine published in the United Kingdom.

Suirokaku

The Suirokaku aqueduct is a brick structure that stands quietly on the south side of the abbot's chamber of Nanzen-ji temple. It is a branch of the Lake Biwa canal, and was completed in 1888 (the 21st year of the Meiji era). The Suirokaku is approximately 93 meters long, 4 meters wide, and 14 meters high. Even today water flows vigorously through it at a rate of two tons per second contributing to the lives of the 1.4 million citizens of Kyoto.

The arch design, which reminds one of Roman ruins, reflects Dr. Sakuro Tanabe's consideration of the history and tradition of the Keage district. When standing in front of the Suirokaku, one senses an irrepressible character and pride. It must be because the Suirokaku houses the spirit of Kyoto's people who wagered on modernization.

A little over a century has passed since the completion of the Suirokaku. Embraced by the evocative Nanzen-ji, it blends in with the deep-green leaves of the surrounding trees and has become one of Kyoto's representative landmarks.

Production Technology and Systems

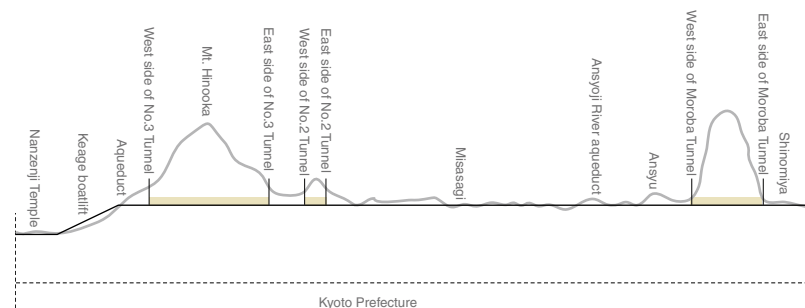
To ensure the most outstanding product quality and reliability in the industry, the majority of ROHM's manufacturing equipment for the back-end process is developed in-house. Such manufacturing equipment is used at all the plants of the Group including those overseas, enabling the Company to manufacture and supply high-quality products worldwide. Moreover, to guarantee a stable product supply to customers, ROHM pays particular attention to risk management; the Company is equipped with a double-backup system for protecting data, and the production bases of each product category are decentralized.

Regarding wafer processes, to ensure a quick response to growing demand, the plant at ROHM HAMAMATSU CO., LTD., which is a seismically isolated structure, has enlarged its clean room by half its former size, and adopted an automatic wafer conveyor system, thereby increasing capacity and efficiency for the 300 mm wafer process. To develop higher-performance LSIs, ROHM is developing copper-wired 90 nm fine process technology. ROHM is also promoting in-house production of materials such as 300 mm wafers, so as to reinforce and improve its quality assurance system. These efforts allow ROHM to carry out quality control in all LSI manufacturing processes from materials to the final processing stage, giving the Company's LSI products overwhelming superiority in terms of quality and reliability.

For the assembly process, ROHM has enhanced its production system in anticipation of future market growth. As part of this effort, a new plant building has been completed at ROHM FUKUOKA CO., LTD., intended exclusively for COF (Chip-on-Film)^{(*)5} for LCD drivers for use in TVs and PCs. ROHM has also completed huge new plants in China (Tianjin), Thailand and the Philippines, each with a total floor area of 30,000 m², enabling the Company to respond quickly to growth in demand.



Complete view of Lake Biwa Canal's line (painted by Shoryo Kawada) owned by the Tanabe House



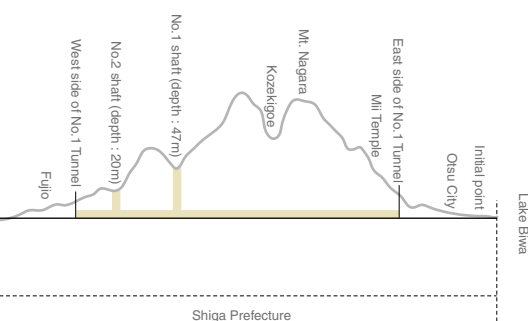
Sales System and Customer Support

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 its networks of design centers and quality assurance (QA) centers.

ROHM opened the Nagoya Design Center in 2006 as a technical support base, reinforcing the Company's LSI product development particularly for automotive applications. Outside Japan as well, ROHM has upgraded its customer support system, as well as its design and development system mainly for the areas of mobile phones and automotive electronic components, by, for example, enhancing its design center network in China, establishing a design center in Denmark, and beginning preparations for the establishment of a new design center in the U.S.

Reinforcement of the Company's quality assurance system is also under way both within and outside Japan, including enhancement of activities at the Europe QA Center in Germany.

Concerning its sales system, ROHM's sales bases are located close to the development bases of customers, allowing the Company to carry out customer-centered sales activities. In China, which is a key target area for our sales promotion outside Japan, ROHM has enhanced its customer support system by establishing sales bases in various areas of the country, including a new sales company in Shenzhen. In Eastern Europe, where production of electronic equipment for the European market is on the rise, the Company has augmented personnel at sales bases in Hungary, Poland and Russia.



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. To ensure that the entire ROHM Group worldwide pursues this principle, the Company has implemented various measures including: formulating the "ROHM Group Business Conduct Guidelines" and developing a follow-up policy to ensure employees' full understanding and observance of the Guidelines, in an effort to enlighten and educate employees; and improving an in-house checking system, including a whistle-blowing system for reporting compliance concerns and issues. ROHM is also committed to proper and timely disclosure of information so as to ensure fair and transparent management. 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.

As part of its activities to contribute to society and local communities, ROHM has donated research facilities named "ROHM Plaza" to Ritsumeikan University, Doshisha University and Kyoto University, where substantial education programs and industry-education joint projects are being performed for technological progress in Japan. In addition, the Company is also actively involved in tree planting in the vicinity of the Company's Head Office, and proactively dispatching employees to local volunteer activities.

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



The Lake Biwa Canal Project

During the Meiji era it was decided to reinvigorate the city of Kyoto, whose spirit had dimmed since the relocation of the Imperial Capital. The Lake Biwa Canal Project was implemented to reclaim the pride of Kyoto. By cutting out sections of the mountains that stood between Kyoto and the lake and by boring into bedrock, engineers were able to realize it was possible to bring the freshwater of Lake Biwa to the city. By overcoming difficulties that were often beyond imagination, the influence behind the success of this formidable project was a young engineer named Sakuro Tanabe- then only 21 years of age. The efforts of Tanabe and his team gave renewed hope to the citizens of Kyoto. Tanabe and his team harnessed the most advanced technology and the Lake Biwa Canal carved its name into the history books by being the first modern civil engineering project that was successfully completed in Japan by Japanese engineers. The water flowing through the Lake Biwa Canal still reflects the glorious natural scenery as the seasons change throughout the year, just as it did 100 years ago. Walk by the canal and wait for a gust of wind, then take a quick glimpse of the water and you just might be able to sense the pride of those Meiji men in their remarkable achievement.

Environmental Conservation

ROHM considers global environmental conservation a top priority and is committed to contributing to the continued wholesome existence of mankind and the everlasting progress of industries, as shown in its basic environmental philosophy. As part of the ROHM Group's across-the-board environmental management system, ROHM has established an Environmental Preservation Committee to discuss significant policies and measures for environmental conservation. 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 ISO 14001 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. Moreover, to ensure the highest possible levels of environmental quality of materials procured locally in individual countries, ROHM's major overseas production bases in China, Thailand, the Philippines and other countries are equipped with X-ray fluorescence spectrometers that detect an extremely small amount of cadmium and lead, improving material-acceptance operations. As part of its anti-global warming efforts, ROHM is actively conducting the extensive "ROHM Forest" project in Southern Australia, planting eucalyptus trees; the Company 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 7.83 million m² has been completed to date.



Corporate Philanthropy

ROHM is providing continuous support to the ROHM Music Foundation, with the objective of contributing to the progress of music as a cultural activity. In the year under review, ROHM and ROHM Music Foundation provided support for a number of musical events, including a classical concert performed by the Hungarian National Philharmonic Orchestra, the Autumn Kyoto Music Festival Opening Concert, the Opera Educational Program for high School Students, a piano recital by Mari Kumamoto, 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 annual Kyoto International Music Students Festival and the Seiji Ozawa Ongaku-juku Opera Project series.

ROHM also provided support for major distinctive sporting events, including the Lake Biwa Mainichi Marathon, one of the domestic qualifying races for the IAAF World Championships in Athletics; the Kyoto City Half Marathon, an urban marathon participated in by as many as 7,000 citizen runners; and the Inter Prefectural Men's Ekiden, a road relay race aimed at developing future top runners, with participation of mixed teams of junior high and/or high school runners and top college and/or non-professional adult runners.



Distribution of Profits to Shareholders

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, so as to live up to shareholders' expectations.

Rohm will return to shareholders not less than 100% of its consolidated free cash flow in each of the next three years. The form of this capital return will be by regular dividends, share repurchases or special dividends, while the company continues to aim at declaring stable regular dividends in a consistent manner, increasing the consolidated dividend payout ratio from the current 20% to approximately 30%.

*1 BRICs

A collective term that refers to four countries, Brazil, Russia, India and China, which are achieving substantial economic growth.

*2 MOSFET

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

*3 Photonics

Technology that uses quantum energy, such as light. It is expected to be applied in a variety of applications, including energy-related applications, telecommunications, and information technology.

*4 Solid State Lighting

Lighting that uses a solid substance like semiconductors, instead of lamps or electronic tubes. Representative solid-state lighting is LED lighting.

*5 COF (Chip on Film)

A special LSI packaging method used to connect the LCD driver LSI on the LCD panel. The LSI chip is directly mounted on the film substrate.



Nanzenji

Nanzenji, known as the 'Altar of the Five Peaks,' is the premier Zen Buddhist temple of the Muromachi period. Nanzenji was where students could learn of the latest scholastic developments in Zen Buddhism directly from China. The temple attracted outstanding academic talent from all over Japan. They were encouraged to discard rigid belief structures and embrace a more fluid, flexible perspective that promoted freedom of ideas and opinions.

During this time, the chaos and unrest following the conflict between the Northern and Southern dynasties subsided and a new era had started with new vibrant cultural movements taking place. The priests who had undergone their training at Nanzenji were to establish the foundations of Zen Buddhism in Japan.

The large triple gate to the temple lines up with the imposing facade of Higashiyama straight ahead and the scene is like a painting: large and small dwellings set against the gentle image of the Gautama Buddha flanked by two attendants, sitting in the temple's lecture hall. This has been bestowed to us by our ancestors and awakens the desire for innovation.