Renesas

FINANCIAL REPORT 2017

Fiscal Year Ended December 31, 2017

RENESAS ELECTRONICS CORPORATION

Contents

The following section, Management's Discussion and Analysis of Operations, provides an overview of the consolidated financial statements of Renesas Electronics Corporation ("Renesas Electronics"), and its consolidated subsidiaries (together, "the Group"), as of and for the fiscal year ended December 31, 2017.

At the 14th Ordinary General Shareholders' Meeting held on June 28, 2016, a partial amendment to the Company's Articles of Incorporation was approved and Renesas Electronics implemented a change in the fiscal term in which the fiscal year-end was changed from March 31 to December 31 starting from the fiscal year 2016.
The same change in the fiscal term has been applied to the consolidated subsidiaries of the Group, with some exceptions. As a result, the fiscal year ended December 31, 2016 comprised the nine months from April 1, 2016 to December 31, 2016, and the consolidated results listed below are compared with the corresponding period of the previous year (January 1, 2016 to December 31, 2016).

Introduction

Financial Position, Operating Results and Cash Flow Analysis
Forward-looking statements concerning financial position, operating results and cash flow are the Group's judgment as of December 31, 2017.

(1) Significant Accounting Policies and Estimates

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported value of assets and liabilities and the disclosure of contingent assets and liabilities at the fiscal year-end, and the reported amounts of revenues and expenses during the period presented. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable. As a consequence, actual results may differ from these estimates and assumptions.
The Group believes when the following significant accounting policies are used, its estimates and assumptions could have a significant impact on its consolidated financial statements.

1) Allowance for Doubtful Accounts

The Group provides an allowance for doubtful accounts based on the historical write-off ratio for receivables and any specific doubtful accounts based on a case-by-case determination of collectability. On the basis of information currently available, we consider the allowance for doubtful accounts to be adequate. However, changes in the underlying financial position of our customers, resulting in an impairment of their ability to make payments, may require additional provisions.

2) Inventories

Inventories are valued at the lower of cost or market. Regarding slow-moving and obsolete inventories, the Group writes down such inventories to their estimated market value based on assumptions about future demand and market conditions. If future demand and market conditions are less favorable than those projected, additional inventory write-downs may be required.

3) Impairment of Long-term Assets

The Group assesses whether or not the residual value of long-term assets on the balance sheets can be recovered from future cash flows generated from those assets, if there are signs of impairment. If sufficient cash flows cannot be generated from these assets, the Group may have to recognize impairment of the carrying value.

4) Investment Securities

Investment securities with a market value are valued at fair value based on the stock market price and other factors at the fiscal year-end. Unrealized gains and losses are included as a component of net assets, and the cost of securities sold is computed using the moving-average method. Investment securities without a market value are carried at cost or amortized cost using the moving-average method. If there is a significant decline in market price or value, the Group may recognize impairment, except when a recovery is expected. There could be impairment losses in the future if there is a significant decline in market price or value and no recovery is expected.

5) Deferred Tax Assets

The Group has recorded deferred tax assets resulting from deductible temporary differences and net loss carryforwards, both of which will reduce taxable income in the future. We set up valuation allowance to reduce deferred tax assets amounts to the amounts that are more likely than not to be realized.

We evaluate the necessity of valuation allowance for each subsidiary based on the information currently available, such as historical income performance, estimates of future taxable income, and estimates of the timing of when temporary differences will reverse.

In the event that some or all of these deferred tax assets are determined to be unrecoverable, the Group may record adjustments to deferred tax assets amounts as expenses in the period when judgment is made. Similarly, in the event that deferred tax assets in excess of the net total amounts recorded on balance sheet are determined to be recoverable, the Group may adjust tax expenses for the period when the judgment is made.

6) Retirement and Severance Benefits

The Group records the retirement benefit obligations and its related costs for employees based on actuarial assumptions, including expected changes in employee numbers in the future, the discount rate, the rate of future salary increases, and the long-term expected rate of return on plan assets. In the event that the aforementioned assumptions change, or differ from actual results, any impacts due to such differences are amortized over the estimated average remaining service periods of employees.

7) Contingent Liabilities

The Group is involved in several lawsuits and other litigation in which compensation for damages is being sought. At present, we have recorded sufficient provisions to cover losses associated with these actions in such cases where these losses are reasonably estimable.

8) Hedge accounting method

1) Hedge accounting method

Deferred hedge accounting is applied to the effective hedging transactions.

2) Hedging instruments and hedged items

Hedging instruments: Foreign exchange contracts, Currency options, Currency swaps, Foreign currency deposits

Hedged items: Forecasted transactions in foreign currencies

3) Hedging policy
Based on the Group's internal rules, hedging transactions are made to hedge the risk of foreign exchange fluctuations associated with the hedged items.

4) Assessment of hedge effectiveness
The assessment of hedge effectiveness is made by comparing the accumulated cash flows of the hedging instruments with those of the hedged items.

(2) Overview of Financial Results

	Year ended December 31, 2016 (Jan 1 – Dec 31, 2016)	**Year ended December 31, 2017** (Jan 1 – Dec 31, 2017)	Increase (Decrease)	
	Billions of yen	Billions of yen	Billions of yen	% Change
Net sales	638.8	780.3	141.4	22.1
Sales from semiconductors	620.4	764.4	144.0	23.2
Sales from others	18.4	15.8	(2.6)	(13.9)
Operating income	70.4	78.4	8.0	11.3
Ordinary income	61.2	75.3	14.1	23.0
Net income attributable to shareholders of parent company	54.4	77.2	22.8	41.9
	Yen	Yen		
Exchange rate (USD)	109	112	-	-
Exchange rate (EUR)	121	127	-	-

[Net sales]
Consolidated net sales for the year ended December 31, 2017 were 780.3 billion yen, a 22.1% increase year on year. Consolidated sales increased mainly due to dissipation of the impact from the Kumamoto earthquake that occurred in the same period a year ago and the continuing weak yen, in addition to sales of Intersil Corporation (hereafter "Intersil") that started to be recorded as part of the Group's consolidated sales following the completion of the acquisition in February 2017.

[Sales from Semiconductors]
Sales from semiconductors for the year ended December 31, 2017 were 764.4 billion yen, a 23.2% increase year on year.
Following the completion of the acquisition of Intersil in February 2017, the Company integrated Intersil into its operations and reformed its business organization into three business units in April 2017. To align with this change, the Company redefined its semiconductor sales breakdown to: "Automotive," "Industrial" and "Broad-based," the three application categories that constitute the main businesses of the Group, and "Other semiconductors," that constitute the businesses that do not belong to the above three application categories. The sales breakdown is as follows:

Automotive Business: 407.8 billion yen
The Automotive business includes the product categories "Automotive control," comprising semiconductor devices for controlling automobile engines and bodies, and "Automotive information," comprising semiconductor devices used in automotive information systems such as navigation systems. The Group mainly supplies microcontrollers (MCUs), system-on-chips (SoCs), analog semiconductor devices and power semiconductor devices in each of these categories.
Sales of Automotive business for the year ended December 31, 2017 were 407.8 billion yen, an increase of 16.4% year on year. This is due to increases in sales in both the "Automotive control" and "Automotive information" categories.

Industrial Business: 217.7 billion yen

The Industrial business includes the product categories "Smart factory", "Smart home" and "Smart infrastructure" which support the smart society. The Group mainly supplies MCUs and SoCs in each of these categories.
Sales of Industrial business for the year ended December 31, 2017 were 217.7 billion yen, an increase of 15.7% year on year. While sales in the "Smart infrastructure" category remained flat, sales in both the "Smart factory" and "Smart home" categories increased driven by strong demand for industrial equipment, including FA (factory automation), and air conditioners in China.

Broad-Based Business: 134.0 billion yen

The Broad-based business targets a wide variety of end-market solutions. In this business, the Group mainly supplies "General-purpose MCUs" and "General-purpose analog semiconductor devices".
Sales of Broad-based business for the year ended December 31, 2017 were 134.0 billion yen, an increase of 75.1% year on year. While the sales in the "General-purpose MCUs" category remained flat, sales in the "General-purpose analog semiconductor devices" category increased following the Intersil acquisition.

Other Semiconductors: 5.0 billion yen

Sales of Other semiconductors include production by commissioning and royalties.

[Sales from others]

Sales from others include development and production by commissioning conducted at the Group's design and manufacturing subsidiaries.
Sales from others for the year ended December 31, 2017 were 15.8 billion yen, a 13.9% decrease year on year.

[Operating income]

Operating income for the year ended December 31, 2017 was 78.4 billion yen, an 8.0 billion yen increase year on year. This was mainly due to an increase in net sales despite the goodwill amortization expense arising from the acquisition of Intersil.

[Ordinary income]

Ordinary income for the year ended December 31, 2017 was 75.3 billion yen, a 14.1 billion yen increase year on year. This was mainly due to an improvement in non-operating income including foreign exchange gains, in addition to an increase in operating income.

[Net income attributable to shareholders of parent company]

Net income attributable to shareholders of parent company for the year ended December 31, 2017 was 77.2 billion yen, a 22.8 billion yen increase year on year. This was mainly due to an improvement in special income.

(3) Financial Position

〔Total Assets, Liabilities and Net Assets〕

	December 31, 2016	December 31, 2017	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Total assets	823.1	1,062.7	239.6
Net assets	422.4	511.9	89.5
Equity	420.2	507.2	87.0
Equity ratio (%)	51.0	47.7	(3.3)
Interest-bearing debt	157.3	229.5	72.2
Debt / Equity ratio	0.37	0.45	0.08

Total assets at December 31, 2017 were 1,062.7 billion yen, a 239.6 billion yen increase from December 31, 2016. This was mainly due to an increase in total long-term assets including goodwill, developed technology, and long-term prepaid expenses, despite a decrease in cash and deposits mainly resulting from the acquisition of Intersil. Net assets were 511.9 billion yen, an 89.5 billion yen increase from December 31, 2016. This was mainly due to recording of net income attributable to shareholders of parent company in the amount of 77.2 billion yen.

Equity increased by 87.0 billion yen from December 31, 2016 and the equity ratio was 47.7%. Interest-bearing debt increased by 72.2 billion yen from December 31, 2016 mainly due to new financial arrangements aimed at securing long-term operating capital. Consequently, the debt to equity ratio increased to 0.45.

〔Cash Flows〕

	Year ended December 31, 2016 (Jan 1 – Dec 31, 2016)	Year ended December 31, 2017 (Jan 1 – Dec 31, 2017)
	Billions of yen	Billions of yen
Net cash provided by (used in) operating activities	112.9	164.2
Net cash provided by (used in) investing activities	(55.4)	(432.6)
Free cash flows	57.5	(268.4)
Net cash provided by (used in) financing activities	(108.8)	63.2
Cash and cash equivalents at the beginning of period	405.1	354.3
Cash and cash equivalents at the end of period	354.3	139.5

(Net cash provided by (used in) operating activities)
Net cash provided by operating activities for the year ended December 31, 2017 was 164.2 billion yen. This was mainly due to a recording of income before income taxes in the amount of 84.8 billion yen and adjustment of non-expenditure items including depreciation and amortization, etc. within these income before income taxes.

(Net cash provided by (used in) investing activities)
Net cash used in investing activities for the year ended December 31, 2017 was 432.6 billion yen, mainly due to the acquisition of shares of Intersil and the purchase of property, plant and equipment.

The foregoing resulted in negative free cash flows of 268.4 billion yen for the year ended December 31, 2017.

(Net cash provided by (used in) financing activities)
Net cash provided by financing activities for the year ended December 31, 2017 was 63.2 billion yen. This was mainly due to the execution of the commitment line loan agreement and the term loan agreement with the main financing banks.

Consequently, cash and cash equivalents at the end the year ended December 31, 2017 were 139.5 billion yen, 214.8 billion yen decrease compared to the year ended December 31, 2016.

(4) Liquidity and Capital Resources
The Group's basic financial policy is to secure adequate liquidity and capital resources for its operations and to maintain a strong balance sheet. To secure capital resources, the Company repaid the borrowings debt under the existing loan agreement with its main banks, Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited, and Mitsubishi UFJ Trust and Banking Corporation. On September 28, 2016, the Company entered into a 150-billion-yen term-loan agreement and a 50-billion-yen commitment line agreement with its main banks to secure long-term working capital. The term-loan agreement was executed on September 30, 2016, while the Company executed a borrowing under the commitment line agreement in the first quarter of the fiscal year ended on December 31, 2017. Furthermore, the Company entered into a 50-billion-yen term-loan agreement with its main banks on October 5, 2017 to secure funds to push forward its growth strategy. This term-loan agreement was executed in the first quarter of the fiscal year ended on December 31, 2017. As of December 31, 2017, the total amount of interest-bearing debt, including borrowings and lease obligations, was 229.5 billion yen. As of December 31, 2017, the Company had 139.5 billion yen in liquidity, including cash and cash equivalents.

(5) Off-balance Sheet Arrangements
The Group conducts operating leases as a means of avoiding risks associated with a decline in the value of obsolete production facilities, as well as to stabilize cash flows. As of December 31, 2017, the balance of lease obligations for unexpired non-cancelable operating lease transactions was 13.0 billion yen.

Risk Factors
The Group's operations and financial results are subject to various risks and uncertainties, including those described below, that could significantly affect investors' judgments. In addition, the following statements include matters which might not necessarily fall under such significant risks, but are deemed important for investors' judgment from a standpoint of affirmative disclosure.
Descriptions about the future in the following are based on what the Group recognizes as of December 31, 2017.

1）Market Fluctuations
Semiconductor market fluctuations, which are caused by such factors as economic cycles in each region and shifts in demand of end customers, affect the Group. Although the Group carefully monitors changes in market conditions, it is difficult to completely avoid the impact of market fluctuations due to economic cycles in countries around the world and changes in the demand for end products. Market downturns, therefore, could lead to decline in product demand and increase in production and inventory amounts, as well as lower sales prices. Consequently, market downturns could reduce the Group's sales, as well as lower fab utilization rates, which may in turn result in worsened gross margins, ultimately leading to deterioration in profits.

2）Fluctuations in foreign exchange and interest rates

The Group engages in business activities in all parts of the world and in a wide range of currencies. The Group continues to engage in hedging transactions and other arrangements to minimize exchange rate risk, but it is possible for our consolidated business results and financial condition, including our sales volume in foreign currencies, our materials costs in foreign currencies, our production costs at overseas manufacturing sites, and other items, to be influenced if exchange rates change significantly. Also, the Group's assets, liabilities, income, and costs can change greatly by showing our foreign currency denominated assets and debts converted to amounts in Japanese yen, and these can also change when financial statements in foreign currencies at our overseas subsidiaries are converted to and presented in Japanese yen.

Furthermore, since costs and the values of assets and debts associated with the Group's business operation are influenced by fluctuations in interest rates, it is also possible for the Group's businesses, performance, and financial condition to be adversely influenced by these fluctuations.

3）Natural Disasters

Natural disasters such as earthquakes, typhoons, and floods, as well as accidents, acts of terror, infection and other factors beyond the control of the Group could adversely affect the Group's business operation. Especially, as the Group owns key facilities and equipment in areas where earthquakes occur at a frequency higher than the global average, the effects of earthquakes and other events could damage the Group's facilities and equipment and force a halt to manufacturing and other operations, and such events could consequently cause severe damage to the Group's business. The Group sets and manages several preventive plans and Business Continuity Plan which defines countermeasures such as contingency plans and at the same time the Group is subscribed to various insurances; however, these plans and insurances are not guaranteed to cover all the losses and damages incurred.

4）Competition

The semiconductor industry is extremely competitive, and the Group is exposed to fierce competition from rival companies around the world in areas such as product performance, structure, pricing and quality. In particular, certain of our competitors have pursued acquisitions, consolidations, and business alliances, etc. in recent years and there is a possibility to have such moves in the future as well. As a result, the competitive environment surrounding the Group may further intensify. To maintain and improve competitiveness, the Group takes various measures including development of leading edge technologies, standardizing design, cost reduction, and consideration of strategic alliances with third parties or possibility of further acquisitions but in the event that the Group cannot maintain its competitiveness, the Group's market share may decline, which may negatively impact the Group's financial results.

In addition, fierce market competition has subjected the products of the Group to sharp downward pressure on prices, for which measures to improve profitability, such as price negotiations and efforts at cost price reduction, have been unable to fully compensate. This raises the possibility of a worsening of the Group's gross margin. Furthermore, in cases where customers for the Group's products for which the gross margin is low have difficulty switching to other products or require a certain amount of time to secure replacements, it may be difficult for the Group to halt or reduce production in a timely manner. This may result in a reduction in the profitability of the Group.

5）Implementation of Management Strategies

The Group is implementing a variety of business strategies and structural measures, including making the mid-term growth strategy and reforming the organizational structure of the Group, to strengthen the foundations of its profitability. Implementing these business strategies and structural measures requires a certain level of cost and due to changes in economic conditions and the business environment, factors whose future is uncertain, and unforeseeable factors, it is possible that some of those reforms may become difficult to carry out and others may not achieve the originally planned results. Furthermore, additional costs, which are higher than originally expected, may arise. Thus these issues may adversely influence the Group’s performance and financial condition.

6）Business Activities Worldwide

The Group conducts business worldwide, which can be adversely affected by factors such as barriers to long-term relationships with potential customers and local enterprises; restrictions on investment and imports/exports; tariffs; fair trade regulations; political, social, and economic risks; outbreaks of illness or disease; exchange rate fluctuations; rising wage levels; and transportation delays. As a result, the Group may fail to achieve its initial targets regarding business in overseas markets, which could have a negative impact on the business growth and performance of the Group.

7）Strategic Alliance and Corporate Acquisition

For business expansion and strengthening of competitiveness, the Group may engage in strategic alliances, including joint investments, and corporate acquisitions involving third parties in the areas of R&D on key technologies and products, manufacturing, etc. For example, in February 2017, the Group completed the acquisition of Intersil Corporation, a provider of power management and precision analog solutions. With regard to such alliances and acquisitions, the Group examines the likely return on investment and profitability from a variety of perspectives. However, in cases where there is a mismatch with the prospective alliance partner or acquisition target in areas of management strategy such as capital procurement, technology management, and product development, or there are financial or other problems affecting the business of the prospective collaboration partner or acquisition target, in addition to the time and expense required for integration of aspects such as business execution, technology, products, personnel, systems and response to antitrust laws and other regulations of the relevant authorities, there is a possibility that the alliance relationship or capital ties will not be sustainable, or in the case of acquisitions that the anticipated return on investment or profitability cannot be realized. Furthermore, there is a possibility that the anticipated synergies or other advantages cannot be realized due to an inability to retain or secure the main customers or key personnel of the prospective alliance partner or acquisition target. Thus, there is no guarantee that an alliance or acquisition will achieve the goals initially anticipated.

8）Financing

While the Group has been procuring business funds by methods such as borrowing from financial institutions and other sources, in the future it may become necessary to procure additional financing to implement business and investment plans, expand manufacturing capabilities, acquire technologies and services, and repay debts. It is possible that the Group may face limitations on its ability to raise funds due to a variety of reasons, including the fact that the Group may not be able to acquire required financing in a timely manner or may face increasing financing costs due to the worsening business environment in the semiconductor industry, worsening conditions in the financial and stock markets, and changes in the lending policies of lenders. In addition, some of the borrowing contracts executed between the Group and some financial institutions stipulate articles of financial covenants. If the Group breaches these articles due to worsened financial base of the Group etc., the Group may lose the benefit of term on the contract, and it may adversely influence the Group’s business performance and financial conditions.

9）Notes on Additional Financing

After implementing of the allocation of new shares to a third party based on a decision at the Meeting of the Board of Directors held on December 10, 2012, we received an offer from the Innovation Network Corporation of Japan that they are willing to provide additional investments or loans with an upper limit of 50 billion yen. Currently, no specific details regarding the timing of or conditions associated with these additional investments or loans have been determined, and there is no guarantee that these additional investments or loans will actually be implemented. If investments occur based on this offer, further dilution of existing stock will occur and this may adversely impact existing shareholders. Also, if loans are made under this offer, the Group's outstanding interest-bearing debt will increase and this may impose restrictions on some of our business activities. Furthermore, if fluctuations in interest rates occur in the future, the Group's businesses, performance, and financial condition may be adversely affected.

10）Relationship with Largest Shareholder, Innovation Network Corporation of Japan

As a result of the allocation of common stock to the Innovation Network Corporation of Japan and others by way of third-party allotment on September 30, 2013, the Innovation Network Corporation of Japan now holds a majority share of voting rights held in association with Renesas Electronics' share. From June 2017 onward Innovation Network Corporation of Japan has been gradually divesting itself of its holdings of common stock in the Company, but as of the issue date of this report it still controls more than one-third of voting rights held in association with Renesas stock. Thus, the business operations of the Group are potentially subject to a substantial influence through the exercise by the Innovation Network Corporation of Japan of its voting rights at General Meetings of Shareholders. In addition, should the Innovation Network Corporation of Japan at some future date sell all or part of Renesas Electronics' share which is currently held for investment purpose, this could potentially have a substantial effect on the market value of Renesas Electronics' share, depending on factors such as the market climate at the time of the sale.

11）Rapid Technological Evolutions and Other Issues

The semiconductor market in which the Group does business is characterized by rapid technological changes and rapid evolution of technological standards. Therefore, if the Group is not able to carry out appropriate research and development, the Group's businesses, performance, and financial condition may all be adversely affected by product obsolescence and the appearance of competing products.

12）Product Production

a. Production Process Risk

Semiconductor products require extremely complex production processes. In an effort to increase yields (ratio of non-defective products from the materials used), the Group takes steps to properly control production processes and seeks ongoing improvements. However, the emergence of problems in these production processes could lead to worsening yields. This problem, in turn, could trigger shipment delays, reductions in shipment volume, or, at worst, the halting of shipments.

b. Procurement of Raw Materials, Components, and Production Facilities

The timely procurement of necessary raw materials, components and production facilities is critical to semiconductor production. To avoid supply problems related to these essential raw materials, components and production facilities, the Group works diligently to develop close relationships with multiple suppliers. Some necessary materials, however, are available only from specific suppliers. Consequently, insufficient supply capacity amid tight demand for these materials as well as events including natural disasters, accidents, worsening of business conditions, and withdrawal from the business occurred in suppliers could preclude their timely procurement, or may result in sharply higher prices for these essential materials upon procurement. Furthermore, defects in procured raw materials or components could adversely influence the Group's manufacturing operations and additional costs may be incurred by the Group.

c. Risks Associated with Outsourced Production
The Group outsources the manufacture of certain semiconductor products to external foundries (contract manufacturers) and other entities. In doing so, the Group selects its trusted outsourcers, rigorously screened in advance based on their technological capabilities, supply capacity, and other relevant traits; however, the possibility of delivery delays, product defects and other production-side risks stemming from outsourcers cannot be ruled out completely. In particular, inadequate production capacity among outsourcers or operation shutdown of the outsourcers as a result of a natural disaster, could result in the Group being unable to supply enough products.

d. Maintenance of Production Capacity at an Appropriate Level
The semiconductor market is sensitive to fluctuations in the business climate, and it is difficult to predict future product demand accurately. Thus, it is not always possible for the Group to maintain production capacity at an appropriate level that matches product demand. In addition, even if the Group engages in capital investment to boost production capacity, there is generally a certain amount of time required before the actual increase in production capacity takes place.
Therefore, if demand for specific products substantially exceeds the Group's production capacity at a certain point and the state of excess demand continues over time, there is a possibility that the Group will be unable to supply customers with the products they desire, that opportunities to sell the products in question will be lost, that the Group will lose market share as customers switch to competing products, and that the relationship of the Group and its customers will suffer.
On the other hand, if in response to a rise in demand for specific products the Group undertakes capital investment with the aim of increasing production capacity, there is no guarantee that demand for the products in question will remain strong once production capacity actually increases and afterward. There is a possibility that actual product demand may turn out to be less than anticipated, in which case it may not be possible to recover the capital investment with the anticipated earnings.

13）Product Quality
Although the Group makes an effort to improve the quality of semiconductor products, they may contain defects, anomalies or malfunctions that are undetectable at the time of shipment due to increased sophistication of technologies, the diversity of ways in which the Group's products are used by customers and defects in procured raw materials or components. These defects, anomalies or malfunctions could be discovered after the Group products were shipped to customers, resulting in the return or exchange of the Group's products, claims for compensatory damages, or discontinuation of the use of the Group's products, which could negatively impact the profits and operating results of the Group. To prepare for such events, the Group has insurance such as product liability insurance and recall insurance, but it is not guaranteed that the full costs of reimbursements would be covered by these.

14）Product Sales

a. Reliance on Key Customers

The Group relies on certain key customers for the bulk of its product sales to customers. The decision by these key customers to cease adoption of the Group's products, or to dramatically reduce order volumes, could negatively impact the Group's operating results.

b. Changes in production plans by customers of custom products

The Group receives orders from customers for the development of specific semiconductor products in some cases. There is the possibility that after the Group received orders the customers decide to postpone or cancel the launch of the end products in which the ordered product is scheduled to be embedded. There is also the possibility that the customers cancel its order if the functions and quality of the product do not meet the customer requirements. Further, the weak sales of end products in which products developed by the Group are embedded may result in customers to reduce their orders, or to postpone delivery dates. Such changes in production plans, order reductions, postponements and other actions from the customers concerning custom products may cause declines in the Group sales and profitability.

c. Reliance on Authorized Sales Agents

In Japan and Asia, the Group sells the majority of its products via independent authorized sales agents, and relies on certain major authorized sales agents for the bulk of these sales. The inability of the Group to provide these authorized sales agents with competitive sales incentives or margins, or to secure sales volumes that the authorized sales agents consider appropriate, could result in a decision by such agents to review their sales network of the Group's products, including the reduction of the network, etc., which could cause a downturn in the Group sales.

15）Securing Human Resources

The Group works hard to secure superior human resources for management, technology development, sales, and other areas when deploying business operations. However, since such superbly talented people are of limited number, there is fierce competition in the acquisition of human resources. Under the current conditions, it may not be possible for the Group to secure the talented human resources it requires.

16）Retirement Benefit Obligations

Net defined benefit liability and net defined benefit asset are calculated based on actuarial assumptions, such as discount rates and the long-term expected rates of returns on assets. However, the Group performance and financial condition may be adversely affected either if discrepancies between actuarial assumptions and business performance arise due to changing interest rates or a fall in the stock market and retirement benefit obligations increase or our plan assets decrease and there is an increase in the pension funding deficit in the retirement benefit obligations system.

17）Capital Expenditures and Fixed Cost Ratio

The semiconductor business in which the Group is engaged requires substantial capital investment. The Group undertakes capital investment in an ongoing manner, and this requires it to bear the associated amortization costs. In addition, if there is a drop in demand due to changes in the market climate and the anticipated scale of sales cannot be achieved, or if excess supply causes product prices to fall, there is a possibility that a portion or the entirety of the capital investment will not be recoverable or will take longer than anticipated to be recovered. This could have an adverse effect on the business performance and the financial condition of the Group.

Furthermore, the majority of the expenses of the Group are accounted for by fixed costs such as production costs associated with factory maintenance and R&D expenses, in addition to the abovementioned amortization costs accompanying capital investment. Even if there is a slump in sales due to a reduction in orders from the Group's main customers or a drop in product demand, or if the factory operating rate decreases, it may be difficult to reduce fixed costs to compensate. As a result, a relatively small-scale drop in sales can have an adverse effect on the profitability of the Group.

18）Impairment Loss on Fixed Assets

The Group owns substantial fixed assets, consisting of both tangible fixed assets such as plant and equipment and intangible fixed assets such as goodwill obtained through the acquisition of Intersil Corporation. These fixed assets are amortized according to the accounting principles generally accepted in Japan ("Japanese GAAP"), but when there are indications of impairment, the Group examines the possibility of recovering the book value of assets based on the future cash flow to be generated from the fixed assets. It may be necessary to recognize impairment of such assets if insufficient cash flow is generated. Furthermore, the Group is considering the voluntary adoption of International Financial Reporting Standards (IFRS), starting with the fiscal year ending December 31, 2018. Under IFRS goodwill is not amortized, and a different method is used to determine impairment of fixed assets. As a result of the change in accounting standards, it may be necessary to recognize impairment of goodwill earlier than was the case under Japanese GAAP, and the impairment to be recognized may be larger.

19）Information Systems

Information systems are growing importance in the Group's business activities. Although the Group makes an effort to manage stable operation of information systems, there is a likelihood that customer confidence and social trust would deteriorate, resulting in a negative effect on the Group's performance, if there is a significant problem with the Group's information systems caused by factors such as natural disasters, accidents, computer viruses and unauthorized accesses.

20）Information Management

The Group has in its possession a great deal of confidential information and personal information relating to its business activities. While such confidential information is managed according to law and internal regulations specifically designed for that purpose, there is always the risk that information may leak due to unforeseen circumstances. Should such an event occur, there is a likelihood that leaks of confidential information may result in damages to our competitive position and customer confidence and social trust would deteriorate, resulting in a negative effect on the Group's performance.

21）Legal Restrictions

The Group is subject to a variety of legal restrictions in the various countries and regions. These include requirements for approval for businesses and investments, antitrust laws and regulations, export restrictions, customs duties and tariffs, accounting standards and taxation, and environment laws. Moving forward, it is possible that the Group's businesses, performance, and financial condition may be adversely affected by increased costs and restrictions on business activities associated with the strengthening of local laws.
The Group makes use of an internal regulation system to ensure legal compliance and appropriate financial reporting. However, since by its nature an internal regulation system is inherently limited, there is no guarantee that it will accomplish its goals completely. Consequently, the possibility is not nonexistent that legal violations, etc., may occur moving forward. Should a violation of the law or other regulations occur, the Group could

be subject to administrative penalties such as fines, legal penalties, or claims for compensatory damages, or there could be a negative impact on the social standing of the Group. This could have an adverse effect on the businesses, business performance, and financial condition of the Group.

22）Environmental Factors

The Group strives to decrease its environmental impact with respect to diversified and complex environmental issues such as global warming, air pollution, industrial waste, tightening of hazardous substance regulation, and soil pollution. There is the possibility that, regardless of whether there is negligence in its pursuit of business activities, the Group could bear legal or social responsibility for environmental problems. Should such an event occur, the burden of expenses for resolution could potentially be high, and the Group could suffer erosion in social trust.

23）Intellectual Property

While the Group seeks to protect its intellectual property, it may not be adequately protected in certain countries and areas. In addition, there are cases that the Group's products are developed, manufactured and sold by using licenses received from third parties. In such cases, there is the possibility that the Group could not receive necessary licenses from third parties, or the Group could only receive licenses under terms and conditions less favorable than before.

With regard to the intellectual property rights related to the Group's products, it is possible that a third party might file a lawsuit against the Group or its customers claiming patent infringement, or the like, and that as a result the manufacture and sale of the affected products might not be possible in certain countries or regions. It is also possible that the Group could be liable for damages to a third party or to a customer of the Group.

24）Legal Issues

As the Group conducts business worldwide, it is possible that the Group may become a party to lawsuits, investigation by regulatory authorities and other legal proceedings in various countries.

In particular, the Group has been named in Canada and the United Kingdom as a defendant in a civil lawsuit related to possible violations of competition law involving smartcard chips brought by purchasers of such products.

In addition, in the United States the Group's American subsidiary has been named as a defendant in a civil lawsuit filed by another company related to allegations including patent infringement and unauthorized use of trade secrets. The Group has recorded 79 million U.S. dollars (8.884 billion yen) as provision for contingent loss in accordance with what can be reasonably estimated based on the information available at the present time, but this estimate may be changed as the case progresses.

Furthermore, the Group's subsidiary in Taiwan may be subject to requests for restitution for environmental pollution associated with a factory in Taiwan owned by the subsidiary's predecessor company.

It is difficult to predict the outcome of the legal proceedings to which the Group is presently a party or to which it may become a party in future. The resolution of such proceedings may require considerable time and expense, and it is possible that the Group may be required to pay compensation for damages, possibly resulting in significant adverse effects to the business, performance, and financial condition of the Group.

FINANCIAL SECTION

1. Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements of Renesas Electronics Corporation ("the Company") and its consolidated subsidiaries ("the Group") were prepared in accordance with the Ministry of Finance Ordinance No. 28, 1976, "Regulations Concerning the Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" ("Regulations for Consolidated Financial Statements").

2. Audit Certification

The consolidated financial statements for the current fiscal year (from January 1, 2017 to December 31, 2017) were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Section 1, of the Financial Instruments and Exchange Law.

3. Change in Fiscal Year-End

At the 14th Ordinary General Shareholders' Meeting held on June 28, 2016, a partial amendment to the Company's Articles of Incorporation was approved and the Group implemented a change in the fiscal term in which the fiscal year-end was changed from March 31 to December 31 starting from the fiscal year 2016.

The consolidated financial results for the prior fiscal year (fiscal year ended December 31, 2016) in which the transition to the new accounting period occurred, were for a nine-month period from April 1, 2016 to December 31, 2016.

4. Special Measures for Preparing Fairly Stated Financial Statements

The Company is implementing the following special measures to ensure the fairness of financial statements.

(1) These measures involve attaining a thorough understanding of accounting standards and developing a system for addressing changes made to these standards. To this end, the Company has registered with the Financial Accounting Standards Foundation, and participates in seminars held by accounting standard-setters. In addition, we are updating our internal rules and in-house manuals as necessary to reflect these special measures.

(2) In order to adopt International Financial Reporting Standards (IFRS) for the Financial Report for the fiscal year ending December 31, 2018, the Company has started preparations for amending its internal accounting principles and new rules of accounting in accordance with IFRS.

1. Consolidated Financial Statements

1.1 Consolidated Balance Sheets
As of December 31, 2016 and December 31, 2017

(In millions of yen)

	Prior Fiscal Year (As of December 31, 2016)	Current Fiscal Year (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	354,569	123,320
Notes and accounts receivable-trade	80,480	99,155
Short-term investment securities	−	16,756
Merchandise and finished goods	34,432	48,430
Work in process	55,754	69,936
Raw materials and supplies	7,110	8,215
Deferred tax assets	3,579	13,365
Accounts receivable-other	12,721	16,637
Other current assets	9,925	7,598
Allowance for doubtful accounts	(71)	(80)
Total current assets	558,499	403,332
Long-term assets		
Property, plant and equipment		
Buildings and structures	204,379	212,421
Accumulated depreciation	※3 (144,487)	※3 (149,208)
Buildings and structures, net	※1 59,892	※1 63,213
Machinery and equipment	588,694	656,681
Accumulated depreciation	※3 (502,699)	※3 (520,565)
Machinery and equipment, net	※1 85,995	※1 136,116
Vehicles, tools, furniture and fixtures	105,139	120,262
Accumulated depreciation	※3 (86,179)	※3 (93,096)
Vehicles, tools, furniture and fixtures, net	18,960	27,166
Land	※1 22,456	※1 21,684
Construction in progress	14,202	19,162
Total property, plant and equipment	201,505	267,341
Intangible assets		
Goodwill	-	172,750
Software	13,882	18,651
Developed technology	6,626	118,038
Other intangible assets	8,045	25,205
Total intangible assets	28,553	334,644
Investments and other assets		
Investment securities	※2 6,098	※2 8,133
Net defined benefit asset	2,113	2,525
Deferred tax assets	2,263	1,177
Long-term prepaid expenses	21,971	42,527
Other assets	2,411	2,993
Allowance for doubtful accounts	(359)	(0)
Total investments and other assets	34,497	57,355
Total long-term assets	264,555	659,340
Total assets	823,054	1,062,672

(In millions of yen)

	Prior Fiscal Year (As of December 31, 2016)	Current Fiscal Year (As of December 31, 2017)
Liabilities		
Current liabilities		
Electronically recorded obligations	11,138	19,240
Notes and accounts payable-trade	74,750	78,496
Short-term borrowings	-	※1 35,000
Current portion of long-term borrowings	-	※1 12,875
Current portion of lease obligations	※1 4,481	114
Accounts payable-other	44,652	51,605
Accrued expenses	32,473	39,166
Accrued income taxes	2,309	15,920
Provision for product warranties	287	157
Provision for business structure improvement	2,002	2,331
Provision for contingent loss	220	9,096
Provision for loss on disaster	708	2
Provision for sales rebates	-	1,275
Asset retirement obligations	22	56
Other current liabilities	12,546	16,655
Total current liabilities	185,588	281,988
Long-term liabilities		
Long-term borrowings	※1 152,568	※1 181,396
Lease obligations	269	146
Deferred tax liabilities	9,198	33,419
Provision for business structure improvement	89	210
Net defined benefit liability	39,571	25,171
Asset retirement obligations	2,645	2,537
Other liabilities	10,733	25,907
Total long-term liabilities	215,073	268,786
Total liabilities	400,661	550,774
Net assets		
Shareholders’ equity		
Common stock	10,000	10,022
Capital surplus	191,919	191,941
Retained earnings	206,345	283,541
Treasury stock	(11)	(11)
Total shareholders’ equity	408,253	485,493
Accumulated other comprehensive income		
Unrealized gains (losses) on securities	474	397
Deferred gains or losses on hedges	9,012	-
Foreign currency translation adjustments	(3,221)	7,894
Remeasurements of defined benefit plans	5,644	13,368
Total accumulated other comprehensive income	11,909	21,659
Subscription rights to shares	23	2,311
Non-controlling interests	2,208	2,435
Total net assets	422,393	511,898
Total liabilities and net assets	823,054	1,062,672

1.2 Consolidated Statements of Operations
and Consolidated Statements of Comprehensive Income
1.2.1 Consolidated Statements of Operations
For the Nine-month Period Ended December 31, 2016 and the Year Ended December 31, 2017

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Net sales	471,031	780,261
Cost of sales	※1 268,345	※1 427,463
Gross profit	202,686	352,798
Selling, general and administrative expenses	※2, ※3 147,975	※2, ※3 274,398
Operating income	54,711	78,400
Non-operating income		
Interest income	483	519
Dividends income	70	105
Equity in earnings of affiliates	33	114
Reversal of provision for business structure improvement	-	302
Reversal of allowance for doubtful accounts	-	341
Settlement received	200	-
Insurance income	91	106
Other non-operating income	579	574
Total non-operating income	1,456	2,061
Non-operating expenses		
Interest expenses	1,578	1,981
Loss on disposal of long-term assets	270	508
Foreign exchange losses	2,055	1,070
Other non-operating expenses	2,278	1,614
Total non-operating expenses	6,181	5,173
Ordinary income	49,986	75,288
Special income		
Gain on sales of property, plant and equipment	※4 2,096	※4 604
Gain on transfer of business	-	3,847
Gain on sales of investment securities	53	419
Gain on liquidation of subsidiaries and affiliates	63	63
Insurance Income	-	※5 10,429
Reversal of provision for contingent loss	18	7
Total special income	2,230	15,369

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Special loss		
Loss on sales of property, plant and equipment	※6 37	※6 119
Impairment loss	※7 254	※7 1,218
Loss on disaster	※8 7,915	−
Business structure improvement expenses	※7, ※9 2,206	※7, ※9 4,047
Loss on sales of investment securities	72	1
Provision for contingent loss	541	480
Loss on sales of subsidiaries and affiliates' stocks	170	-
Total special loss	11,195	5,865
Income before income taxes	41,021	84,792
Income taxes-current	3,794	16,137
Income taxes-deferred	(7,055)	(8,620)
Total income taxes	(3,261)	7,517
Net income	44,282	77,275
Net income attributable to non-controlling interests	163	79
Net income attributable to shareholders of parent company	44,119	77,196

1.2.2 Consolidated Statements of Comprehensive Income
For the Nine-month Period Ended December 31, 2016 and the Year Ended December 31, 2017

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Net income	44,282	77,275
Other comprehensive income		
Unrealized gains (losses) on securities	135	(140)
Deferred gains (losses) on hedges	9,012	(9,012)
Foreign currency translation adjustments	(3,228)	11,277
Remeasurements of defined benefit plans, net of tax	(9,574)	7,715
Share of other comprehensive income of affiliates accounted for by the equity method	11	59
Total other comprehensive income	※1 (3,644)	※1 9,899
Comprehensive income	40,638	87,174
Comprehensive income attributable to:		
Shareholders of parent company	40,683	86,946
Non-controlling interests	(45)	228

1.3 Consolidated Statements of Changes in Net Assets
For the Nine-month Period Ended December 31, 2016 and the Year Ended December 31, 2017

Nine-month period ended December 31, 2016

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	10,000	191,919	162,226	(11)	364,134
Changes during the period					
Net income attributable to shareholders of parent company			44,119		44,119
Net changes other than shareholders' equity					
Total changes during the period	-	-	44,119	-	44,119
Balance at the end of the period	10,000	191,919	206,345	(11)	408,253

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	316	-	(201)	15,230	15,345	-	2,260	381,739
Changes during the period								
Net income attributable to shareholders of parent company								44,119
Net changes other than shareholders' equity	158	9,012	(3,020)	(9,586)	(3,436)	23	(52)	(3,465)
Total changes during the period	158	9,012	(3,020)	(9,586)	(3,436)	23	(52)	40,654
Balance at the end of the period	474	9,012	(3,221)	5,644	11,909	23	2,208	422,393

The year ended December 31, 2017

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	10,000	191,919	206,345	(11)	408,253
Changes during the period					
Net income attributable to shareholders of parent company			77,196		77,196
Issuance of new shares	22	22			44
Net changes other than shareholders' equity					
Total changes during the period	22	22	77,196	-	77,240
Balance at the end of the period	10,022	191,941	283,541	(11)	485,493

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	474	9,012	(3,221)	5,644	11,909	23	2,208	422,393
Changes during the period								
Net income attributable to shareholders of parent company								77,196
Issuance of new shares								44
Net changes other than shareholders' equity	(77)	(9,012)	11,115	7,724	9,750	2,288	227	12,265
Total changes during the period	(77)	(9,012)	11,115	7,724	9,750	2,288	227	89,505
Balance at the end of the period	397	-	7,894	13,368	21,659	2,311	2,435	511,898

1.4 Consolidated Statements of Cash Flows
For the Nine-month Period Ended December 31, 2016 and the Year Ended December 31, 2017

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Net cash provided by (used in) operating activities		
Income before income taxes	41,021	84,792
Depreciation and amortization	35,620	76,495
Amortization of long-term prepaid expenses	9,666	14,807
Impairment loss	254	1,218
Amortization of goodwill	-	17,445
Loss on disaster	2,584	-
Increase (decrease) in net defined benefit liability	(2,193)	(8,442)
Increase (decrease) in provision for business structure improvement	(1,882)	559
Interest and dividends income	(553)	(624)
Insurance income	(91)	(10,528)
Interest expenses	1,578	1,981
Equity in (earnings) losses of affiliates	(33)	(114)
Loss (gain) on sales of property, plant and equipment	(2,059)	(485)
Business structure improvement expenses	1,276	1,769
Loss (gain) on transfer of business	-	(3,847)
Decrease (increase) in notes and accounts receivable-trade	1,343	(9,839)
Decrease (increase) in inventories	10,404	(10,528)
Decrease (increase) in accounts receivable-other	187	(750)
Increase (decrease) in notes and accounts payable-trade	(308)	8,903
Increase (decrease) in accounts payable-other and accrued expenses	7,060	(10,745)
Increase (decrease) in other current liabilities	1,254	3,270
Other cash provided by (used in) operating activities, net	955	4,454
Subtotal	106,083	159,791
Interest and dividends received	601	676
Proceeds from insurance income	91	11,528
Interest paid	(1,578)	(1,919)
Income taxes (paid) refund	(6,753)	(3,532)
Payments for loss on disaster	(2,562)	(2,322)
Net cash provided by (used in) operating activities	95,882	164,222

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(44,864)	(114,747)
Proceeds from sales of property, plant and equipment	3,391	953
Purchase of intangible assets	(9,600)	(8,890)
Purchase of long-term prepaid expenses	(1,897)	(4,543)
Purchase of investment securities	(526)	(276)
Proceeds from sales of investment securities	498	971
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	※2 (311,428)
Proceeds from sales of subsidiaries and affiliates' stocks	231	-
Proceeds from transfer of business	3,631	※3 4,940
Other cash provided by (used in) investing activities, net	225	385
Net cash provided by (used in) investing activities	(48,911)	(432,635)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term borrowings	-	35,000
Proceeds from long-term borrowings	148,603	50,000
Repayment of long-term borrowings	(236,239)	(8,297)
Repayments of finance lease obligations	(864)	(356)
Repayments of installment payables	(8,621)	(13,104)
Other cash provided by (used in) financing activities, net	(40)	-
Net cash provided by (used in) financing activities	(97,161)	63,243
Effect of exchange rate change on cash and cash equivalents	6,067	(9,572)
Net increase (decrease) in cash and cash equivalents	(44,123)	(214,742)
Cash and cash equivalents at the beginning of the year	398,410	354,287
Cash and cash equivalents at the end of the year	※1 354,287	※1 139,545

Notes to Consolidated Financial Statements

(Basis of Consolidated Financial Statements)

1. Scope of Consolidation

All subsidiaries are consolidated.

The number of consolidated companies of Renesas Electronics Corporation Group: 50

The names of major subsidiaries:
Names of the major consolidated subsidiaries are listed on “Appendix” and omitted in this part.

Number of subsidiaries decreased by merger, assignment and liquidation: 5
Renesas System Design Co., Ltd. and other 4 companies.

The number of subsidiaries increased by acquisition and foundation: 25
The main new consolidated subsidiaries are as follows:

Intersil Corporation
Intersil International Operations Sdn. Bhd.
Intersil Luxembourg S.a.r.l

2. Application of Equity Method

(1) The number of affiliates accounted for by the equity method: 1

The name of affiliate accounted for by the equity method:
Renesas Easton Co., Ltd.

(2) Of the affiliate accounted for by the equity method, because the closing date differs from that of the consolidated financial statements, the financial statements prepared with the provisional closing date of December 31, 2017 (same as that of consolidated financial statements) are used.

3. Change in Fiscal Year-End

As the Group further expands its business activities globally moving forward, the change is intended to simplify comparisons of business performance by synchronizing the fiscal term to match that of other international companies in the same field.

Therefore, at the 14th Ordinary General Shareholders’ Meeting held on June 28, 2016, a partial amendment to the Company’s Articles of Incorporation was approved and the Group implemented a change in the fiscal term in which the fiscal year-end was changed from March 31 to December 31 starting from the fiscal year 2016. The consolidated financial results for the prior fiscal year (the nine-month period ended December 31, 2016) in which the transition to the new accounting period occurred, were for a nine-month period from April 1, 2016 to December 31, 2016.

4. Significant Accounting Policies

(1) Valuation methods for significant assets

1) Securities

Other securities:

Marketable securities:

Marketable securities classified as other securities are valued at the fair value at the fiscal year-end, with unrealized gains and losses included in a component of net assets. The cost of securities sold is determined based on the moving-average method.

Non-marketable securities:

Non-marketable securities classified as other securities are carried at cost based on the moving-average method.

2) Derivatives

Derivative financial instruments are stated at the fair value.

3) Inventories

Inventories are stated at the lower of cost or market. The costs are stated as follows:

Merchandise and finished goods:

Custom-made products: Specific identification method
Mass products: Average method

Work in process:

Custom-made products: Specific identification method
Mass products: Average method

Raw materials and supplies: Mainly average method

(2) Depreciation and amortization method for significant long-term assets

1) Property, plant and equipment other than leased assets
Depreciated principally by the straight-line method
The useful lives of principal property, plant and equipment are as follows:

Buildings and structures: 10 to 45 years
Machinery and equipment: 2 to 8 years
Vehicles, tools, furniture and fixtures: 2 to 10 years

2) Intangible assets other than leased assets
Amortized by the straight-line method

Software for sales purposes
Amortized using the higher of the amount based on sales in the year as a proportion of total estimated sales over salable periods (not exceeding 3 years) or the amount based on a straight-line basis over the remaining salable period.
Software for internal use
Amortized by the straight-line method mainly over an estimated useful life of 5 years, which is the available term for internal use.
Developed technology
Amortized by the straight-line method based on the useful life (not exceeding 12 years) of the business activities.

3) Leased assets
Leased assets under finance leases under which the ownership of the assets is transferred to the lessee
Depreciated / amortized in the same way as self-owned long-term assets.
Leased assets under finance leases other than those under which the ownership of the assets is transferred to the lessee
Depreciated / amortized by the straight-line method over the lease term, assuming no residual value.
Other than those under which the ownership of the assets is transferred to the lessee, the finance leases which started the lease transactions on or before March 31, 2008 are accounted for as operating lease transactions.

4) Long-term prepaid expenses
Amortized by the straight-line method

(3) Basis of significant reserves

1) Allowance for doubtful accounts
Allowance for doubtful accounts is provided based on past experience for normal receivables and using a specific estimate of the collectability of individual receivables from companies in financial difficulty.

2) Provision for product warranties
The Group accrues product warranty liabilities for estimated future warranty costs using the individual estimates for the specific matters as well as historical ratio of warranty costs to net sales.

3) Provision for loss on guarantees
Provision for loss on guarantees is made for the amount of the estimated future losses related to debt guarantees, which the Group has taken into account for the deterioration of financial conditions.

4) Provision for business structure improvement
Provision for business structure improvement is made for the amount of the estimated losses to be incurred in connection with business structure reconstructions and consolidation.

5) Provision for contingent loss
In relation to matters such as legal proceedings and litigations, a provision for the amount of expected losses and expenses is made when they are reasonably estimated considering individual risks associated with each contingency.

6) Provision for sales rebates
Provision for sales rebates is made for the estimated amount based on historical rebate rates in order to prepare for any expenditure on sales rebates.

(4) Accounting treatment for retirement benefits

1) Method of attributing expected benefit to periods

The method of attributing expected benefit to periods to estimate the retirement benefit obligations is based on a benefit formula basis.

2) Treatment for actuarial gains and losses and prior service costs

Actuarial gains and losses are amortized on a straight-line basis over the employee's estimated average remaining service periods (mainly over 12 years), starting in the following year after its occurrence.

Prior service costs are amortized as incurred on a straight-line basis over the employee's estimated average remaining service periods (mainly over 11 years).

(5) Foreign currency translation

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the applicable rates of exchange prevailing at the fiscal year-end, and differences arising from the translation are included in the statement of operations. Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the applicable year-end rates of exchange, and all revenue and expense accounts are translated at the average rates of exchange prevailing during the period. Differences arising from the translation are presented as foreign currency translation adjustments and non-controlling interests in net assets.

(6) Amortization method and term for goodwill

Goodwill is amortized by the straight-line method for over reasonable periods not exceeding 20 years.

(7) Cash and cash equivalents on the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, deposits which can be withdrawn at any time and short-term investments with a maturity of 3 months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(8) Hedge accounting

1) Hedge accounting method

Deferred hedge accounting is applied to the effective hedging transactions.

2) Hedging instruments and hedged items

Hedging instruments: Foreign exchange contracts, Currency options, Currency swaps, Foreign currency deposits

Hedged items: Forecasted transactions in foreign currencies

3) Hedging policy

Based on the Group's internal rules, hedging transactions are made to hedge the risk of foreign exchange fluctuations associated with the hedged items.

4) Assessment of hedge effectiveness

The assessment of hedge effectiveness is made by comparing the accumulated cash flows of the hedging instrument with those of the hedged item.

(9) Others

1) Accounting for consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

2) Adoption of consolidated taxation system

The Company and its subsidiaries in Japan adopt the consolidated taxation system.

(Changes in Presentation)

(Consolidated Balance Sheets)

"Developed technology", which was included in "Other" under "Intangible assets" in the previous fiscal year, is presented separately in the current fiscal year because of its materiality. To reflect this change in method of presentation, the amount of 6,626 million yen presented in "Other" in the previous fiscal year is reclassified as "Developed technology".

(Consolidated Statements of Cash Flows)

"Increase (decrease) in other current liabilities", which was included in "Other cash provided by (used in) operating activities, net" under "Net cash provided by (used in) operating activities" in the previous fiscal year, is presented separately in the current fiscal year because of its materiality. In addition, "Increase (decrease) in provision for loss on disaster" and "Payments for extra retirement benefits", which were presented separately in the previous fiscal year, are included in "Other cash provided by (used in) operating activities, net" under "Net cash provided by (used in) operating activities" from the current fiscal year due to their immateriality.

As a result of this change, the amount of 1,254 million yen presented in "Other cash provided by (used in) operating activities, net" in the previous fiscal year is reclassified as "Increase (decrease) in other current liabilities". In addition, 708 million yen presented as "Increase (decrease) in provision for loss on disaster" and 638 million yen (negative figure) presented as "Payments for extra retirement benefits" in the previous fiscal year are restated as 70 million yen in "Other cash provided by (used in) operating activities, net" under "Net cash provided by (used in) operating activities".

(Consolidated Balance Sheets)

*1 Assets pledged as collateral and secured liabilities

(Assets pledged as collateral)

(In millions of yen)

	As of December 31, 2016		As of December 31, 2017	
Buildings and structures	46,128	(45,594)	43,309	(43,020)
Machinery and equipment	54,151	(54,151)	73,008	(73,008)
Land	22,226	(18,532)	17,929	(17,311)
Total	122,505	(118,277)	134,246	(133,339)

(Secured liabilities)

(In millions of yen)

	As of December 31, 2016		As of December 31, 2017	
Short-term borrowings	—	(—)	35,000	(35,000)
Current portion of long-term borrowings	—	(—)	2,875	(2,875)
Current portion of lease obligations	4,344	(—)	—	(—)
Long-term borrowings	152,568	(152,568)	148,896	(148,896)
Total	156,912	(152,568)	186,771	(186,771)

*Amounts in parenthesis represent assets pledged as collateral and secured liabilities related to factory properties.

*2 Items below relate to affiliates.

(In millions of yen)

	As of December 31, 2016	As of December 31, 2017
Investment securities (Stock)	3,165	3,105

*3 Accumulated impairment loss was included in accumulated depreciation.

4 Contingent liabilities

(1) Debt guarantees

(In millions of yen)

As of December 31, 2016		As of December 31, 2017	
Guarantees of employees’ housing loans	131	Guarantees of employees’ housing loans	99
Other	321	Other	312
Total	452	Total	411

(2) Others

The Group has been named as one of the defendants in civil lawsuits in Canada and the United Kingdom related to the alleged violations of the competition law involving smartcard chips.

The Company’s subsidiary has been named as a defendant in a civil lawsuit in the United States related to the alleged patent infringement and trade secret violation. The amount of 79 million USD (8,884 million yen) has been included in “Provision for contingent loss” for the part which can be reasonably estimated based on currently available information. However, the estimated amount may possibly increase or decrease in accordance with the progress of the lawsuit.

There is a potential indemnification claim against the Company’s subsidiary in Taiwan related to environmental pollution found at a transferred factory.

(Consolidated Statements of Operations)

*1 Inventory balance as of the fiscal year-end

Inventory balance as of the fiscal year-end, presented after write-down of book value due to declines of profitability and the amount of the write-down included in cost of sales, was as follows:

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
	(5,103)	645

*2 Selling, general and administrative expenses

Principal items and amounts

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Research and development (R&D) expenses	78,104	126,976
Personnel expenses	25,554	43,154
Retirement benefit expenses	2,125	1,429
Depreciation and amortization	7,552	24,630
Amortization of goodwill	—	17,445

(Change in presentation)

“Depreciation and amortization” which was not stated as a principal item in the previous fiscal year, is stated as a principal item from the current fiscal year due to its increased materiality.

*3 Total of research and development expenses

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
R&D expenses included in manufacturing costs and general and administrative expenses	78,104	126,976

*4 Components of gain on sales of property, plant and equipment

For the nine-month period ended December 31, 2016

Sales of buildings and structures, machinery and equipment and leasehold right

For the year ended December 31, 2017

Sales of machinery and equipment, land

*5 Insurance income

For the year ended December 31, 2017

Due to the receipt of the insurance payment related to the 2016 Kumamoto Earthquake

*6 Components of loss on sales of property, plant and equipment

For the nine-month period ended December 31, 2016

Sales of machinery and equipment

For the year ended December 31, 2017

Sales of machinery and equipment, land.

*7 Impairment loss

The details of impairment loss were as follows:

For the nine-month period ended December 31, 2016

Location	Usage	Type
Kai-city, Yamanashi-prefecture Showa-town, Nakakoma-county, Yamanashi-prefecture Konan-city, Kochi-prefecture etc.	Assets to be disposed of	Buildings and structures, Land, Construction in progress

Taiwan China Mashiki-town, Kamimashiki-county, Kumamoto-prefecture etc.	Idle assets	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land

The Group, in principle, bases its grouping for assessing impairment loss on long-term assets on each company or place of business. However, the Group determines whether an asset should be impaired on an individual asset basis when the significant asset is considered idle or when it is to be disposed of.

The Group recognized impairment loss on assets to be transferred for the purpose of reforming the production structure for the establishment of a robust and profitable structure, and assets to be disposed of, which had no business use due to a decision to close or sell the product line by reducing their net book values to their recoverable values because their fair value declined significantly. Such loss amounted to 1,060 million yen, which was included in special loss.

Also, the Group recognized impairment loss on idle assets with no business use by reducing their net book values to their recoverable values because their fair values declined significantly. Such loss amounted to 219 million yen, which was included in special loss.

The assets to be disposed of and idle assets amounted to 1,279 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 1,025 million yen and impairment loss except for business structure improvement expenses, which amounted to 254 million yen.

The components of impairment loss (1,279 million yen) were as follows:

	(In millions of yen)
Buildings and structures	945
Machinery and equipment	56
Vehicles, tools, furniture and fixtures	131
Land	90
Construction in progress	57
Total	1,279

The recoverable value of these assets was measured at net sale value or value in use. The net sale value was reasonably estimated as the appraisal amount less the necessary expenses for disposal. However, the net sale value of assets which were difficult to sell was estimated at zero.

For the year ended December 31, 2017

Location	Usage	Type
Kai-city, Yamanashi-prefecture Taiwan etc.	Assets to be disposed of	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land, Software, Other intangible assets, Long-term prepaid expenses
China Mashiki-town, Kamimashiki-county Kumamoto-prefecture etc.	Idle assets	Buildings and structures, Machinery and equipment, Land

The Group classifies its business assets based on division of management accounting, with relation in manufacturing process taken into account. However, the Group determines whether an asset should be impaired on an individual asset basis when the significant asset is considered idle or when it is to be disposed of.

The Group recognized impairment loss on assets to be transferred for the purpose of reforming the production structure for the establishment of a robust and profitable structure, and assets to be disposed of, which had no business use due to a decision to close or sell the product line by reducing their net book values to their recoverable values because their fair values declined significantly. Such loss amounted to 2,561 million yen, which was included in special loss.

Also, the Group recognized impairment loss on idle assets with no business use by reducing their net book values to their recoverable values because their fair values declined significantly. Such loss amounted to 354 million yen, which was included in special loss.

The assets to be disposed of and idle assets amounted to 2,915 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 1,697 million yen and impairment loss except for business structure improvement expenses, which amounted to 1,218 million yen.

The components of impairment loss (2,915 million yen) were as follows:

	(In millions of yen)
Buildings and structures	767
Machinery and equipment	228
Vehicles, tools, furniture and fixtures	768
Land	1,113
Software	14
Other intangible assets	1
Long-term prepaid expenses	24
Total	2,915

The recoverable value of these assets was measured at net sale value or value in use. The net sale value was reasonably estimated as the appraisal amount less the necessary expenses for disposal. However, the net sale value of assets which were difficult to sell was estimated at zero.

*8 Loss on disaster
(Nine-month period ended December 31, 2016)
The loss on disaster was related to the 2016 Kumamoto Earthquake, and the components of the amount of loss on disaster for the year ended December 31, 2016 were as follows:

	(In millions of yen)
Repair cost of fixed assets	4,355
Fixed costs during the temporary shutdown period of operations	2,114
Loss on disposal of inventories	1,835
Other costs	611
Subtotal	8,915
Accrued insurance proceeds	(1,000)
Total	7,915

(Fiscal year ended December 31, 2017)
None

*9 Business structure improvement expenses

The Group has reformed businesses and structures of the production along with the streamlining of employees to strengthen its financial basis, and those related expenses are shown as business structure improvement expenses. The main items of business structure improvement expenses of previous fiscal year and current fiscal year were impairment losses and relocation/disposal expenses associated with fixed assets.

(Consolidated Statements of Comprehensive Income)

For the nine-month period ended December 31, 2016 and the year ended December 31, 2017

*1 Reclassification adjustments and tax effects pertaining to other comprehensive income

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Unrealized gains (losses) on securities		
Amount arising during the period	113	288
Reclassification adjustments for gains (losses) realized in net income	19	(418)
Amount of unrealized holding gains (losses) on securities before tax effect	132	(130)
Tax effect	3	(10)
Unrealized gains (losses) on securities	135	(140)
Deferred gains (losses) on hedges		
Amount arising during the period	12,989	(2,168)
Amount adjusted for asset acquisition cost	—	(10,821)
Amount of deferred gains on hedges before tax effect	12,989	(12,989)
Tax effect	(3,977)	3,977
Deferred gains (losses) on hedges	9,012	(9,012)
Foreign currency translation adjustments		
Amount arising during the period	(3,228)	11,277
Reclassification adjustments for gains (losses) realized in net income	—	—
Amount of foreign currency translation adjustments before tax effect	(3,228)	11,277
Tax effect	—	—
Foreign currency translation adjustments	(3,228)	11,277
Remeasurements of defined benefit plans, net of tax		
Amount arising during the period	(9,290)	7,845
Reclassification adjustments for gains (losses) realized in net income	(231)	(136)
Amount of remeasurements of defined benefit plans before tax effect	(9,521)	7,709
Tax effect	(53)	6
Remeasurements of defined benefit plans, net of tax	(9,574)	7,715
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the period	18	59
Reclassification adjustments for gains (losses) realized in net income	(7)	—
Share of other comprehensive income of affiliates accounted for by the equity method	11	59
Total other comprehensive income	(3,644)	9,899

(Consolidated Statements of Changes in Net Assets)

1. Shares issued and outstanding / Treasury stock

For the nine-month period ended December 31, 2016

	Number of shares at the beginning of the period	Increase	Decrease	Number of shares at the end of the period
Shares issued				
Common stock	1,667,124,490	—	—	1,667,124,490
Total	1,667,124,490	—	—	1,667,124,490
Treasury stock				
Common stock	2,581	—	—	2,581
Total	2,581	—	—	2,581

For the year ended December 31, 2017

	Number of shares at the beginning of the period	Increase	Decrease	Number of shares at the end of the period
Shares issued				
Common stock	1,667,124,490	70,000	—	1,667,194,490
Total	1,667,124,490	70,000	—	1,667,194,490
Treasury stock				
Common stock	2,581	—	—	2,581
Total	2,581	—	—	2,581

Note: The increase in the number of common stock of 70,000 was due to the exercise of stock option.

2. Share subscription rights

For the nine-month period ended December 31, 2016

	Description	Type of shares to be issued	Number of shares to be issued (in thousands)				Balance at the end of current fiscal year (Millions of yen)
			At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year	
Parent company	Share subscription rights as stock options	—	—	—	—	—	23
Total		—	—	—	—	—	23

For the year ended December 31, 2017

	Description	Type of shares to be issued	Number of shares to be issued (in thousands)				Balance at the end of current fiscal year (Millions of yen)
			At the beginning of current fiscal year	Increase	Decrease	At the end of current fiscal year	
Parent company	Share subscription rights as stock options	—	—	—	—	—	2,311
Total		—	—	—	—	—	2,311

(Consolidated Statements of Cash Flows)

*1 Cash and cash equivalents as of the fiscal year-end were reconciled to the accounts reported in the consolidated balance sheets as follows:

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Cash and deposits	354,569	123,320
Time deposits with maturities of more than three months	(282)	(361)
Short-term investment securities	-	16,756
Investment securities with redemptions of more than three months	-	(170)
Cash and cash equivalents	354,287	139,545

*2 Components of assets and liabilities of the company that became a consolidated subsidiary due to acquisition of stock

The components of assets and liabilities of Intersil and its subsidiaries that became consolidated subsidiaries due to acquisition of stock at the time of consolidation commencement as well as the relationship between the acquisition price of stock and expenditures (net) for the acquisition are as follows.

(In millions of yen)

Current assets	63,966
Long-term assets	165,569
Goodwill	189,637
Current liabilities	(39,265)
Long-term liabilities	(30,550)
Foreign currency translation adjustments	(3,962)
Acquisition price of stock	345,394
Cash and cash equivalents	(33,966)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	311,428

*3 Components of assets and liabilities pertaining to consideration of cash and cash equivalents for transfer of business

Components of assets and liabilities pertaining to consideration of cash and cash equivalents for transfer of one of the Group's consolidated subsidiary, namely Renesas Semiconductor Package & Test Solution Co., Ltd. businesses including electronics engineering and manufacturing service of electronic control boards for use in various industrial equipment and other semiconductor manufacturing equipment; and development, manufacturing and sale of image recognition systems, are as follows.

(In millions of yen)

Current assets	596
Long-term assets	516
Current liabilities	(14)
Long-term liabilities	(5)
Gain on transfer of business	3,847
Consideration for transfer of business	4,940
Proceeds from transfer of business	4,940

*4 Significant non-cash transactions

The amount recorded in long-term prepaid expenses of installment purchase contract

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
The amount recorded in long-term prepaid expenses of installment purchase contract	865	30,197

(Lease Transactions)

1. Finance lease transactions (Lessees' accounting)

(1) Finance lease transactions in which ownership of the assets is transferred to the lessee

1) Leased assets

Property, plant and equipment

These were buildings and structures.

2) Methods for depreciation of leased assets

Described in "4 Significant Accounting Policies, (2) Depreciation and amortization method for significant long-term assets" in Basis of Consolidated Financial Statements

(2) Finance lease transactions in which ownership of the assets is not transferred to the lessee

1) Leased assets

Property, plant and equipment

These were principally manufacturing equipment for semiconductor products (Machinery and equipment and vehicles, tools, furniture and fixtures).

2) Methods for depreciation of leased assets

Described in "4 Significant Accounting Policies, (2) Depreciation and amortization method for significant long-term assets" in Basis of Consolidated Financial Statements

2. Operating lease transactions

Future lease payments relating to non-cancellable operating lease transactions were as follows:

(In millions of yen)

	As of December 31, 2016	As of December 31, 2017
Due within one year	1,788	3,771
Due after one year	4,603	9,222
Total	6,391	12,993

(Financial Instruments)

1. Conditions of Financial Instruments

(1) Policies for Financial Instruments

Regarding fund operation, the Group uses only short-term deposits and financial assets which are relatively safe. Regarding financing, the Group uses mainly borrowings from banks. The Group utilizes derivative financial instruments to manage fluctuations in foreign currency exchange rates and interest payments. The Group's policies prohibit holding or issuing derivative financial instruments for trading purposes.

(2) Contents and Risks of Financial Instruments and Risk Management

Notes and accounts receivable–trade and accounts receivable-other are exposed to credit risks. Conforming to internal rules for management of accounts receivable, the Group regularly monitors major customers' credit and manages due dates of collection and balances for each customer.

The management policies regarding short-term and long-term investment securities are as follows; regarding short-term investment securities, the Group deals with banks with high credit rating. Long-term investment securities, issued by companies with which the Group has business relationships, are exposed to risks of market fluctuations. By regularly monitoring the fair value of the securities, financial condition of the issuing companies and consideration of existing business relationship, if any, the Group evaluates the merit of holding the securities.

The maturities of electronically recorded obligations, notes and accounts payable-trade, accounts payable-other and accrued income taxes are within one year.

Most borrowings and lease obligations from finance lease transactions are mainly utilized for working capital and capital investments. Their repayment terms are at most 6 years after the fiscal year-end. Certain borrowings with variable interest rates are exposed to interest rate fluctuation risk. In addition, certain contracts include financial covenants.

The Group enters into forward exchange contracts in order to hedge the risks from exchange rate fluctuations of accounts receivable and accounts payable denominated in foreign currencies and interest rate swaps in order to hedge the risks from interest fluctuations of borrowings.

For details on derivative transactions, including hedging instruments, hedged items, hedging policy and method of assessing hedge effectiveness, please refer to Basis of Consolidated Financial Statements, "4 Significant Accounting Policies (8) Hedge Accounting"

The Group's policies for managing derivatives are as follows: the Group conforms to internal rules for the management of derivatives and transacts only with major financial institutions to reduce credit risks.

Because accounts payable and borrowings are exposed to liquidity risks, the headquarters and each subsidiary manage them by making monthly financial plans.

(3) Supplemental Explanation of the Fair Value of Financial Instruments

The notional amount of derivative transactions described in the note "Derivative Transactions" does not necessarily indicate market risk involved in derivative transactions.

2. Fair Value of Financial Instruments

The fair values of financial instruments in consolidated balance sheets as of December 31, 2016 and December 31, 2017 were presented below. The table does not include the financial instruments for which it is extremely difficult to estimate fair values. (Note2)

As of December 31, 2016

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	354,569	354,569	―
(2) Notes and accounts receivable-trade	80,480	80,480	―
(3) Accounts receivable-other	12,721	12,721	―
(4) Long-term investment securities			
Stocks of affiliates	3,165	2,077	(1,088)
Other securities	2,816	2,816	―
Total assets	453,751	452,663	(1,088)
(5) Electronically recorded obligations	11,138	11,138	―
(6) Notes and accounts payable-trade	74,750	74,750	―
(7) Accounts payable-other	44,652	44,652	―
(8) Accrued income taxes	2,309	2,309	―
(9) Long-term borrowings (including current portion)	152,568	152,039	(529)
(10) Lease obligations (including current portion)	4,750	4,796	46
Total liabilities	290,167	289,684	(483)
(11) Derivative transactions (*)			
Derivatives not subject to hedge accounting	395	395	―
Derivatives subject to hedge accounting	3,044	3,044	―
Total derivative transactions	3,439	3,439	―

(*) The values of assets and liabilities arising from derivative transactions are shown at net value. If the net balance of the derivative transactions is a liability, it is shown in parenthesis.

As of December 31, 2017

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	123,320	123,320	―
(2) Notes and accounts receivable-trade	99,155	99,155	―
(3) Accounts receivable-other	16,637	16,637	―
(4) Short-term and long-term investment securities	3,105	2,926	(179)
Stocks of affiliates	20,321	20,321	―
Other securities			
Total assets	262,538	262,359	(179)
(5) Electronically recorded obligations	19,240	19,240	―
(6) Notes and accounts payable-trade	78,496	78,496	―
(7) Short-term borrowings	35,000	35,000	―
(8) Accounts payable-other	51,605	51,605	―
(9) Accrued income taxes	15,920	15,920	―
(10) Long-term borrowings (including current portion)	194,271	196,821	2,550
(11) Lease obligations (including current portion)	260	281	21
Total liabilities	394,792	397,363	2,571

Note1: Calculation method for fair value of financial instruments and other materials related to securities

(1) Cash and deposits, (2) Notes and accounts receivable-trade and (3) Accounts receivable-other

The fair value was measured at the amounts equivalent to their book values because these were settled in the short-term and accordingly, their fair values approximated book values.

(4) Short-term and long-term investment securities

The fair value of shares was based on market price. The fair value of bond securities was measured at its book value because it was settled in short-term and its fair value was nearly equal to its book value. The fair value of mutual funds was measured at the price provided by financial institutions.

(5) Electronically recorded obligations, (6) Notes and accounts payable-trade,

(7) Short-term borrowings, (8) Accounts payable-other and (9) Accrued income taxes

The fair value was measured at the amount equivalent to their book values because these were settled in the short-term and accordingly, their fair values approximated book values.

(10) Long-term borrowings and (11) Lease obligations

The fair values of long-term borrowings and lease obligations were estimated by discounting the future cash flows which includes both principal and interest. The discount rates were considered for both the remaining periods and credit risks.

Note2: Financial instruments for which it is extremely difficult to estimate their fair value in consolidated balance sheets

(In millions of yen)

	As of December 31, 2016	As of December 31, 2017
Non-marketable securities	117	1,463

Non-marketable securities which did not have market prices and for which the future cash flows could not be estimated, were not included in "(4) Short-term and long-term investment securities" since it was extremely difficult to estimate their fair value.

Note3: The redemption schedule after the fiscal year-end for monetary claims and securities with maturity dates

As of December 31, 2016

(In millions of yen)

	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	354,569	—	—	—
Notes and accounts receivable-trade	80,480	—	—	—
Accounts receivable-other	12,721	—	—	—
Total	447,770	—	—	—

As of December 31, 2017

(In millions of yen)

	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	123,320	—	—	—
Notes and accounts receivable-trade	99,155	—	—	—
Accounts receivable-other	16,637	—	—	—
Total	239,112	—	—	—

Note4: The repayment schedules after the fiscal-year end for long-term borrowings, lease obligations and other interest-bearing liabilities

As of December 31, 2016

(In millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Long-term borrowings	—	2,890	—	—	149,678	—
Lease obligations	4,481	123	78	51	16	1
Total	4,481	3,013	78	51	149,694	1

As of December 31, 2017

(In millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Short-term borrowings	35,000	—	—	—	—	—
Long-term borrowings	12,875	10,000	10,000	158,896	2,500	—
Lease obligations	114	78	51	16	1	0
Total	47,989	10,078	10,051	158,912	2,501	0

(Securities)

1. Other securities

As of December 31, 2016

(In millions of yen)

	Type	Carrying value	Acquisition cost	Unrealized gains (losses)
Securities whose carrying value exceeded their acquisition cost	(1) Stock (2) Other	— 2,807	— 2,399	— 408
	Subtotal	2,807	2,399	408
Securities whose carrying value did not exceed their acquisition cost	(1) Stock (2) Other	— 9	— 9	— —
	Subtotal	9	9	—
Total		2,816	2,408	408

As of December 31, 2017

(In millions of yen)

	Type	Carrying value	Acquisition cost	Unrealized gains (losses)
Securities whose carrying value exceeded their acquisition cost	(1) Stock (2) Other	78 3,673	67 3,395	11 278
	Subtotal	3,751	3,462	289
Securities whose carrying value did not exceed their acquisition cost	(1) Stock (2) Other	20 18,013	20 18,015	— (2)
	Subtotal	18,033	18,035	(2)
Total		21,784	21,497	287

2. Other securities sold for the period

The nine-month period ended December 31, 2016

(In millions of yen)

Type	Sales proceeds	Total gain	Total loss
(1) Stock (2) Other	— 498	— 53	— 72
Total	498	53	72

(Note) The table includes other securities for which it was extremely difficult to estimate fair values.

The year ended December 31, 2017

(In millions of yen)

Type	Sales proceeds	Total gain	Total loss
(1) Stock (2) Other	12 959	11 408	— 1
Total	971	419	1

(Note) The table includes other securities for which it was extremely difficult to estimate fair values.

3. Impairment loss recognized on securities

In case the fair market value at year-end of a marketable security falls below 50% of the acquisition cost, the impairment loss is recognized for full amount of the unrealized loss, and if the fair market value falls approximately 30% to 50% below the acquisition cost, the necessary amount of the impairment loss is recognized by considering the future recoverability. In the current and previous fiscal year, there was no impairment loss recognized on securities.

(Derivative Transactions)

1.Hedge accounting not applied

Currency related

As of December 31, 2016

(In millions of yen)

Classification	Type	Contract amount	Contract amount over one year	Fair value *(Note)*	Valuation gains (losses)
Non-market transactions	Foreign exchange contracts Sell (U.S. dollars) Buy (U.S. dollars)	1,301 46,570	— —	2 393	2 393
Total		47,871	—	395	395

(Note) The fair values are calculated based on forward rate markets.

As of December 31, 2017

None

2.Hedge accounting applied

Currency related

As of December 31, 2016

(In millions of yen)

Hedge accounting method	Type of derivative transactions	Main hedged items	Contract amount	Contract amount over one year	Fair value *(Note1)*
Principle method	Foreign exchange contracts Buy (U.S. dollars)	Forecasted transaction in foreign currency	57,302	—	708
	Currency option transactions *(Note2)* Sell (Japan yen) Buy (U.S. dollars)	Forecasted transaction in foreign currency	10,439	—	1,064
	Currency swap transactions Receive (U.S. Dollars) Pay (Japan yen)	Forecasted transaction in foreign currency	10,278	—	1,272
Total			78,019	—	3,044

Note1: The fair values are calculated based on the forward foreign exchange market and the price provided by the counterparty financial institutions.

Note2: Because call options and put options are part of an integrated contract and currency options are zero cost options all of them disclosed in aggregate.

As of December 31, 2017

None

(Retirement Benefits)

1. Outline of retirement benefits

The Company and its subsidiaries in Japan have severance indemnity plans, non-contributory defined benefit pension plans and a defined contribution plan. In addition, the Company and its subsidiaries in Japan may pay extra retirement benefits in certain circumstances.

The Company and its subsidiaries in Japan adopt a point-based benefits system for the defined benefit pension plans, under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification. Furthermore, the Company and its subsidiaries in Japan adopt cash balance pension plans for the defined-benefit pension plan. Under the cash balance pension plans, each participant has an account in which a certain amount calculated by the revaluation rate that is calculated based on the current base salary, the job classification and the market interest rate, is accumulated by the Company.

Certain foreign subsidiaries adopt various retirement benefit plans which are mainly defined contribution pension plans as well as defined benefit pension plans. Regarding multi-employer pension funds adopted by certain foreign subsidiaries, these are included in the note as defined benefit pension plan in case the pension amount corresponding with contribution can be calculated rationally. Also, in case the pension amount cannot be calculated rationally, it is posted using the same accounting method as the defined contribution pension plan.

2. Defined benefit pension plan

(1) Reconciliation of changes in retirement benefit obligations

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Beginning balance of retirement benefit obligations	154,146	162,463
Service cost	2,076	2,986
Interest cost	1,318	942
Actuarial differences	11,063	(3,133)
Benefits paid	(5,076)	(5,490)
Increase due to acquisition of new consolidated subsidiaries	—	1,001
Other	(1,064)	1,712
Closing balance of retirement benefit obligations	162,463	160,481

(2) Reconciliation of changes in plan assets

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Beginning balance of plan assets	123,871	125,005
Expected return on plan assets	2,267	3,266
Actuarial differences	1,696	4,916
Contributions by the employer	6,403	7,976
Benefits paid	(8,088)	(4,640)
Other	(1,144)	1,312
Closing balance of plan assets	125,005	137,835

(3) Reconciliation between closing balances of retirement benefit obligations and plan assets, and the net defined benefit liabilities and assets recognized in the consolidated balance sheet

(In millions of yen)

	As of December 31, 2016	As of December 31, 2017
Funded retirement benefit obligations	135,772	134,107
Plan assets	(125,005)	(137,835)
	10,767	(3,728)
Unfunded retirement benefit obligations	26,691	26,374
Net defined benefit liabilities and assets recognized in the consolidated balance sheet	37,458	22,646
Net defined benefit liability	39,571	25,171
Net defined benefit asset	(2,113)	(2,525)
Net defined benefit liabilities and assets recognized in the consolidated balance sheet	37,458	22,646

(4) Details of retirement benefit expenses

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Service cost	2,076	2,986
Interest cost	1,318	942
Expected return on plan assets	(2,267)	(3,266)
Cost of actuarial differences	1,782	1,724
Cost of prior service cost	(2,013)	(1,870)
Total expenses for defined retirement benefit plan	896	516

(5) Remeasurements of defined benefit plans, before tax

Items recognized in remeasurements of defined benefit plans (before adjusting for tax effects) are as follows:

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Actuarial gain or loss	7,508	(9,579)
Prior service cost	2,013	1,870
Total	9,521	(7,709)

(6) Remeasurements of defined benefit plans

Items recognized in remeasurements of defined benefit plans (before adjusting for tax effects) are as follows:

(In millions of yen)

	As of December 31, 2016	As of December 31, 2017
Unrecognized actuarial gain or loss	8,991	(578)
Unrecognized prior service cost	(14,679)	(12,810)
Total	(5,688)	(13,388)

(7) Plan assets

(a) Major breakdown categories of plan assets

The ratio of major categories in the plan assets are as follows:

	As of December 31, 2016	As of December 31, 2017
Debt securities	65%	65%
Equity securities	32%	32%
Short-term financial assets	3%	3%
Total	100%	100%

(b) Assumption of long-term expected rate of return on plan assets

In determining the long-term expected rate of return on plan assets, the allocation of present and future plan assets as well as the rate of long-term return expected at present and in the future from various assets comprising plan assets are taken into consideration.

(8) Basis of the actuarial assumptions

Main actuarial assumptions at the end of the fiscal year

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Discount rate	Mainly 0.4%	Mainly 0.4%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Planned rate of salary increase	Mainly 2.7%	Mainly 2.7%

3. Defined contribution plan

The Group's contributions for defined contribution plans were 2,093 million yen for the nine-month period ended December 31, 2016 and 3,201 million yen for the year ended December 31, 2017.

(Note) The above contributions included the contribution for the multi-employer pension fund that has been joined by some foreign subsidiaries.

(Stock options)

1. Amount and account of stock option expense

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Cost of sales	—	248
Selling, general and administrative expenses	23	2,083

2. Description and changes in the size of stock options

(1) Description of stock options

	Category and number of grantees	Type of stock and number of shares	Grant date	Vesting conditions	Vesting period	Exercise period
Fiscal year 2016 Stock options No.1 No.2 No.3	Directors of the Company 2 Corporate officers and executive officers of the Company 10	Common stock 288,500 shares	August 1, 2016	The rights will vest in stages as follows. One third will vest on August 2, 2017 One third will vest on August 2, 2018 The remaining will vest on August 2, 2019	From August 1, 2016 to August 2, 2019	From August 2, 2016 to August 1, 2026
Fiscal year 2017 Stock options No.1 – 1 No.2 – 1	Directors of the Company 2 Corporate officers and executive officers of the Company 11 Employees of the Company 342 Directors of subsidiaries 20 Employees of subsidiaries 890	Common stock 3,549,500 shares	April 3, 2017	The rights will vest in stages as follows One third will vest on April 4, 2018 One third will vest on April 4, 2019 The remaining will vest on April 4, 2020	From April 3, 2017 to April 4, 2020	From April 4, 2017 to April 3, 2027
Fiscal year 2017 Stock options No.1 – 2 No.2 – 2	Directors of the Company 2 Corporate officers and executive officers of the Company 11 Employees of the Company 78 Directors of subsidiaries 14 Employees of subsidiaries 59	Common stock 2,112,000 shares	April 3, 2017	The Company sets the upper limit number of shares expected to vest by multiplying the number of allocated stock subscription rights with the rate calculated by comparing total shareholder return fluctuation rate of the Company and companies that are the components of PHLX Semiconductor Sector Index and Tokyo Stock Price Index.	From April 3, 2017 to April 4, 2020	From April 4, 2017 to April 3, 2027

Fiscal year 2017 Stock options No.3	Employees of subsidiaries 7	Common stock 30,900 shares	May 11, 2017	The rights will vest in stages as follows One third will vest on April 4, 2018 One third will vest on April 4, 2019 The remaining will vest on April 4, 2020	From May 11, 2017 to April 4, 2020	From May 12, 2017 to May 11, 2027
Fiscal year 2017 Stock options No.4	Employees of subsidiaries 13	Common stock 52,200 shares	July 12, 2017	The rights will vest in stages as follows One third will vest on April 4, 2018 One third will vest on April 4, 2019 The remaining will vest on April 4, 2020	From July 12, 2017 to April 4, 2020	From July 13, 2017 to July 12, 2027
Fiscal year 2017 Stock options No.5 No.6	Employees of subsidiaries 20	Common stock 98,000 shares	September 14, 2017	The rights will vest in stages as follows One third will vest on April 4, 2018 One third will vest on April 4, 2019 The remaining will vest on April 4, 2020	From September 14, 2017 to April 4, 2020	From September 15, 2017 to September 14, 2027
Fiscal year 2017 Stock options No.7	Employees of subsidiaries 16	Common stock 94,000 shares	October 12, 2017	The rights will vest in stages as follows One third will vest on April 4, 2018 One third will vest on April 4, 2019 The remaining will vest on April 4, 2020	From October 12, 2017 to April 4, 2020	From October 13, 2017 to October 12, 2027

Note: Conditions for exercising stock acquisition rights are as follows.

1. Grantees cannot execute those options during the time from the day after the grant date until when the stock is vested. Also the option will be forfeited if the target retires or resigns from the Company or subsidiary by the vesting date. However, if allowed at the Stock Acquisition Rights Allocation Agreement, those options may be exercised. For example, if retirement or resignation due to the expiration of terms of office allowed at Stock Acquisition Rights Allocation Agreement the said person may execute the said stock options starting on the day following said loss of eligibility until 13 months after.
2. If grantees forfeit their stock acquisition rights, they may not exercise their stock options.

(2) Changes in the size of stock options

For stock options that existed in the current fiscal year (the year ended December 31, 2017), number of stock options were converted and stated as number of shares.

1) Number of stock options

	Stock options not yet vested					Stock options vested				
	Unvested stock options at the beginning of the year	Granted	Forfeited	Vested	Unvested stock options at the end of the year	Unexercised stock options at the beginning of the year	Vested	Exercise	Forfeited	Unexercised stock options at the end of the year
Fiscal year 2016 Stock options No.1 No.2 No.3	274,600	—	—	139,100	135,500	—	139,100	67,600	—	71,500
Fiscal year 2017 Stock options No.1 – 1 No.2 – 1	—	3,549,500	83,300	16,600	3,449,600	—	16,600	2,400	—	14,200
Fiscal year 2017 Stock options No.1 – 2 No.2 –2	—	2,112,000	20,600	—	2,091,400	—	—	—	—	—
Fiscal year 2017 Stock options No.3	—	30,900	—	—	30,900	—	—	—	—	—
Fiscal year 2017 Stock options No.4	—	52,200	—	—	52,200	—	—	—	—	—
Fiscal year 2017 Stock options No.5 No.6	—	98,000	—	—	98,000	—	—	—	—	—
Fiscal year 2017 Stock options No.7	—	94,000	—	—	94,000	—	—	—	—	—

2) Price information

	Exercise price (Yen)	Weighted average price at exercise (Yen)	Fair value per share at the grant date (Yen)
Fiscal year 2016 Stock options No.1 No.2 No.3	1	1,123	600
Fiscal year 2017 Stock options No.1 – 1 No.2 – 1	1	1,154	1,167
Fiscal year 2017 Stock options No.1 – 2 No.2 – 2	1	—	1,167
Fiscal year 2017 Stock options No.3	1	—	1,121
Fiscal year 2017 Stock options No.4	1	—	999
Fiscal year 2017 Stock options No.5 No.6	1	—	1,239
Fiscal year 2017 Stock options No.7	1	—	1,235

3. Estimation method and assumptions used for the per share fair value of stock options.

Estimation method and assumptions used for the per share fair value of stock options for the fiscal year ended December 31, 2017 are as follows.

(1) Estimation method: Binomial model

(2) Assumptions used for the per share fair value of stock options

	Expected volatility (Note 1)	Expected holding period (Note 2)	Expected dividend (Note 3)	Risk-free rate (Note 4)
Fiscal year 2017 Stock options No.1 – 1 No.2 – 1	55.000%	5 years	0 yen/share	(0.103)%
Fiscal year 2017 Stock options No.1 – 2 No.2 – 2	55.000%	5 years	0 yen/share	(0.103)%
Fiscal year 2017 Stock options No.3	53.149%	5 years	0 yen/share	(0.112)%
Fiscal year 2017 Stock options No.4	49.042%	5 years	0 yen/share	(0.045)%
Fiscal year 2017 Stock options No.5 No.6	48.836%	5 years	0 yen/share	(0.103)%
Fiscal year 2017 Stock options No.7	48.179%	5 years	0 yen/share	(0.090)%

Note: 1. The expected volatility is based on weekly actual share prices during the expected holding period from the grant date.

Note: 2. The expected holding period is based on the number of years from the grant date to the last day of the principle exercise period.

Note: 3. This is based on the dividend for the year ended December 31, 2017.
Note: 4. The risk-free interest rate is the yield on Japanese government bonds for the period that corresponds to the expected holding period.

4. Estimation method of the number of share subscription rights which have already been vested
Regarding Fiscal year 2017 Stock options No.1 – 1, No.2 – 1, Fiscal year 2017 Stock options No.3, Fiscal year 2017 Stock options No.4, Fiscal year 2017 Stock options No.5, No.6, and Fiscal year 2017 Stock options No.7, because it is difficult to reasonably estimate the number of options that will expire in the future, the method reflecting actual numbers of forfeiture is adopted.
In addition, regarding Fiscal year 2017 Stock options No.1 – 2, No.2 – 2, the Group estimates the number of forfeited non-vested stocks by considering the actual rates of granted stocks based on the results of comparing the fluctuation rate of the Company’s stock with that of a stock index over a certain period.

(Tax-Effect Accounting)

1. Significant components of deferred tax assets and liabilities

(In millions of yen)

	As of December 31, 2016	As of December 31, 2017
Deferred tax assets		
Loss carryforward	269,292	222,249
Net defined benefit liabilities	12,107	6,735
Long-term assets	8,296	7,793
Accrued expenses	7,768	8,073
Inventories	5,127	5,796
Research and development expenses	2,287	2,098
Tax credits carryforward	8,441	16,197
Others	4,694	8,657
Subtotal deferred tax assets	318,012	277,598
Valuation allowance	(305,304)	(254,692)
Total deferred tax assets	12,708	22,906
Deferred tax liabilities		
Valuation difference of assets acquired by merger	(7,012)	(36,072)
Tax on undistributed earnings	(4,073)	(4,495)
Deferred gains or losses on hedges	(3,977)	—
Others	(1,805)	(1,823)
Total deferred tax liabilities	(16,867)	(42,390)
Net deferred tax liabilities	(4,159)	(19,484)

Net deferred tax liabilities were reflected in the following accounts in the consolidated balance sheet.

(In millions of yen)

	As of December 31, 2016	As of December 31, 2017
Current assets – deferred tax assets	3,579	13,365
Long-term assets – deferred tax assets	2,263	1,177
Current liabilities – other	(803)	(607)
Long-term liabilities – deferred tax liabilities	(9,198)	(33,419)

2. Significant components in the reconciliation of the difference between the statutory effective tax rate and the tax rate after adoption of tax-effect accounting are as follows:

	As of December 31, 2016	As of December 31, 2017
Statutory effective tax rate	30.9%	30.9%
(Reconciliation)		
Changes in valuation allowance	(33.0)%	(26.5)%
Permanent difference	0.9%	0.1%
Foreign tax rate differences	(1.8)%	1.8%
Tax credits	(2.9)%	(5.9)%
Tax on undistributed earnings	(2.5)%	0.5%
Amortization of goodwill	—%	6.3%
Effect due to amendments to the tax system	—%	1.9%
Others	0.5%	(0.2)%
Tax rate after adoption of tax-effect accounting	(7.9)%	8.9%

3. Adjustments of amounts of deferred tax assets and liabilities due to changes in statutory tax rates

On December 22, 2017, the United States government enacted an amendment called “The Tax Cuts and Jobs Act” to the tax system. Due to the effect of this change, the statutory effective tax rate to be used for the calculation of deferred tax assets and deferred tax liabilities for the subsidiaries in the United States is changed from 35% to 21%. In addition, a tax burden pertaining to certain non-US retained earnings of subsidiaries in the United States was incurred.

The effect of these changes on consolidated financial statements is immaterial.

(Business combination)

(Acquisition of Stock of Intersil)

The Company resolved at the Meeting of Board of Directors to reach an agreement with Intersil, whereby Intersil would become a wholly-owned subsidiary of the Company, and concluded merger agreements for the purpose of implementing the acquisition on September 13, 2016.

Intersil became a wholly-owned subsidiary of the Company through the acquisition of stock of Intersil on February 24, 2017.

Business combination through acquisition

1. Summary of Acquisition

(1) Name of Acquiree and Business Description

Name of Acquiree: Intersil Corporation

Business Description: Development, manufacture and sale of power management IC and high performance analog integrated circuits

(2) Major Reasons for Acquisition

The Company has carried out structural reforms aimed at building a corporation capable of maintaining stable and sustainable profitability during the volatile fluctuations of the semiconductor market. Having successfully attained a measure of financial stability through these efforts, the Company is embarking on a new growth strategy to ensure its ability to thrive in the global market. The decision to acquire Intersil was made in order to accelerate the realization of this growth strategy.

The acquisition of Intersil is expected to (1) bolster the lineup of power management-related analog devices, key devices essential to future growth in our strategic focus domains, (2) enhance the ability to deliver to customers solutions such as kits combining microcontrollers (MCUs) and high-precision analog products from Intersil, (3) expand sales and design-ins outside of Japan, and (4) strengthen global management capabilities by welcoming Intersil’s management team with broad management expertise to the Group. The acquisition is therefore seen as an effective measure to enhance the Company’s competitiveness in fields where it is focusing its efforts to boost sales and profits, and strengthening the Company’s position as a global leader.

(3) Date of Acquisition

February 24, 2017

(4) Legal Form of Acquisition

The Company established, for the purpose of the acquisition, a wholly-owned subsidiary (hereafter, the “acquisition subsidiary”) in Delaware, in the United States, that then merged with Intersil. The surviving company following the merger has become Intersil. A cash payment was made for Intersil’s shares as consideration for the merger, and the shares of the acquisition subsidiary owned by the Company were converted into outstanding shares in the surviving company, making the surviving company a wholly owned subsidiary of the Company.

(5) Company Name after Acquisition

Intersil Corporation

2. Period for which business results of acquiree were included in Consolidated Statement of Operations

From February 25, 2017 to December 31, 2017

3. Consideration Transferred for the Acquisition

	(In millions of yen)
Consideration transferred-Cash	345,394
Total	345,394

Note: Part of the acquisition cost is measured at the foreign exchange contract rate.

4. Main items of Acquisition Related Costs

Advisory fees and commissions to lawyers and financial institutions: 1,021 million yen

[Note] This amount is attributable to both the previous fiscal year (524 million yen) and the current fiscal year (497 million yen).

5. Goodwill arising from the acquisition, reason for the recognition of goodwill, and amortization method and period

① Goodwill arising from the acquisition

189,637 million yen

With regard to the acquisition of Intersil which took place on February 24, 2017, the acquisition was accounted for using provisional amounts determined based on reasonable information at the time of preparing the quarterly consolidated financial statements since the recognition and fair value measurement of the identifiable assets acquired and liabilities assumed at the acquisition date have not been finalized and, therefore, the purchase price allocation was still preliminary. The Group has revised the amount of goodwill based on the current fiscal year's allocation of determined acquisition cost.

(In millions of yen)

Modified subjects	Adjustments to goodwill
Goodwill (before adjustments)	316,304
Inventories	(10,029)
Property, plant and equipment	(10,326)
Intangible assets	(144,037)
Deferred tax liabilities	35,939
Other	1,786
Total adjustments	(126,667)
Goodwill (after adjustments)	189,637

② Reason for the recognition of goodwill

The goodwill arising from the acquisition is mainly attributed to the expected future benefits to be generated through the synergies resulting not only from the increasing sales opportunities led by Intersil's complementary product portfolio and markets, but also from the cost reduction led by rendering new embedded solution services and expanding the business foundations of both companies.

③ Amortization method and period

Goodwill is being amortized by the straight-line method over 9 years.

6. Components and amounts of transferred assets and liabilities on the acquisition date

	(In millions of yen)
Current assets	63,966
Long-term assets	165,569
Total assets	229,535
Current liabilities	39,265
Long-term liabilities	30,550
Total liabilities	69,815

7. Method for calculation and approximate amount of impact on the current fiscal year's consolidated statement of operations on the assumption that the business combination was completed on the beginning of the current fiscal year.

	(In millions of yen)
Sales	9,521
Operating income	(4,544)
Net income attributable to shareholders of parent company	(4,219)

The approximate amount of impact was calculated as the difference between sales and profit (or loss) information on the assumption that the business combination was completed on the beginning of the current fiscal year; and sales and profit (or loss) information from the acquisition company's consolidated statement of operations.

In addition, the amortization of goodwill and intangible assets at the beginning of the current fiscal year was added to the approximate amount of the impact.

The above financial information has not been audited

8. Components and weighted average amortization period of the amounts and main asset types allocated as intangible assets other than goodwill.

(In millions of yen)

Type	Amount	Weighted average amortization period
Developed technology	122,803	10 years
Customer-related assets	14,408	14 years
In-process R&D assets	4,277	---
Other	2,549	---
Total	144,037	---

(Note) The Company plans to amortize in-process R&D assets over their useful life but the weighted average amortization period is not presented because this development activity has not been completed during the fiscal year ended December 31, 2017.

(Consolidated subsidiary business divestiture)

Regarding the transfer of one of the Group’s consolidated subsidiaries, namely Renesas Semiconductor Package & Test Solution Co., Ltd. businesses including electronics engineering and manufacturing service of electronic control boards for use in various industrial equipment and other semiconductor manufacturing equipment; and development, manufacturing and sale of image recognition systems; the Group signed an agreement with Hitachi Maxell, Ltd. (Now, Maxell Holdings, Ltd.) on January 31, 2017 and completed the transfer of business on May 1, 2017.

Business divestiture

1. Outline of the business divestiture

(1) Name of the buyer

Hitachi Maxell, Ltd. (Now, Maxell Holdings, Ltd.)

(2) Nature of the divested businesses

The electronics engineering and manufacturing service of electronic control boards for use in various industrial equipment and other semiconductor manufacturing equipment; and development, manufacturing and sale of image recognition systems of Renesas Semiconductor Package & Test Solutions Co., Ltd., the Company’s wholly owned subsidiary

(3) Main reasons for the divestiture

Although the above businesses continue to generate profit, they are not strategically aligned with the Company Group business direction, which centers around the design, development, manufacturing, and sale of semiconductor devices and solutions. Accordingly, the Company had been searching for a partner capable of growing and generating synergy effects from these businesses.

After carefully considering a candidate buyer from the viewpoint of potential future growth of the businesses and synergies with them, the Company decided to sell the businesses to Hitachi Maxell, Ltd. (Now, Maxell Holdings, Ltd.), which has heretofore pursued a corporate policy aimed at boosting its manufacturing capabilities and intends to utilize these businesses to further expand its own businesses.

(4) Date of divestiture

May 1, 2017

(5) Overview of transactions including statutory form

Renesas Semiconductor Package & Test Solutions Co., Ltd. established a wholly owned subsidiary, through an absorption-type separation (Kyushu-bunkatsu) and transferred the new shares of common stock for the new company by the means of stock transfer with cash consideration.

2. Overview of accounting treatment implemented

(1) The gain on transfer of business

Difference between the consideration transferred and net assets determined based on the assets and liabilities pertaining to the transferred businesses immediately before the date of divestiture was recognized as gain on transfer of business in the consolidated statement of operations for the year ended December 31, 2017.

	(In millions of yen)
Gain on transfer of business	3,847

(2) Appropriate book value of assets and liabilities pertaining to the transferred businesses

	(In millions of yen)
Current assets	596
Long-term assets	516
Total assets	1,112
Current liabilities	14
Long-term liabilities	5
Total liabilities	19

(3) Approximate amount of income pertaining to divested businesses recorded in the consolidated statement of operations

	(In millions of yen)
Net sales	2,096
Operating income	326

(Asset Retirement Obligations)

Asset retirement obligations recognized on the consolidated financial statements

1. Outline of Asset Retirement Obligations

   Asset retirement obligations were recognized for obligations relating to the restoration of leased real estate (office and plant) to its original state and the removal expenses of asbestos and so forth during the dismantling of company-owned buildings in accordance with the Ordinance on Prevention of Health Impairment due to Asbestos and others.

2. Computation method for the amount of asset retirement obligations

   The amount of asset retirement obligations was computed using an estimated useful life of 2 to 47 years as well as a discount rate of 0.2% to 5.5%.

3. Increase (decrease) of the total amount of asset retirement obligations

(In millions of yen)

	The nine-month period ended December 31, 2016	The year ended December 31, 2017
Balance at the beginning of the period	2,860	2,667
Increase due to acquisition of property, plant and equipment	—	63
Accretion adjustment	23	29
Increase due to changes in estimate	—	18
Decrease due to settlement of asset retirement obligations	(78)	(205)
Decrease due to extinguishment of asset retirement obligations	(129)	—
Increase (decrease) in other items	(9)	21
Balance at the end of the period	2,667	2,593

(Segment Information)

[Business Segment Information]
(Nine-month period ended December 31, 2016 and the year ended December 31, 2017)
The semiconductor business segment is the sole operating segment of the Group. The information by business segment is therefore omitted.

[Related Information]
Nine-month period ended December 31, 2016
1. Information by product and service

(In millions of yen)

	Automotive Business	Industrial	Broad-based	Other Semiconductors	Others	Total
Net sales to third parties	258,410	138,793	55,573	4,421	13,834	471,031

2. Information by region and country
(1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
213,483	75,956	67,670	66,074	45,543	2,305	471,031

[Note] Sales are based on the location of customers and classified by country or region.

(2) Property, plant and equipment

(In millions of yen)

Japan	Malaysia	China	Asia (Excluding Malaysia and China)	Europe	North America	Total
161,272	21,275	16,853	589	717	799	201,505

3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	65,098	Semiconductor business

For the year ended December 31, 2017
1. Information by product and service

(In millions of yen)

	Automotive Business	Industrial	Broad-based	Other Semiconductors	Others	Total
Net sales to third parties	407,801	217,656	134,009	4,960	15,835	780,261

2. Information by region and country
(1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
329,450	150,556	112,341	109,394	74,607	3,913	780,261

[Note] Sales are based on the location of customers and classified by country or region.

(2) Property, plant and equipment

(In millions of yen)

Japan	Malaysia	China	Asia (Excluding Malaysia and China)	Europe	North America	Total
186,515	34,668	32,684	649	822	12,003	267,341

[Note] Because of the sales of China accounted for 10% or more of total sales we stated it separately from the current fiscal year.

3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	106,526	Semiconductor business

(Related Party Information)

1. Transactions with related parties

   None

2. Notes related to the parent company and significant affiliates

   None

(Amount per Share Information)

Item	Nine-month period ended December 31, 2016	The year ended December 31, 2017
Net assets per share	252.03 yen	304.20 yen
Basic net income per share	26.46 yen	46.30 yen
Net income per share fully diluted	26.46 yen	46.26 yen

Note 1: The basis of calculation for net income per share and net income per share fully diluted was as follows

Item	Nine-month period ended December 31, 2016	The year ended December 31, 2017
Basic net income per share		
Net income attributable to shareholders of parent company (In millions of yen)	44,119	77,196
Amounts not attributable to common stock (In millions of yen)	—	—
Net income attributable to shareholders of parent company attributable to common stock (In millions of yen)	44,119	77,196
Average number of common stock during the fiscal year (Thousands)	1,667,122	1,667,168
Net income per share fully diluted		
Net income adjustment attributable to shareholders of parent company (In millions of yen)	—	—
Increase in the number of common stock (Thousands)	76	1,615
(Subscription rights to shares (Thousands))	(76)	(1,615)
Brief description of residual shares excluded from diluted earnings per share, because it does not have the dilutive effect.	—	—

Note 2: The basis of calculation for net assets per share was as follows

Item	As of December 31, 2016	As of December 31, 2017
Total net assets (In millions of yen)	422,393	511,898
Amounts deducted from total net assets (In millions of yen)	2,231	4,746
Subscription rights to shares (In millions of yen)	(23)	(2,311)
(Non-controlling interests (In millions of yen))	(2,208)	(2,435)
Net assets attributable to common stock at the end of the year (In millions of yen)	420,162	507,152
The fiscal year-end number of common stock used for the calculation of net assets per share (Thousands)	1,667,122	1,667,192

(Significant Subsequent Events)

(Issuance of Stock Acquisition Rights as Stock Options)

The Company resolved at the Meeting of Board of Directors held on March 16, 2018 certain subscription items for stock acquisition rights to be issued as stock options for directors (except outside directors), corporate officers and employees of the Company and its subsidiaries. The Company has also determined items regarding taking applications or persons who will receive these stock options.

The details are as below.

Fiscal year 2018 Stock options No.1 and No.2

Date of resolution	March 16, 2018
Category and number of grantees	Directors of the Company (Except outside directors) 3 Corporate officers of the Company 10 Employees of the Company 475 Directors of the Company's subsidiaries (Except outside directors) 18 Employees of the Company's subsidiaries 747
Type of stock	Common stock (Note 1)
Number of shares	5,816,600 shares
Exercise price	1 yen per share
Exercise period	From April 3, 2018 to April 2, 2028
Conditions for exercise	(Note 3)
Transfer of stock acquisition rights	Approval by resolution of the board of directors' meeting is required for acquisition of stock acquisition rights by transfer.
Substitute payment	—
Issuance of stock acquisition rights on reorganization	(Note 5)

Note 1:

The type of shares to be acquired upon exercise of the stock options shall be shares of common stock of the Company, and the number of shares to be acquired upon exercise of one stock option (the "Number of Shares to be Granted") shall be 100 shares.

However, in the case of a stock split (including gratuitous allotment of shares of common stock of the Company; the same applies hereinafter) or stock consolidation of shares of common stock of the Company by the Company after the allotment date, the number of shares to be granted shall be adjusted using the following formula with respect to the stock options that have not been exercised at the time of such stock split or stock consolidation:

(Number of shares to be granted after adjustment) = (Number of shares to be granted before adjustment) × (Ratio of stock split or stock consolidation)

In addition to the above, if, after the allotment date, the Company carries out a merger or company split, or deems it necessary (to essentially the same extent) to adjust the number of shares to be granted in other situations, the Company may appropriately adjust the number of shares to be granted to a reasonable extent. Any fraction less than one share resulting from such adjustment shall be rounded down to the nearest whole share.

Note 2:

(1) The issuance price per share by the issuance of shares upon the exercise of the stock options will be calculated by dividing the total amount of issuance price added the payable amount about exercise of the stock options by the total number of shares to be acquired upon exercise of stock options described in above.

(2) 1) The amount of capital stock to be increased by the issuance of shares upon the exercise of the stock options will be one-half of the maximum amount of increase of capital stock, etc. calculated in accordance with Article 17, Paragraph 1 of the Corporate Calculation Rules of Japan, and any amount less than one Japanese yen resulting from the calculation will be rounded up to the nearest Japanese yen.

2) The amount of capital surplus to be increased by the issuance of shares upon the exercise of the stock options will be the amount obtained by subtracting the amount of capital stock to be increased described in 1) above from the maximum amount of increase of capital stock, etc. described in 1) above.

Note 3:

(1) The stock option holder may not exercise their stock options during the period of one year from the immediate following day of the allotment date.

(2) The stock option holder shall be in the position of director, corporate officer, auditor, executive officer or employee of the Company or its subsidiaries (the “Exercise Qualification”) at the time of exercise of the stock options.

(3) Notwithstanding (1) and (2) above, if the stock option holder loses their Exercise Qualification (other than loss due to death), the stock option holder may exercise their stock options only within a period of 13 months after the immediate following day of the day of loss of the Exercise Qualification.

(4) Notwithstanding (1) and (2) above, if the stock option holder dies, the stock options may be succeeded to by one (and only one) of the heirs of the stock option holder (the “Rights Successor”). In this case, the Rights Successor may exercise the stock options in a lump sum and only before the day that is six months after the day immediately following the day on which the stock option holder dies (and only if during the period provided for in “Exercise period” above). If the Rights Successor dies, the heirs of the Rights Successor may not further succeed to the stock options.

(5) If the stock option holder waives the stock options, the stock option holder may not exercise such stock options.

(6) The stock options allotment agreement between the Company and the stock option holder may provide other conditions not stipulated above.

Note 4:
If any of the following proposals is approved at a shareholders’ meeting of the Company (or, if a resolution of a shareholders’ meeting is not required, resolved at a board of directors’ meeting of the Company), the Company may acquire all of the stock options at no cost on a date separately designated by the board of directors of the Company.
(i) proposal for approval of a merger agreement providing that the Company be dissolved;
(ii) proposal for approval of a company split agreement or company split plan providing that the Company be split;
(iii) proposal for approval of a share exchange agreement or share transfer plan providing that the Company become a wholly-owned subsidiary;
(iv) proposal for approval of the Company acquiring all of shares subject to class-wide call pursuant to Article 171, Paragraph 1 of the Companies Act of Japan;
(v) proposal for approval of amendments to the articles of incorporation specifying a provision that, as a condition pertaining to all of the shares issued by the Company, the acquisition of such shares through transfer requires the Company’s approval;
(vi) proposal for approval of amendments to the articles of incorporation specifying a provision that, as a condition pertaining to the class of shares to be acquired upon exercise of the stock options, the acquisition of such class of shares through transfer requires the Company’s approval, or a provision that the Company may acquire all of such class of shares by resolution of the shareholders’ meeting;
(vii) proposal for approval of stock consolidation of class of shares to be acquired upon exercise of the stock options (only if the number obtained by multiplying the unit shares relating to such class of shares by the ratio of stock consolidation generates a fraction less than one share); and
(viii) proposal for approval of demand for cash-out by special controlling shareholders pursuant to the provisions of Article 179-3, Paragraph 1 of the Companies Act of Japan.

Note 5:
If the Company conducts a merger (limited to where the Company is to be dissolved as a result of the merger), absorption-type company split or incorporation-type company split (limited to where the Company is to be split as a result of the absorption-type company split or incorporation-type company split), or share exchange or share transfer (limited to where the Company becomes a wholly-owned subsidiary as a result of the share exchange or share transfer) (collectively, a “Reorganization”), in each case stock options of a stock company set out in (a) through (e) of Article 236, Paragraph 1, Item (8) of the Companies Act of Japan (collectively, the “Reorganized Company”) will be delivered to the stock option holder holding the stock options that are outstanding immediately before the effective date of the Reorganization (which means, in the case of an absorption-type merger, the day on which the absorption-type merger becomes effective, in the case of an incorporation-type merger, the day on which the incorporation-type merger becomes effective, in the case of an absorption-type company split, the day on which the absorption-type company split becomes effective, in the case of an incorporation-type company split, the day on which the incorporation-type company split becomes effective, in the case of a share exchange, the day on which the share exchange becomes effective, and in the case of a share transfer, the day on which the wholly-owning parent company incorporated through share transfer is incorporated; the same applies hereinafter) (the “Outstanding Stock Options”) on the following conditions, in which case, the Outstanding Stock Options will

be terminated; provided, however, that this shall apply only if the delivery of stock options by the Reorganized Company on the following conditions is stipulated in an absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement, or share transfer plan.

(1) Number of stock options of the Reorganized Company for delivery:
The stock option holders will each receive delivery of stock options of the Reorganized Company in the same number as the number of the Outstanding Stock Options held thereby.

(2) Type of shares of the Reorganized Company for delivery upon exercise of the stock options:
Common stock of the Reorganized Company

(3) Number of shares of the Reorganized Company for delivery upon exercise of the stock options:
This will be determined in accordance with “Note 1” above after considering the terms and conditions of the Reorganization, etc.

(4) Amount of assets to be contributed upon exercise of the stock options:
The contribution to be made upon exercise of the stock options to be delivered will be made for cash, and the amount of the assets to be contributed shall be obtained by multiplying one Japanese yen, which is the amount per share of the Reorganized Company to be delivered upon exercise of the stock options, by the number of shares of the Reorganized Company underlying the stock options to be determined pursuant to (3) above.

(5) Exercise period of the stock options:
The exercise period of the stock options will be from the later of the commencement date of the period set out in “Exercise period” above in which the stock options are exercisable or the effective date of the Reorganization through the expiration date of the period set out in “Exercise period” above in which the stock options are exercisable.

(6) Matters relating to capital stock or capital surplus to be increased by the issuance of new shares upon exercise of the stock options:
In accordance with “Note 2” above

(7) Restrictions on acquiring the stock options by means of transfer:
Acquiring stock options by means of a transfer requires approval of the board of directors of the Reorganized Company.

(8) Acquisition terms of stock options:
In accordance with “Note 4” above

(9) Other conditions for exercise of the stock options:
This will be determined in accordance with “Note 3” above.

(Consolidated Supplemental Schedules)

[Schedule of borrowings]

Category	Beginning balance (In millions of yen)	Closing balance (In millions of yen)	Average interest rate (%)	Maturity
Short-term borrowings	—	35,000	0.8	—
Current portion of long-term borrowings	—	12,875	0.9	—
Current portion of lease obligations	4,481	114	2.8	—
Long-term borrowings (excluding current portion)	152,568	181,396	0.8	From 2019 to 2022
Lease obligations (excluding current portion)	269	146	2.9	From 2019 to 2023
Other interest-bearing debts	—	—	—	—
Total	157,318	229,531	—	—

Note 1: The average interest rate represents the weighted-average rate applicable to the fiscal year-end balance of borrowings etc.

Note 2: The repayment schedules of long-term borrowings and lease obligations for 5 years subsequent to the fiscal year-end are as follows:

(In millions of yen)

	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
Long-term borrowings	10,000	10,000	158,896	2,500
Lease obligations	78	51	16	1

[Schedule of asset retirement obligations]

The beginning and ending balances of asset retirement obligations in the fiscal year ended December 31, 2017 were less than 1% of total liabilities and net assets. The schedule was therefore omitted in accordance with Article 92-2 of the Regulations for Consolidated Financial Statements.

[Other]

(1) Summary of consolidated financial data for each quarter of the fiscal year ended December 31, 2017

	1st Quarter consolidated cumulative period (from January 1, 2017 to March 31, 2017)	2nd Quarter consolidated cumulative period (from January 1, 2017 to June 30, 2017)	3rd Quarter consolidated cumulative period (from January 1, 2017 to September 30, 2017)	The year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)
Net sales (In millions of yen)	177,231	374,553	570,058	780,261
Income before income taxes (In millions of yen)	19,457	40,453	65,165	84,792
Net income attributable to shareholders of parent company (In millions of yen)	17,164	36,281	58,610	77,196
Basic quarterly net income per share (Yen)	10.30	21.76	35.16	46.30

	1st Quarter (from January 1, 2017 to March 31, 2017)	2nd Quarter (from April 1, 2017 to June 30, 2017)	3rd Quarter (from July 1, 2017 to September 30, 2017)	4th Quarter (from October 1, 2017 to December 31, 2017)
Basic net income per share	10.30	11.47	13.39	11.15

Note: As of December 31, 2017 the acquisition was accounted for finalizing provisional accounting treatment. Regarding relevant figures from the first quarter to the third quarter, an important revision of allocated amount of acquisition cost was reflected.

(2) Matters subsequent to the fiscal year-end

None

(3) Lawsuits

Described in “4 Contingent liabilities (2) Others” of “Consolidated Balance Sheets” of the notes to Consolidated Financial Statements

(Appendix) Renesas Electronics Group Companies

The Renesas Electronics Group comprises 50 consolidated subsidiaries and 1 equity method affiliates, as listed below according to primary business activity.

	Japan	Overseas
Sales Companies	<Consolidated Subsidiary> 1 Company <Equity Method Affiliate> RENESAS EASTON Co., Ltd.	<Consolidated Subsidiary> Renesas Electronics (China) Co., Ltd. Renesas Electronics (Shanghai) Co., Ltd. Renesas Electronics Hong Kong Limited Renesas Electronics Taiwan Co., Ltd. Renesas Electronics Korea Co., Ltd. Renesas Electronics Singapore Pte. Ltd. Renesas Electronics Malaysia Sdn. Bhd. Renesas Electronics India Private Limited Renesas Electronics America, Inc. Renesas Electronics Canada Limited Renesas Electronics Brasil-Servicos Ltda. Renesas Electronics Europe Limited (UK) Renesas Electronics Europe GmbH (Germany) 7 companies
Manufacturing and Engineering Service Companies	<Consolidated Subsidiary> Renesas Semiconductor Manufacturing, Co., Ltd. Renesas Semiconductor Package & Test Solutions Co., Ltd.	<Consolidated Subsidiary> Renesas Semiconductor (Beijing) Co., Ltd. Renesas Semiconductor (Suzhou) Co., Ltd. Renesas Semiconductor KL Sdn. Bhd. Renesas Semiconductor (Malaysia) Sdn. Bhd. Renesas Semiconductor (Kedah) Sdn. Bhd. Renesas Semiconductor Technology (Malaysia) Sdn. Bhd.
Design and Application Technologies Companies	<Consolidated Subsidiary> Renesas Engineering Services Co., Ltd.	<Consolidated Subsidiary> Renesas Semiconductor Design (Beijing) Co., Ltd. Renesas Design Vietnam Co., Ltd. Renesas Semiconductor Design (Malaysia) Sdn. Bhd. 1 company
Business Corporations and Others		<Consolidated Subsidiary> Intersil Corporation. (America) Intersil International Operations Sdn. Bhd.(Malaysia) Intersil Luxembourg S.a.r.l. 13 companies

Note 1: Some of the Group’s overseas sales companies are also engaged in design and development activities.
Note 2: On January 1, 2018 Intersil Corporation merged with Renesas America in an absorption-type merger and changed the trade name to Renesas America.

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Building a better working world

Independent Auditor's Report

The Board of Directors
Renesas Electronics Corporation

We have audited the accompanying consolidated financial statements of Renesas Electronics Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Renesas Electronics Corporation and its consolidated subsidiaries as at December 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

March 29, 2018
Tokyo, Japan