

**Renesas**

**FINANCIAL REPORT 2015**  
Year Ended March 31, 2015

**RENESAS ELECTRONICS CORPORATION**

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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"), for the year ended March 31, 2015.

## **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 March 31, 2015.

#### **(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 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 valued at cost or amortized cost using the moving-average method. If there is a significant decline in market price or value, the Group recognizes impairment, except when a recovery is

expected. There could be extraordinary 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 a valuation allowance to reduce deferred tax assets to an amount that is more likely than not to be realized.

We evaluate the necessity of a 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 records adjustments to deferred tax assets as expenses in the period said judgment was made. Similarly, in the event that deferred tax assets in excess of the net total balance sheet amount are determined to be recoverable, the Group adjusts tax expenses for the period the judgment was made.

## 6) *Retirement and Severance Benefits*

The Group records retirement and benefit obligations and costs for employees based on a number of 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 differences are amortized over the expected average remaining service period 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 booked allowances to cover losses associated with these actions in such cases where these losses are reasonably estimable.

## (2) *Overview of Financial Results*

	Year ended March 31, 2014	Year ended March 31, 2015	Increase (Decrease)	
	Billion yen	Billion yen	Billion yen	% Change
Net sales	833.0	791.1	(41.9)	(5.0)
Sales from semiconductors	796.8	753.3	(43.5)	(5.5)
Sales from others	36.2	37.8	1.5	4.3
Operating income (loss)	67.6	104.4	36.8	54.4
Ordinary income (loss)	58.6	105.3	46.7	79.7
Net income (loss)	(5.3)	82.4	87.7	-
	Yen	Yen		
Exchange rate (USD)	100	108	-	-
Exchange rate (EUR)	133	140	-	-

### [Net sales]

Consolidated net sales for the year ended March 31, 2015 were 791.1 billion yen, a decrease of 5.0% year on year.

This was mainly due to a decrease in sales from semiconductors, including small- and medium-sized display driver ICs for mobile handsets and consumer electronics devices, resulting from the selection and concentration of businesses, despite the steady sales of automotive and industrial semiconductors and improved exchange rate.

### [Sales from Semiconductors]

Sales from semiconductors for the year ended March 31, 2015 were 753.3 billion yen, a decrease of 5.5% decrease year on year.

The sales breakdown for “Automotive” and “General purpose”, and for “Other semiconductors” not belonging to these two categories, is as follows:

Automotive Business: 323.1 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 supplies microcontrollers, analog & power semiconductor devices, and system-on-chip (SoC) products in each of these categories.

Sales of Automotive business for the year ended March 31, 2015 were 323.1 billion yen, an increase of 6.4% year on year. Sales increased in both the “Automotive control” and “Automotive information” categories.

General-Purpose Business: 425.5 billion yen

The general-purpose business includes the product categories “Industrial/Home electronics,” comprising semiconductor devices for industrial equipment, white goods, etc., “OA/ICT,” comprising semiconductor devices for office automation (OA) equipment such as copy machines and information and communication technology (ICT) equipment such as network infrastructure, and “General-purpose,” comprising general-purpose semiconductor devices for other applications. The Group supplies microcontrollers, analog & power semiconductor devices, and SoC products in each of these categories.

Sales of General-purpose business for the year ended March 31, 2015 were 425.5 billion yen, a decrease of 12.7% year on year. This was mainly due to the Group’s promotion of selection and concentration of businesses which led to decreased sales in the “OA/ICT” and “General-Purpose” categories, despite the increased sales in the “Industrial/Home electronics”. In particular, sales in the “General-Purpose” category decreased year on year as a result of transferring all of the shares in Renesas SP Drivers Inc., a consolidated subsidiary of the Group and supplier of small- and medium-sized display driver ICs, to Synaptics Holding GmbH.

Other Semiconductors: 4.7 billion yen

Sales of Other semiconductors include production by commissioning and royalties.

Sales of other semiconductors for the year ended March 31, 2015 were 4.7 billion yen, a decrease of 19.4% year on year.

[Sales from others]

Sales from others include non-semiconductor products sold on a resale basis by the Group’s sales subsidiaries and development and production by commissioning conducted at the Group’s design and manufacturing subsidiaries.

Sales from others for the year ended March 31, 2015 were 37.8 billion yen, an increase of 4.3% year on year. This increase was mainly due to sales of the former Renesas SP Drivers products supplied by commissioning that continued even after the transfer of all of the shares in Renesas SP Drivers on October 1, 2014, until the supply system was organized at Synaptics Holding GmbH on October 31, 2014.

[Operating income (loss)]

Operating income for the year ended March 31, 2015 was 104.4 billion yen, 36.8 billion yen improvement year on year. This was mainly owing to: continued steady growth of the sales of the Group’s focusing automotive and industrial businesses; improved exchange rate; and improved earnings structure, including the improvement of gross profit ratio, through implementation of the structural reform measures, despite the decrease in sales from semiconductors, including those for mobile handsets and consumer electronics

devices, resulting from the selection and concentration of businesses.

**[Ordinary income (loss)]**

Ordinary income for the year ended March 31, 2015 was 105.3 billion yen, mainly due to non-operating income of 0.9 billion yen from recording non-operating income of 7.7 billion yen including foreign exchange gains, etc., despite a recording of non-operating expenses of 6.8 billion yen, including interest expenses. Additionally, foreign exchange gains for the year ended March 31, 2015 were 4.6 billion yen.

**[Net income (loss)]**

Net income for the year ended March 31, 2015 was 82.4 billion yen, 87.7 billion yen improvement year on year. This was mainly due to decreased special loss year on year, especially from the business structure improvement expenses, and recording of special income from business transfer in addition to improved operating income and ordinary income from implementing structural reforms.

### **(3) Financial Position**

**[Total Assets, Liabilities and Net Assets]**

	<b>March 31, 2014</b>	<b>March 31, 2015</b>	<b>Increase (Decrease)</b>
	Billions of yen	Billions of yen	Billions of yen
Total assets	786.0	840.1	54.1
Net assets	227.3	311.9	84.6
Equity	214.6	309.5	94.9
Equity ratio (%)	27.3	36.8	9.5
Interest-bearing debt	270.9	259.7	(11.2)
Debt / Equity ratio	1.26	0.84	(0.42)

Total assets at March 31, 2015 were 840.1 billion yen, a 54.1 billion yen increase from March 31, 2014. This was primarily due to improved net cash provided by operating activities from recording income before income taxes and minority interests through structural reform measures, which resulted in increase in cash and deposits in the year ended March 31, 2015. Net assets were 311.9 billion yen, an 84.6 billion yen increase from March 31, 2014. This was mainly due to recording of net income of 82.4 billion yen for the year ended March 31, 2015.

Equity increased by 94.9 billion yen from March 31, 2014 and the equity ratio was 36.8%. Interest-bearing debt decreased by 11.2 billion yen from March 31, 2014. Consequently, the debt to equity ratio dropped to 0.84.

**[Cash Flows]**

	<b>Year ended March 31, 2014</b>	<b>Year ended March 31, 2015</b>
	Billions of yen	Billions of yen
Net cash provided by (used in) operating activities	93.7	116.7
Net cash provided by (used in) investing activities	(19.2)	(26.6)
Free cash flows	74.5	90.1
Net cash provided by (used in) financing activities	107.0	(23.8)
Cash and cash equivalents at the beginning of period	77.7	265.9
Cash and cash equivalents at the end of period	265.9	343.7

(Net cash provided by (used in) operating activities)

Net cash provided by operating activities for the year ended March 31, 2015 was 116.7 billion yen. This was mainly due to recording of income before income taxes and minority interests in the amount of 94.1 billion yen and adjustment of non-expenditure items including depreciation and amortization, etc.

(Net cash provided by (used in) investing activities)

Net cash used in investing activities for the year ended March 31, 2015 was 26.6 billion yen, mainly due to payments for purchases of property, plant and equipment as well as purchases of intangible assets, despite an 18.2 billion yen proceeds from the transfer of a business.

The foregoing resulted in positive free cash flows of 90.1 billion yen for the year ended March 31, 2015.

(Net cash provided by (used in) financing activities)

Net cash used in financing activities for the year ended March 31, 2015 was 23.8 billion yen.

Consequently, cash and cash equivalents at the end of the period were 343.7 billion yen, a 77.8 billion yen increase from the beginning of the period.

#### **(4) Effect of Change in Exchange Rates on Foreign Currency Translation**

The average annual exchange rate of the Japanese yen against the U.S. dollar during the fiscal year ended March 31, 2015 was weaker compared with the fiscal year ended March 31, 2014. This increased the yen-denominated amount of U.S. dollar-denominated sales, thereby contributing to increased earnings. We recorded a net foreign exchange gain of 4.6 billion yen as non-operating income for the fiscal year ended March 31, 2015. Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the fiscal year-end. Revenue and expenses are translated at the average exchange rates for the fiscal year. Adjustments resulting from the translation are accumulated and recorded in "foreign currency translation adjustments" and "minority interests" in the consolidated balance sheets. For details, see Basis of Consolidated Financial Statements.

#### **(5) 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 issued new shares offered by way of third-party allotment to the Innovation Network Corporation of Japan, Toyota Motor Corporation, Nissan Motor Co., Ltd., Keihin Corporation, Denso Corporation, Canon Inc., Nikon Corporation, Panasonic Corporation, and Yaskawa Electric Corporation on September 30, 2013, thereby procuring capital totaling 150 billion yen. Also, the Company renegotiated the terms of the syndicated loan agreement (for a total amount of 208.6 billion yen) concluded on September 28, 2012, with its main financing banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Corporate Bank, Ltd. (now Mizuho Bank, Ltd.), Sumitomo Mitsui Trust Bank, Limited, and Mitsubishi UFJ Trust and Banking Corporation. A refinancing agreement for the total amount of 208.6 billion yen was concluded on September 11, 2013, and it took effect on September 30 of the same year. As of March 31, 2015, the total amount of interest-bearing debt, including borrowings and lease obligations, was 259.7 billion yen. As of March 31, 2015, the Company had 343.7 billion yen in liquidity, including cash and deposits, and marketable securities.

## **(6) 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 March 31, 2015, the balance of lease obligations for unexpired non-cancelable operating lease transactions was 9.2 billion yen.

### **Risk Factors**

Renesas Electronics 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 March 31, 2015.

#### **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 cost ratios, 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. As a result, 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 Renesas Group 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 Renesas Group business operation are influenced by fluctuations in interest rates, it is also possible for Renesas Group 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. To maintain and improve competitiveness, the Group takes various measures including development of leading edge technologies, standardizing design, and cost reduction, 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. Price competition for the purpose of maintaining market share may also lead to sharp declines in the market price of the Group's products. When this cannot be offset by cost reductions, the Group's gross profit margin ratio may decline.

#### **5) Implementation of Management Strategies and Structural Measures**

The Group is implementing a variety of business strategies and structural measures (such as business and structural reforms) to strengthen the foundations of our profitability. However, 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 structural reform costs may arise. Thus these issues may adversely influence Renesas Group 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; drops in individual consumption or in equipment investment; fluctuations in the prices of goods and land; and rising wage levels. 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. The Group studies from many aspects the potential of these alliances and acquisitions in terms of return on investment and profitability, but time and money are necessary to achieve integration in areas such as business execution, technology, products, and personnel, and it is possible that these collaborative relationships cannot be sustained due to issues such as differences from the Group's partners on management strategy in areas such as capital procurement, technology management, and product development, or financial or other business problems the Group's partners may encounter. In addition, it is not guaranteed that strategic alliances and corporate acquisitions would actually yield the results 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 Renesas 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, Renesas' 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, Renesas Group businesses, performance, and financial condition may be adversely affected.

#### **10) Notes on the Fact that the Largest Shareholder Possesses the a Majority Share of Voting Rights**

As a result of the allocation by the Company 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 stock. Thus, the business operations of the Company 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 the Renesas stock it currently holds for investment purposes, this could potentially have a substantial effect on the market value of the Company, 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, Renesas Group 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.

#### 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 could result in the Group being unable to supply enough products amid periods of high product demand.

### **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 and the diversity of ways in which the Group's products are used by customers. 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 replace the Group products handled with those of a competitor, which could cause a downturn in the Group sales.

### **15) Securing Human Resources**

The Renesas 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**

The retirement benefit obligations and prepaid pension expenses that the Group budgets 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 pension assets decrease and there is an increase in the pension funding deficit in the retirement benefit obligations system.

### **17) Impairment Loss on Fixed Assets**

The Group has recorded tangible fixed assets and many other long-lived assets in its consolidated balance sheet, and when there is an indicator of impairment loss, the Group reviews whether it will be able to recover the recorded residual value of these assets in the form of future cash flows generated by these assets. If these assets do not generate sufficient cash flows, the Group may be forced to recognize impairment loss in their value.

### **18) 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.

### **19) 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 customer confidence and social trust would deteriorate, resulting in a negative effect on the Group's performance.

### **20) Legal Restrictions**

The Group is subject to a variety of legal restrictions in the various countries and regions in which we operate. These include requirements for approval for businesses and investments, export restrictions, customs duties and tariffs, accounting standards and

taxation, and environment laws. Moving forward, it is possible that Renesas Group businesses, performance, and financial condition may be adversely affected by increased costs and restrictions on business activities associated with the strengthening of local laws.

### **21) *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.

### **22) *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.

### **23) *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 is at present the subject of investigation by regulatory authorities and is a defendant in civil lawsuits related to possible violations of antitrust law in several countries and areas.

The Group has been named in Canada as one of the defendants in multiple civil lawsuits related to possible violations of competition law involving SRAM brought by purchasers of such products.

The Group's subsidiaries in the U.S., Europe and South Korea are the subject of investigations each by the U.S. Department of Justice, the Competition Bureau of Canada, the European Commission, and the Korea Fair Trade Commission in connection with possible violations of antitrust law/competition law related to thin-film transistor liquid crystal displays (TFT-LCDs).

The Group has been named in Canada as a defendant in a civil lawsuit related to possible violations of competition law involving smartcard chips brought by purchasers of such products. Also, the Company and its European subsidiary have been named in the United Kingdom as defendants in a civil lawsuit related to possible violations of competition law involving smartcard chips brought by purchasers of such products.

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 April 1, 2014 to March 31, 2015) were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Section 1, of the Financial Instruments and Exchange Law.

## 3. Special Measures for Preparing Fairly Stated Financial Statements

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

# 1. Consolidated Financial Statements

## 1.1 Consolidated Balance Sheets

As of March 31, 2014 and 2015

(In millions of yen)

	Prior Fiscal Year (As of March 31, 2014)	Current Fiscal Year (As of March 31, 2015)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	267,302	344,000
Notes and accounts receivable-trade	82,531	91,471
Merchandise and finished goods	※1 47,332	※1 38,203
Work in process	※1 70,185	※1 66,761
Raw materials and supplies	※1 8,538	※1 6,457
Deferred tax assets	2,487	1,529
Accounts receivable-other	20,071	14,174
Other current assets	5,562	8,560
Allowance for doubtful accounts	(101)	(92)
<b>Total current assets</b>	<b>503,907</b>	<b>571,063</b>
<b>Long-term assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	243,713	246,883
Accumulated depreciation	※3 (160,070)	※3 (172,963)
Buildings and structures, net	※1 83,643	※1 73,920
Machinery and equipment	657,522	648,927
Accumulated depreciation	※3 (597,958)	※3 (593,694)
Machinery and equipment, net	※1 59,564	※1 55,233
Vehicles, tools, furniture and fixtures	110,399	107,251
Accumulated depreciation	※3 (91,450)	※3 (90,506)
Vehicles, tools, furniture and fixtures, net	18,949	16,745
Land	※1 31,197	※1 27,277
Construction in progress	10,901	8,640
<b>Total property, plant and equipment</b>	<b>204,254</b>	<b>181,815</b>
<b>Intangible assets</b>		
Software	11,722	9,743
Other intangible assets	23,155	18,509
<b>Total intangible assets</b>	<b>34,877</b>	<b>28,252</b>
<b>Investments and other assets</b>		
Investment securities	※1,※2 8,587	※2 8,108
Net defined benefit asset	492	946
Deferred tax assets	2,300	2,106
Long-term prepaid expenses	21,633	35,024
Other assets	9,953	12,774
Allowance for doubtful accounts	(1)	(1)
<b>Total investments and other assets</b>	<b>42,964</b>	<b>58,957</b>
<b>Total long-term assets</b>	<b>282,095</b>	<b>269,024</b>
<b>Total assets</b>	<b>786,002</b>	<b>840,087</b>

(In millions of yen)

	Prior Fiscal Year (As of March 31, 2014)	Current Fiscal Year (As of March 31, 2015)
<b>Liabilities</b>		
Current liabilities		
Electronically recorded obligations	4,992	9,275
Notes and accounts payable-trade	86,382	76,364
Short-term borrowings	2,000	—
Current portion of long-term borrowings	3,366	6,700
Current portion of lease obligations	※1 2,458	※1 1,135
Accounts payable-other	41,238	37,337
Accrued expenses	41,663	36,875
Accrued income taxes	8,631	5,785
Provision for product warranties	605	366
Provision for business structure improvement	5,142	3,871
Provision for contingent loss	993	252
Asset retirement obligations	22	2,089
Other current liabilities	3,524	6,009
Total current liabilities	201,016	186,058
Long-term liabilities		
Long-term borrowings	※1 256,625	※1 246,505
Lease obligations	※1 6,453	※1 5,385
Deferred tax liabilities	11,040	11,641
Provision for business structure improvement	4,956	2,980
Net defined benefit liability	57,874	50,489
Asset retirement obligations	4,102	2,862
Other liabilities	16,622	22,258
Total long-term liabilities	357,672	342,120
Total liabilities	558,688	528,178
<b>Net assets</b>		
Shareholders' equity		
Common stock	228,255	228,255
Capital surplus	525,413	525,413
Retained earnings	(533,106)	(475,815)
Treasury stock	(11)	(11)
Total shareholders' equity	220,551	277,842
Accumulated other comprehensive income		
Unrealized gains (losses) on securities	572	716
Foreign currency translation adjustments	(347)	13,716
Remeasurements of defined benefit plans	(6,175)	17,255
Total accumulated other comprehensive income	(5,950)	31,687
Minority interests	12,713	2,380
Total net assets	227,314	311,909
Total liabilities and net assets	786,002	840,087



## 1.2 Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

### 1.2.1 Consolidated Statements of Operations For the Years Ended March 31, 2014 and 2015

(In millions of yen)

	The year ended March 31, 2014	The year ended March 31, 2015
Net sales	833,011	791,074
Cost of sales	※1 523,262	※1 472,303
Gross profit	309,749	318,771
Selling, general and administrative expenses	※2,※3 242,114	※2,※3 214,344
Operating income	67,635	104,427
Non-operating income		
Interest income	531	888
Dividends income	105	129
Equity in earnings of affiliates	168	273
Foreign exchange gains	2,802	4,626
Other non-operating income	1,500	1,786
Total non-operating income	5,106	7,702
Non-operating expenses		
Interest expenses	4,531	3,166
Retirement benefit expenses	1,897	1,552
Share issuance cost	2,354	-
Other non-operating expenses	5,334	2,076
Total non-operating expenses	14,116	6,794
Ordinary income	58,625	105,335
Special income		
Gain on sales of property, plant and equipment	※4 448	※4 1,259
Gain on transfer of business	※5 15,632	※5 20,045
Gain on sales of investment securities	101	146
Gain on forgiveness of debt	※6 7,636	-
Gain on extinguishment of debt	-	※7 1,694
Total special income	23,817	23,144
Special loss		
Loss on sales of property, plant and equipment	※8 2,318	※8 175
Impairment loss	※9 2,229	※9 1,173
Loss on disaster	1,321	-
Business structure improvement expenses	※9,※10 54,040	※9,※10 30,141
Loss on valuation of investment securities	10	-
Loss on sales of investment securities	-	30
Loss on liquidation of subsidiaries and affiliates	35	498
Loss on transfer of business	1,598	-
Loss on abolishment of retirement benefit plan	※11 9,116	-
Provision for contingent loss	1,270	274
Compensation for damage	17	-
Compensation expenses	-	※12 1,897
Loss on sales of subsidiaries and affiliates' stocks	-	129
Loss on change in equity	-	62
Total special loss	71,954	34,379
Income before income taxes and minority interests	10,488	94,100

	The year ended March 31, 2014	The year ended March 31, 2015
Income taxes-current	11,378	8,725
Income taxes-deferred	(157)	460
Total income taxes	11,221	9,185
Income (loss) before minority interests	(733)	84,915
Minority interests in income of consolidated subsidiaries	4,558	2,550
Net income (loss)	(5,291)	82,365

### 1.2.2 Consolidated Statements of Comprehensive Income For the Years Ended March 31, 2014 and 2015

(In millions of yen)

	The year ended March 31, 2014	The year ended March 31, 2015
Income (loss) before minority interests	(733)	84,915
Other comprehensive income		
Unrealized gains (losses) on securities	240	103
Foreign currency translation adjustments	9,252	14,026
Remeasurements of defined benefit plans, net of tax	—	23,430
Share of other comprehensive income of affiliates accounted for by the equity method	24	70
Total other comprehensive income	※1 9,516	※1 37,629
Comprehensive income	8,783	122,544
Comprehensive income attributable to:		
Shareholders of parent company	4,032	120,031
Minority interests	4,751	2,513

### 1.3 Consolidated Statements of Changes in Net Assets For the Years Ended March 31, 2014 and 2015

The year ended March 31, 2014

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	153,255	450,413	(527,815)	(11)	75,842
Changes during the period					
Issuance of new shares	75,000	75,000			150,000
Net income (loss)			(5,291)		(5,291)
Net changes other than shareholders' equity					
Total changes during the period	75,000	75,000	(5,291)	—	144,709
Balance at the end of the period	228,255	525,413	(533,106)	(11)	220,551

	Accumulated other comprehensive income				Minority interests	Total net assets
	Unrealized gains (losses) on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the period	308	(9,406)	—	(9,098)	11,180	77,924
Changes during the period						
Issuance of new shares						150,000
Net income (loss)						(5,291)
Net changes other than shareholders' equity	264	9,059	(6,175)	3,148	1,533	4,681
Total changes during the period	264	9,059	(6,175)	3,148	1,533	149,390
Balance at the end of the period	572	(347)	(6,175)	(5,950)	12,713	227,314

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	228,255	525,413	(533,106)	(11)	220,551
Cumulative effects of changes in accounting policies			(25,074)		(25,074)
Restated balance	228,255	525,413	(558,180)	(11)	195,477
Changes during the period					
Net income (loss)			82,365		82,365
Net changes other than shareholders' equity					
Total changes during the period			82,365	—	82,365
Balance at the end of the period	228,255	525,413	(475,815)	(11)	277,842

	Accumulated other comprehensive income				Minority interests	Total net assets
	Unrealized gains (losses) on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the period	572	(347)	(6,175)	(5,950)	12,713	227,314
Cumulative effects of changes in accounting policies						(25,074)
Restated balance	572	(347)	(6,175)	(5,950)	12,713	202,240
Changes during the period						
Net income (loss)						82,365
Net changes other than shareholders' equity	144	14,063	23,430	37,637	(10,333)	27,304
Total changes during the period	144	14,063	23,430	37,637	(10,333)	109,669
Balance at the end of the period	716	13,716	17,255	31,687	2,380	311,909

# 1.4 Consolidated Statements of Cash Flows For the Years Ended March 31, 2014 and 2015

(In millions of yen)

	The year ended March 31, 2014	The year ended March 31, 2015
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	10,488	94,100
Depreciation and amortization	64,954	54,834
Amortization of long-term prepaid expenses	11,734	11,788
Impairment loss	2,229	1,173
Increase (decrease) in net defined benefit liability	2,387	(9,391)
Increase (decrease) in provision for business structure improvement	9,397	(836)
Increase (decrease) in provision for contingent loss	1,205	278
Interest and dividends income	(636)	(1,017)
Insurance income	(419)	(328)
Interest expenses	4,531	3,166
Equity in (earnings) losses of affiliates	(168)	(273)
Loss (gain) on sales and valuation of investment securities	(91)	(116)
Loss (gain) on liquidation of subsidiaries and affiliates	35	498
Loss (gain) on sales of subsidiaries and affiliates' stocks	—	129
Loss (gain) on sales of property, plant and equipment	1,870	(1,084)
Share issuance cost	2,354	—
Gain on forgiveness of debts	(7,636)	—
Business structure improvement expenses	27,422	23,944
Loss (gain) on transfer of business	(14,034)	(20,045)
Decrease (increase) in notes and accounts receivable-trade	(1,478)	(7,286)
Decrease (increase) in inventories	23,758	15,876
Decrease (increase) in accounts receivable-other	(4,477)	9,258
Increase (decrease) in notes and accounts payable-trade	(5,263)	(17,387)
Increase (decrease) in accounts payable-other and accrued expenses	27,180	(6,995)
Other cash provided by (used in) operating activities, net	(641)	(6,246)
Subtotal	154,701	144,040
Interest and dividends received	701	1,089
Proceeds from insurance income	450	328
Interest paid	(4,602)	(3,167)
Income taxes paid	(12,144)	(6,435)
Payments for extra retirement benefits	(44,979)	(18,943)
Settlement package paid	(405)	(166)
Net cash provided by (used in) operating activities	93,722	116,746
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(37,506)	(39,274)
Proceeds from sales of property, plant and equipment	8,120	2,294
Purchase of intangible assets	(3,984)	(5,439)
Purchase of long-term prepaid expenses	(2,027)	(2,671)
Purchase of investment securities	(470)	(626)
Proceeds from sales of investment securities	710	944
Purchase of investments in subsidiaries	—	(3,200)
Proceeds from sales of subsidiaries and affiliates' stocks	—	967
Proceeds from transfer of business	※2 21,086	※2 18,170
Payments for transfer of business	※2 (5,573)	※2 (448)
Collection of loans receivable	1,050	1,400
Other cash provided by (used in) investing activities, net	(647)	1,280
Net cash provided by (used in) investing activities	(19,241)	(26,603)

(In millions of yen)

	The year ended March 31, 2014	The year ended March 31, 2015
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term borrowings	1,000	(2,000)
Proceeds from long-term borrowings	221,789	3,000
Repayment of long-term borrowings	(244,815)	(9,786)
Proceeds from issuance of common shares	147,646	—
Repayments of finance lease obligations	(6,413)	(2,461)
Repayments of installment payables	(11,728)	(12,515)
Other cash provided by (used in) financing activities, net	(472)	—
Net cash provided by (used in) financing activities	107,007	(23,762)
Effect of exchange rate change on cash and cash equivalents	6,678	11,444
Net increase (decrease) in cash and cash equivalents	188,166	77,825
Cash and cash equivalents at the beginning of the period	77,731	265,897
Cash and cash equivalents at the end of the period	※1 265,897	※1 343,722

## 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: 31

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 sale and liquidation: 4

Renesas SP Drivers Inc.

and other 3 companies

Number of subsidiaries decreased by merger: 10

Renesas Mobile Corporation

and other 9 companies

#### 2. Application of Equity Method

(1) The number of affiliates accounted for by the equity method: 3

The names of major affiliates accounted for by the equity method:

Renesas Easton Co., Ltd.

and other 2 companies

(2) The name of affiliates not accounted for by the equity method:

The equity method is not applied to Semiconductor Technology Academic Research Center because net income and retained earnings (both amounts equivalent to what is accounted for by the equity method) have little impact on the consolidated financial statements of the Company on an individual basis, nor have any material impact on them on an aggregate basis.

(3) Of the affiliates accounted for by the equity method, if the closing date differs from that of the consolidated financial statements, the financial statements prepared with the provisional closing date of March 31, 2015 (same as that of consolidated financial statements) are used.

#### 3. 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.

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 10 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.

(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 transitional obligation, actuarial gains and losses and prior service costs

Transitional obligation is amortized on a straight-line basis mainly over 15 years.

Actuarial gains and losses are amortized on a straight-line basis over the employees' 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 employees' estimated average remaining service periods (mainly over 12 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 minority 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) 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 Accounting Policies)**

From the year ended March 31, 2015, the Group has adopted the provisions set forth in Clause 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012) and in Clause 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on March 26, 2015). As a result of this adoption, the calculation method of retirement benefit obligations and current service costs has been reviewed, and the method of attributing the expected benefit to periods has been changed from mainly a point-based or straight-line method to a benefit formula basis. Furthermore, the calculation method of the discount rate has also been changed.

The adoption of the accounting standards is subject to the transition treatment set forth in Clause 37 of the "Accounting Standard for Retirement Benefits", and the effects of the change in the accounting standard for the calculation method of retirement benefit obligations and current service costs are adjusted on the beginning balance of the year ended March 31, 2015 for "Retained earnings" of the net asset section.

Consequently, the beginning balance of the "Net defined benefit liability" for the year ended March 31, 2015 increased by 25,275 million yen, while that of "Retained earnings" decreased by 25,074 million yen. Furthermore, the impacts on operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2015 are immaterial.

The impact on amount per share is described in the corresponding section.

### **(Accounting Standards Issued but Not Yet Adopted)**

"Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on September 13, 2013)  
"Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on September 13, 2013)  
"Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued on September 13, 2013)  
"Accounting Standard for Earnings Per Share" (ASBJ Statement No.2, issued on September 13, 2013)  
"Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on September 13, 2013)  
"Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4, issued on September 13, 2013)

#### **1. Outline of accounting standards and guidance**

The accounting standards and the guidance were revised mainly related to (a) accounting treatment of changes in a parent company's equity interest in its subsidiaries by means of the additional acquisition of the shares of those subsidiaries or other transactions while the parent company retains its controlling interest in its subsidiaries, (b) accounting treatment of acquisition-related costs, (c) the presentation of net income and the change in presentation from "Minority interests" to "Non-controlling interests," and (d) tentative accounting treatment.

#### **2. Application date**

The Group is scheduled to apply the accounting standards and the guidance from the fiscal year beginning on April 1, 2015. In addition, the tentative accounting treatment will be applied for business combinations conducted on or after April 1, 2015.

#### **3. Impact of adopting these accounting standards and the guidance**

The Company is currently evaluating the impact of adopting these accounting standards and the guidance on the consolidated financial statements.

### **(Changes in Presentation)**

(Consolidated Balance Sheets)

"Electronically recorded obligations" included in "Notes and accounts payable-trade" of current liabilities in the previous fiscal year is presented separately from the current fiscal year to enhance the clarity. In order to reflect the change in presentation, the consolidated balance sheet in the previous fiscal year has been reclassified to reflect a consistent presentation format.

As a result of this change, 4,992 million yen presented as "Notes and accounts payable-trade" of current liabilities in the previous fiscal year has been reclassified as "Electronically recorded obligations."

In addition, due to the separate presentation mentioned above, “Electronically recorded obligations” in the previous fiscal year described in “2. Fair Value of Financial Instruments” of the notes to Financial Instruments has also been reclassified to reflect a consistent presentation format.

(Consolidated Statements of Operations)

“Insurance income” and “Loss on disposal of long-term assets” presented separately in the previous fiscal year are included in “Other non-operating income” and “Other non-operating expenses” respectively from the current fiscal year due to decreased materiality. In order to reflect the change in presentation, the consolidated statement of operations in the previous fiscal year has been reclassified to reflect a consistent presentation format.

As a result of this change, 419 million yen presented as “Insurance income” and 928 million yen presented as “Loss on disposal of long-term assets” in the previous fiscal year are reclassified as “Other non-operating income” and “Other non-operating expenses”, respectively.

(Consolidated Statements of Cash Flows)

“Loss on disposal of long-term assets” presented separately in the previous fiscal year is included in “Other cash provided by (used in) operating activities, net” from the current fiscal year due to decreased materiality. In order to reflect the change in presentation, the consolidated statement of cash flows in the previous fiscal year has been reclassified to reflect a consistent presentation format.

As a result of this change, 928 million yen presented as “Loss on disposal of long-term assets” in the previous fiscal year is reclassified as “Other cash provided by (used in) operating activities, net”.

**(Consolidated Balance Sheets)**

\*1 Assets pledged as collateral and secured liabilities  
(Assets pledged as collateral)

	(In millions of yen)	
	As of March 31, 2014	As of March 31, 2015
Merchandise and finished goods	34,362 (—)	25,052 (—)
Work in process	54,258 (—)	52,656 (—)
Raw materials and supplies	7,271 (—)	5,193 (—)
Buildings and structures	63,926 (62,935)	57,732 (57,084)
Machinery and equipment	26,818 (26,742)	31,126 (31,126)
Land	31,193 (27,221)	27,042 (23,334)
Investment securities	5,007 (—)	— (—)
Total	222,835 (116,898)	198,801 (111,544)

(Secured liabilities)

	(In millions of yen)	
	As of March 31, 2014	As of March 31, 2015
Current portion of lease obligations	893 (—)	919 (—)
Long-term borrowings	249,925 (249,925)	246,505 (246,505)
Lease obligations	5,969 (—)	5,051 (—)
Total	256,787 (249,925)	252,475 (246,505)

\*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 March 31, 2014	As of March 31, 2015
Investment securities (Stock)	5,101	4,315

\*3 Accumulated impairment loss was included in accumulated depreciation.

#### 4 Contingent liabilities

##### (1) Debt guarantees

	(In millions of yen)	
	As of March 31, 2014	As of March 31, 2015
Guarantees of employees' housing loans	393	230
Other	510	499
Total	903	729

##### (2) Others

The Group has been named in Canada as one of the defendants in multiple civil lawsuits related to possible violations of the competition law involving SRAM brought by purchasers of such products.

The Group's subsidiaries in the U.S., Europe and South Korea are the subject of investigations each by the U.S. Department of Justice, the Competition Bureau of Canada, the European Commission, and the Korea Fair Trade Commission in connection with possible violations of antitrust law/competition law related to thin-film transistor liquid crystal displays (TFT-LCDs). Although the Group's subsidiary in the U.S. had also been named in the U.S. as one of the defendants in a civil lawsuit related to possible violations of antitrust law involving TFT-LCDs brought by purchasers of such products, the pending lawsuit was concluded by a settlement.

The Group had been the subject of an investigation by the European Commission regarding possible violations of competition law in relation to smartcard chips. However, this investigation case was terminated upon receipt of a written decision from the European Commission in September 2014.

The Group has also been named in Canada as the defendant in a civil lawsuit related to possible violations of competition law involving smartcard chips brought by purchasers of such products. Moreover, the Company and a subsidiary in the Europe has been named in the U.K. as the defendants in a civil lawsuit related to possible violations of the competition law involving smartcard chips brought by purchasers of such products.

**(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 year ended March 31, 2014	The year ended March 31, 2015
	2,260	(3,578)

**\*2 Selling, general and administrative expenses**

Principal items and amounts

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Research and development (R&D) expenses	115,310	91,082
Personnel expenses	44,829	43,977
Retirement benefit expenses	4,322	5,140
Subcontract expenses	21,761	21,923

(Changes in Presentation)

"Subcontract expenses" exceeded 10 percent of the total amount of selling, general and administrative expenses for the year ended March 31, 2015 and thereby presented as a principal item.

**\*3 Total of research and development expenses**

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
R&D expenses included in manufacturing costs and general and administrative expenses	115,310	91,082

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

For the year ended March 31, 2014

Sales of machinery and equipment, land and others

For the year ended March 31, 2015

Sales of machinery and equipment, land and others

**\*5 Gain on transfer of business**

For the year ended March 31, 2014

Mainly due to the transfer of subsidiaries' shares and certain assets related to the LTE Modem technology to Broadcom Corporation.

For the year ended March 31, 2015

Due to the transfer of a subsidiary's shares to Synaptics Holding GmbH.

**\*6 Gain on forgiveness of debt**

Due to the receipt of planned financial assistance in the form of a partial debt waiver from some of its major shareholders.

**\*7 Gain on extinguishment of debt**

Due to the extinguishment of the performance obligation for the accrued liabilities recognized in the past fiscal years.

**\*8 Components of loss on sales of property, plant and equipment**

For the year ended March 31, 2014

Mainly due to the transfer of the semiconductor manufacturing facility and related equipment at the Tsuruoka Factory (12-inch front-end wafer fabrication line of the semiconductor production facility) of Renesas Yamagata Semiconductor Co., Ltd., a wholly-owned subsidiary of the Company, to Sony Semiconductor Corporation, a wholly-owned subsidiary of Sony Corporation.

For the year ended March 31, 2015

Sales of machinery and equipment, construction in progress and others

## \*9 Impairment loss

The details of impairment loss were as follows:

For the year ended March 31, 2014

Location	Usage	Type
Kai-city, Yamanashi-prefecture Showa-Town, Yamanashi-prefecture etc.	Business assets	Machinery and equipment, Vehicles, tools, furniture and fixtures, Construction in progress, Software and Other intangible assets
Tsuruoka-city, Yamagata-prefecture Ube-city, Yamaguchi-prefecture China etc.	Assets to be disposed of	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land, Construction in progress, Software, Other intangible assets and Long-term prepaid expenses
Tsuruoka-city, Yamagata-prefecture Malaysia Taiwan China etc.	Idle assets	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Construction in progress and Long-term prepaid expenses

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.

Net book values of business assets with the expectation of lower profitability were reduced to their recoverable values because the sum of the undiscounted future cash flows was less than that of book value. Such loss amounted to 2,606 million yen, which was included in special loss. The main components of such impairment loss were for the shutdown of Kofu factory, which amounted to 2,015 million yen.

Also, 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 11,714 million yen, which was included in special loss. The main components of such impairment loss were related to the transfer of the semiconductor manufacturing facility and related equipment at the Tsuruoka Factory (12-inch front-end wafer fabrication line of the semiconductor production facility) of Renesas Yamagata Semiconductor Co., Ltd., a wholly-owned subsidiary of the Company, to Sony Semiconductor Corporation, a wholly-owned subsidiary of Sony Corporation, which amounted to 7,616 million yen.

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 2,264 million yen, which was included in special loss.

The impairment loss on business assets, assets to be disposed of and idle assets amounted to 16,584 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 14,355 million yen and impairment loss except for business structure improvement expenses, which amounted to 2,229 million yen.

The components of impairment loss (16,584 million yen) were as follows:

(In millions of yen)

Buildings and structures	9,422
Machinery and equipment	1,441
Vehicles, tools, furniture and fixtures	1,168
Land	2,204
Construction in progress	1,679
Software	575
Other intangible assets	10
Long-term prepaid expenses	85
Total	16,584

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. In addition, in case the estimated value of assets' future cash flow was negative, the recoverable value of these assets was estimated at zero.

For the year ended March 31, 2015

Location	Usage	Type
Otsu-city, Shiga-prefecture Kawasaki-city, Kanagawa-prefecture Sagamihara-city, Kanagawa-prefecture etc.	Assets to be disposed of	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land, Construction in progress, Software and Other intangible assets
Taiwan Malaysia China etc.	Idle assets	Machinery and equipment, Vehicles, tools, furniture and fixtures, Construction in progress and Long-term prepaid expenses

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 10,133 million yen, which was included in special loss. The main components of such impairment loss which amounted to 6,116 million yen were semiconductor manufacturing facilities, land and building for 8-inch front-end wafer fabrication lines (these fixed assets will be transferred or leased to ROHM Co., Ltd. in February 2016) at the Shiga Factory of Renesas Semiconductor Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company.

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 1,125 million yen, which was included in special loss.

The impairment loss on assets to be disposed of and idle assets amounted to 11,258 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 10,085 million yen and impairment loss except for business structure improvement expenses, which amounted to 1,173 million yen.

The components of impairment loss (11,258 million yen) were as follows:

(In millions of yen)

Buildings and structures	6,642
Machinery and equipment	769
Vehicles, tools, furniture and fixtures	662
Land	2,919
Construction in progress	231
Software	1
Other intangible assets	32
Long-term prepaid expenses	2
<b>Total</b>	<b>11,258</b>

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.

#### \*10 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 details of business structure improvement expenses were as follows:

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Personnel expenses including the special incentive of early retirement program	28,952	14,198
Impairment loss	14,355	10,085
Other (*)	10,733	5,858
Total	54,040	30,141

(\*) The main item of "Other" for the year ended March 31, 2014 is the write-off of a long-term accounts receivable-other held by a consolidated subsidiary. In addition, the main item of "Other" for the year ended March 31, 2015 is equipment relocation related expenses etc. to reorganize the design and development operation including its locations.

\*11 Loss on abolishment of retirement benefit plan

Due to the unification of the company pension plans on April 1, 2014.

\*12 Compensation expenses

Temporarily expenses incurred by reviewing the manufacturing agreement with a contractor.

## (Consolidated Statements of Comprehensive Income)

For the years ended March 31, 2014 and 2015

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

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Unrealized gains (losses) on securities		
Amount arising during the period	392	241
Reclassification adjustments for gains (losses) realized in net income	(101)	(116)
Amount of unrealized holding gains (losses) on securities before tax effect	291	125
Tax effect	(51)	(22)
Unrealized gains (losses) on securities	240	103
Foreign currency translation adjustments		
Amount arising during the period	7,856	13,766
Reclassification adjustments for gains (losses) realized in net income	1,396	260
Amount of foreign currency translation adjustments before tax effect	9,252	14,026
Tax effect	—	—
Foreign currency translation adjustments	9,252	14,026
Remeasurements of defined benefit plans, net of tax		
Amount arising during the period	—	20,903
Reclassification adjustments for gains (losses) realized in net income	—	3,352
Amount of remeasurements of defined benefit plans before tax effect	—	24,255
Tax effect	—	(825)
Remeasurements of defined benefit plans, net of tax	—	23,430
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the period	24	70
Reclassification adjustments for gains (losses) realized in net income	—	—
Share of other comprehensive income of affiliates accounted for by the equity method	24	70
Total other comprehensive income	9,516	37,629

**(Consolidated Statements of Changes in Net Assets)**

For the year ended March 31, 2014

## 1. Shares issued and outstanding / Treasury stock

	Number of shares at the beginning of the period	Increase	Decrease	Number of shares at the end of the period
Shares issued				
Common stock ( <i>Note 1</i> )	417,124,490	1,250,000,000	—	1,667,124,490
Total	417,124,490	1,250,000,000	—	1,667,124,490
Treasury stock				
Common stock	2,548	—	—	2,548
Total	2,548	—	—	2,548

*Note 1:* The increase in the number of common stock of 1,250,000,000 was due to the issuance of new shares through third-party allotment to Innovation Network Corporation of Japan etc. on September 30, 2013.

For the year ended March 31, 2015

## 1. Shares issued and outstanding / Treasury stock

	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	2,548	—	—	2,548
Total	2,548	—	—	2,548

**(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 year ended March 31, 2014	The year ended March 31, 2015
Cash and deposits	267,302	344,000
Time deposits with maturities of more than three months	(1,405)	(278)
Cash and cash equivalents	265,897	343,722

\*2 The details of assets and liabilities decreased by the business transfer

The details of assets and liabilities decreased by the business transfer as well as the relationship between consideration transferred and proceeds from transfer of business are as follows:

For the year ended March 31, 2014

(1) Transfer of subsidiaries' back-end facilities and others

	(In millions of yen)
Current assets	4,057
Long-term assets	8,532
Current liabilities	(1,057)
Long-term liabilities	(6,002)
Gain on transfer of business	29
Consideration transferred	5,559
Proceeds from transfer of business	5,559

(2) Transfer of Renesas Mobile Europe Oy's and Renesas Mobile India Private Limited's shares and certain assets related to LTE Modem Technology

	(In millions of yen)
Current assets	6,257
Long-term assets	733
Current liabilities	(3,256)
Long-term liabilities	(16)
Foreign currency translation adjustments	(45)
Gain on transfer of business	15,355
Consideration transferred	19,028
Accounts payable-other for transfer of business	448
Cash and cash equivalents owned by Renesas Mobile Europe Oy.	(5,201)
Proceeds from transfer of business	14,275

(3) Transfer of Equity Interest of Shougang NEC Electronics Co., Ltd.

	(In millions of yen)
Current assets	10,151
Current liabilities	(1,013)
Minority interests	(3,903)
Foreign currency translation adjustments	(731)
Unrealized gains and losses	(602)
Loss on transfer of business	(1,598)
Consideration transferred	2,304
Cash and cash equivalents owned by Shougang NEC Electronics Co., Ltd.	(7,953)
Foreign exchange gains	76
Payments for transfer of business	(5,573)

For the year ended March 31, 2015

(1) Transfer of Shares of Renesas SP Drivers Inc.

	(In millions of yen)
Current assets	29,155
Long-term assets	14,324
Current liabilities	(15,243)
Minority interests	(12,989)
Foreign currency translation adjustments	(152)
Unrealized gains and losses <i>(Note)</i>	(7,000)
Gain on transfer of business	20,045
Consideration transferred	28,140
Accounts receivable-other for transfer of business	(3,988)
Cash and cash equivalents owned by Renesas SP Drivers Inc. and Renesas SP Drivers Taiwan Inc.	(5,982)
Proceeds from transfer of business	18,170

*(Note)* Unrealized gains arose from the sales of fixed assets prior to the business transfer.

3 Significant non-cash transactions

Long-term prepaid expenses for installment purchase contract

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Long-term prepaid expenses for installment purchase contract	2,836	23,365

## (Lease Transactions)

### 1. Finance lease transactions (Lessees' accounting)

(1) Leased assets under finance leases under which the ownership of the assets is transferred to the lessee

#### 1) Leased assets

Property, plant and equipment

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

#### 2) Methods for depreciation of leased assets

Described in "3 Significant Accounting Policies, (2) Depreciation and amortization method for significant long-term assets" in Basis of Consolidated Financial Statements

(2) Leased assets under finance leases other than those under which the ownership of the assets is 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 "3 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 March 31, 2014	As of March 31, 2015
Due within one year	4,846	2,884
Due after one year	7,974	6,283
Total	12,820	9,167

## (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 7 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.

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 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 March 31, 2014 and 2015 were presented below. The table does not include the financial instruments for which it is extremely difficult to estimate fair values. (Note2)

As of March 31, 2014

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	267,302	267,302	—
(2) Notes and accounts receivable-trade	82,531	82,531	—
(3) Accounts receivable-other	20,071	20,071	—
(4) Long-term investment securities			
Stocks of affiliates	5,007	2,815	(2,192)
Other securities	3,274	3,274	—
Total assets	378,185	375,993	(2,192)
(5) Electronically recorded obligations	4,992	4,992	—
(6) Notes and accounts payable-trade	86,382	86,382	—
(7) Short-term borrowings	2,000	2,000	—
(8) Accounts payable-other	41,238	41,238	—
(9) Accrued income taxes	8,631	8,631	—
(10) Long-term borrowings			
(including current portion)	259,991	228,236	(31,755)
(11) Lease obligations			
(including current portion)	8,911	8,654	(257)
Total liabilities	412,145	380,133	(32,012)
(12) Derivative transactions(*)	(2)	(2)	—

(\*)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 March 31, 2015

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	344,000	344,000	—
(2) Notes and accounts receivable-trade	91,471	91,471	—
(3) Accounts receivable-other	14,174	14,174	—
(4) Long-term investment securities			
Stocks of affiliates	4,220	3,472	(748)
Other securities	3,662	3,662	—
<b>Total assets</b>	<b>457,527</b>	<b>456,779</b>	<b>(748)</b>
(5) Electronically recorded obligations	9,275	9,275	—
(6) Notes and accounts payable-trade	76,364	76,364	—
(7) Accounts payable-other	37,337	37,337	—
(8) Accrued income taxes	5,785	5,785	—
(9) Long-term borrowings			
(including current portion)	253,205	251,890	(1,315)
(10) Lease obligations			
(including current portion)	6,520	6,756	236
<b>Total liabilities</b>	<b>388,486</b>	<b>387,407</b>	<b>(1,079)</b>

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) 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) Accounts payable-other and (8) 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.
- (9) Long-term borrowings and (10) 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 March 31, 2014	As of March 31, 2015
Non-marketable securities	306	226

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) 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 March 31, 2014

(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	267,302	—	—	—
Notes and accounts receivable-trade	82,531	—	—	—
Accounts receivable-other	20,071	—	—	—
<b>Total</b>	<b>369,904</b>	<b>—</b>	<b>—</b>	<b>—</b>



As of March 31, 2015

(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	344,000	—	—	—
Notes and accounts receivable-trade	91,471	—	—	—
Accounts receivable-other	14,174	—	—	—
Total	449,645	—	—	—

Note4: The repayment schedules after the fiscal-year end for long-term borrowings and lease obligations

As of March 31, 2014

(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	2,000	—	—	—	—	—
Long-term borrowings	3,366	6,700	25,001	24,893	200,031	—
Lease obligations	2,458	1,131	5,188	72	50	12
Total	7,824	7,831	30,189	24,965	200,081	12

As of March 31, 2015

(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	6,700	25,000	23,609	197,896	—	—
Lease obligations	1,135	5,203	89	69	22	2
Total	7,835	30,203	23,698	197,965	22	2

**(Securities)**

## 1. Other securities

As of March 31, 2014

(In millions of yen)

	Type	Carrying value	Acquisition cost	Unrealized gains (losses)
Securities whose carrying value exceeded their acquisition cost	(1) Stock	502	265	237
	(2) Other	2,756	2,343	412
	Subtotal	3,258	2,608	649
Securities whose carrying value did not exceed their acquisition cost	Stock	16	22	(6)
Total		3,274	2,630	643

As of March 31, 2015

(In millions of yen)

	Type	Carrying value	Acquisition cost	Unrealized gains (losses)
Securities whose carrying value exceeded their acquisition cost	(1) Stock	607	287	320
	(2) Other	3,055	2,644	411
	Subtotal	3,662	2,931	731
Securities whose carrying value did not exceed their acquisition cost	Stock	—	—	—
Total		3,662	2,931	731

## 2. Other securities sold for the period

As of March 31, 2014

(In millions of yen)

Type	Sales proceeds	Total gain	Total loss
(1) Stock	10	—	—
(2) Other	700	101	—
Total	710	101	—

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

As of March 31, 2015

(In millions of yen)

Type	Sales proceeds	Total gain	Total loss
(1) Stock	87	—	16
(2) Other	857	146	14
Total	944	146	30

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

## 3. Impairment loss recognized on securities

The amount of impairment loss recognized on the stock in other securities was 10 million yen in the previous fiscal year.

Furthermore, in the event that the fair market value at year-end of marketable securities falls no less than 50% of the acquisition cost, impairment loss is recognized for all of the marketable securities whose fair market values at year-end fall no less than 50% of the acquisition cost. In the event that fair market value falls approximately 30% to 50% below the acquisition cost, impairment loss of the necessary amount is recognized by considering the future recoverability.

**(Derivative Transactions)**

1. Derivative transactions for which hedge accounting was not adopted

(1) Currency-related transactions

As of March 31, 2014

(In millions of yen)

Classification	Type	Notional amounts	Portion due after one year included herein	Fair value	Gains (losses)
Non-market transactions	Forward foreign exchange contracts				
	Sale:				
	USD	20,028	—	20	20
	EUR	9,748	—	(22)	(22)
Total		29,776	—	(2)	(2)

Note: Calculation of fair value as of the fiscal year-end

Fair value at the fiscal year-end was based on market quotation.

As of March 31, 2015

None

2. Derivative transactions for which hedge accounting was adopted

As of March 31, 2014 and 2015

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 severance indemnity plans and defined-benefit pension plan, under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance. 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 which is credited based on the current base rate of pay, their job classification and interest crediting rate calculated based on the market interest rate.

Certain foreign subsidiaries adopt various retirement benefit plans which are mainly defined contribution plans as well as defined benefit plans. Regarding multi-employer pension funds that have been joined by certain foreign subsidiaries, the multi-employer pension fund that the amount of the plan assets corresponding to the amount contributed by the company is rationally calculated is included in the notes on the defined benefit pension plan. In addition, the multi-employer pension fund that the said amount is not rationally calculated is accounted for the same way as the defined contribution plan.

Due to the unification of the company pension plans on April 1, 2014, the pension plan for the Company and its subsidiaries in Japan, originally belonging to NEC Corporation's pension plan, was withdrawn from it.

### 2. Defined benefit pension plan

#### (1) Reconciliation of changes in retirement benefit obligations

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Retirement benefit obligations at the beginning of the year	225,587	203,992
Cumulative effects of changes in accounting policies	—	25,275
Restated balance	225,587	229,267
Service cost	7,710	7,966
Interest cost	5,321	2,453
Actuarial gains and losses	(705)	(6,623)
Benefits paid	(36,435)	(27,081)
Abolishment of retirement benefit plan (Note1)	6,016	—
Unification of the company pension plans (accrual of prior service cost) (Note1)	(5,737)	—
Withdrawal from NEC Corporation's pension plan (Note2)	—	(37,344)
Partial revision of retirement benefit plan (accrual of prior service cost) (Note3)	—	(9,511)
Abolishment of retirement benefit plan owing to mass retirement	384	(240)
Other	1,851	188
Retirement benefit obligations at the end of the year	203,992	159,075

(Note) Certain subsidiaries adopted a simplified method in the calculation of retirement benefit obligation.

Note1: Regarding the accounting treatment on the unification of the company pension plans on April 1, 2014 along with a withdrawal from NEC Corporation's pension plan, "Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No.1, issued on January 31, 2002) and "Revised Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (ASBJ PITF No.2, issued on February 7, 2007) have been applied.

Note2: Due to the retirement benefit obligations and plan assets retained at the time of the withdrawal from NEC Corporation's pension plan along with the unification of the company pension plans as of April 1, 2014.

Note3: Due to a partial revision of the retirement benefit plan.

## (2) Reconciliation of changes in plan assets

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Plan assets at the beginning of the year	144,482	146,610
Expected return on plan assets	4,149	2,934
Actuarial gains and losses	3,775	4,768
Contributions by the employer	11,770	11,110
Benefits paid	(18,930)	(19,149)
Withdrawal from NEC Corporation's pension plan (Note1)	—	(37,344)
Other	1,364	603
Plan assets at the end of the year	146,610	109,532

(Note) Certain subsidiaries adopted a simplified method.

Note1: Due to the retirement benefit obligations and plan assets retained at the time of the withdrawal from NEC Corporation's pension plan along with the unification of the company pension plans as of April 1, 2014.

## (3) Reconciliation between the retirement benefit obligations and plan assets and the net defined benefit liability and assets recognized in the consolidated balance sheet

	(In millions of yen)	
	As of March 31, 2014	As of March 31, 2015
Funded retirement benefit obligations	173,864	131,797
Plan assets	(146,610)	(109,532)
	27,254	22,265
Unfunded retirement benefit obligations	30,128	27,278
Net value of liabilities and assets recognized in the consolidated balance sheet	57,382	49,543
Net defined benefit liability	57,874	50,489
Net defined benefit asset	(492)	(946)
Net value of liabilities and assets recognized in the consolidated balance sheet	57,382	49,543

## (4) Details of retirement benefit expenses

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Service cost (Note1)	7,710	7,966
Interest cost	5,321	2,453
Expected return on plan assets	(4,149)	(2,934)
Amortization of net projected benefit obligation at transition	1,886	1,604
Amortization of actuarial gain or loss	4,609	3,130
Amortization of prior service cost	(527)	(979)
Total retirement benefit expenses	14,850	11,240
Expenses for extra retirement benefits (Note2)	21,039	13,416
Loss on abolishment of retirement benefit plan owing to mass retirement (Note2)	580	(613)
Loss on abolishment of retirement benefit plan (Note3)	9,116	—

Note1: Retirement benefit expenses for subsidiaries that adopted a simplified method were included in "Service cost."

Note2: "Expenses for extra retirement benefits" and "Loss on abolishment of retirement benefit plan owing to mass retirement" were included in "Business structure improvement expenses" in special loss.

Note3: "Loss on abolishment of retirement benefit plan" due to the unification of the company pension plans on April 1, 2014 was recognized in "Loss on abolishment of retirement benefit plan" in special loss.

(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 year ended March 31, 2014	The year ended March 31, 2015
Net projected benefit obligation at transition	—	(1,607)
Actuarial gain or loss	—	(14,497)
Prior service cost	—	(8,151)
Total	—	(24,255)

(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 March 31, 2014	As of March 31, 2015
Unrecognized net projected benefit obligation at transition	1,607	—
Unrecognized actuarial gain or loss	14,635	138
Unrecognized prior service cost	(9,172)	(17,323)
Total	7,070	(17,185)

(7) Plan assets

(a) Major breakdown of plan assets

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

	As of March 31, 2014	As of March 31, 2015
Debt securities	54%	63%
Equity securities	29%	35%
Short-term financial assets	15%	2%
Other	2%	—
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

Basis of actuarial assumptions at the end of this fiscal year

	The year ended March 31, 2014	The year ended March 31, 2015
Discount rate	Mainly 2.5%	Mainly 1.1%
Expected rate of return on plan assets	Mainly 2.5% or 3.5%	Mainly 2.5%
Salary increase rate	Mainly 2.3%	Mainly 2.3%

3. Defined contribution plan

The Group's contributions for defined contribution plans were 2,177 million yen for the year ended March 31, 2014 and 1,930 million yen for the year ended March 31, 2015.

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

**(Tax-Effect Accounting)**

## 1. Significant components of deferred tax assets and liabilities

(In millions of yen)

	As of March 31, 2014	As of March 31, 2015
Deferred tax assets		
Operating loss carryforwards	334,303	286,415
Net defined benefit liability	20,282	16,984
Long-term assets	16,852	12,853
Accrued expenses	13,511	8,097
Inventories	11,258	8,892
Research and development expenses	3,644	2,648
Tax credits carryforwards	5,617	6,462
Others	4,920	4,421
Subtotal deferred tax assets	410,387	346,772
Valuation allowance	(399,995)	(339,433)
Total deferred tax assets	10,392	7,339
Deferred tax liabilities		
Valuation difference of assets acquired by merger	(10,471)	(8,444)
Tax on undistributed earnings	(3,746)	(5,144)
Gain on contribution of securities to retirement benefit trust	(1,340)	(1,216)
Others	(1,088)	(545)
Total deferred tax liabilities	(16,645)	(15,349)
Deferred tax liabilities, net	(6,253)	(8,010)

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

(In millions of yen)

	As of March 31, 2014	As of March 31, 2015
Current assets – deferred tax assets	2,487	1,529
Long-term assets – deferred tax assets	2,300	2,106
Current liabilities – other	—	(4)
Long-term liabilities – deferred tax liabilities	(11,040)	(11,641)

**(Changes in Presentation)**

“Investments” presented separately in the previous fiscal year is included in “Others” from the current fiscal year due to decreased materiality. In order to reflect the change in presentation, it has been reclassified in the previous fiscal year to reflect a consistent presentation format.

As a result of this change, 2,169 million yen presented as “Investments” in the previous fiscal year is reclassified as “Others.”

## 2. The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate was summarized as follows:

	As of March 31, 2014	As of March 31, 2015
Statutory tax rate	38.0%	35.6%
(Reconciliation)		
Expired operating loss carryforwards	118.6%	—%
Changes in valuation allowance	(77.2)%	(31.4)%
Permanent difference	31.8%	0.3%
Foreign tax rate differences	(26.0)%	(1.5)%
Tax credits	(14.4)%	(1.6)%
Tax effect of the undivided profits	5.9%	1.5%
Effect of the reorganization	28.5%	5.7%
Others	1.8%	1.2%
Effective tax rate after adoption of tax-effect accounting	107.0%	9.8%

3. Adjustment of amounts of deferred tax assets and liabilities due to changes in statutory tax rates
- Associated with the promulgation on March 31, 2015 of the Act for Partial Revision of the Income Tax Act etc., the effective statutory tax rates applied for the calculations of deferred tax assets and liabilities were changed from 35.64% to 33.10% for temporary differences expected to be realized or settled in the period from April 1, 2015 to March 31, 2016 and 32.34% for temporary differences expected to be realized or settled after April 1, 2016.
- The impact of the tax rate change on the consolidated financial statements for the year ended March 31, 2015 is immaterial.



## (Business Combinations)

### Business Divestiture

#### (Transfer of subsidiary's shares)

#### 1. Outline of the business divestiture

##### (1) Name of the buyer

Synaptics Holding GmbH (hereafter "Synaptics Holding")

##### (2) Nature of the divested business

Design, development, sale, and marketing of LCD drivers and controllers for small- and medium-sized LCD panels

##### (3) Main reasons for the divestiture

As outlined in the Company's press release, "Renesas Electronics Shows Direction of Renesas Group," issued on August 2, 2013, the Company identified fields and regions where growth is expected in the medium to long term and areas where it can outpace the competition, and will focus on three fields where it has strengths and can compete effectively: automotive (automotive control and automotive information), industrial/networking (industrial/home appliance, OA and ICT), and general-purpose products. In parallel, the Company has been carrying out structural reforms aimed at creating an organization that is consistently profitable, even when exposed to risks (natural disasters, market stagnation, etc.).

Renesas SP Drivers (hereafter "RSP") was established in 2008 as a joint venture of display driver IC business, which does not fall under the Company's three focus fields. While its operation is focused on design and development, RSP also offers manufacturing service by outsourcing its production to foundries. RSP has continued to perform well in recent years, buoyed by vigorous demand for smartphones and tablet devices.

Under such circumstances, based on its structural reform policies, the Company has been looking into the possibility of transferring ownership to another company which focuses on display driver IC business and also is expected to proactively invest its management resources into this business.

Having been approached by Synaptics Incorporated (hereafter "Synaptics") with an offer to purchase all of the Company's shares in RSP, the Company evaluated the offer and reached a conclusion to transfer the shares to Synaptics Holding, a wholly-owned subsidiary of Synaptics.

##### (4) Date of divestiture

October 1, 2014

##### (5) Overview of transactions including legal form

The Company had transferred all of the common stocks of RSP with cash consideration.

#### 2. Overview of accounting treatment applied

##### (1) Amount of gain on transfer of business

The difference between the consideration transferred and the amount corresponding to the shareholders' equity of the transferred business was recognized as gain on transfer of business in the consolidated statement of operations.

(In millions of yen)

Gain on transfer of business	20,045
------------------------------	--------

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

(In millions of yen)

Current assets	29,155
Long-term assets	14,324
<b>Total assets</b>	<b>43,479</b>
Current liabilities	15,243
<b>Total liabilities</b>	<b>15,243</b>

#### 3. Approximate amount of income pertaining to divested business recorded in the consolidated statement of operations for the year ended March 31, 2015.

(In millions of yen)

Net sales	38,636
Operating income	7,976

## Transactions under Common Control

### (Reorganization of semiconductor front-end production business involving the Company and its subsidiaries, and Change of surviving company's name)

#### 1. Summary of transaction under common control

##### (1) Names and business of companies involved in business combination

Name of surviving company: Renesas Kansai Semiconductor Co., Ltd.

Names of the companies or businesses to be merged:

(1)	The semiconductor front-end production business of Renesas Electronics Corporation
(2)	The semiconductor front-end production business of Renesas Semiconductor Kyushu Yamaguchi Co., Ltd.
(3)	The crystal business of Renesas Northern Japan Semiconductor, Inc.
(4)	Renesas Yamagata Semiconductor Co., Ltd.
(5)	Renesas Kofu Semiconductor, Co., Ltd.
(6)	Renesas Naka Semiconductor Co., Ltd.
(7)	Renesas Semiconductor Engineering Corp.

Business operations:

Mainly the semiconductor front-end production business and semiconductor engineering work

##### (2) Date of business combination

April 1, 2014

##### (3) Legal form of business combination

Absorption-type split or merger with Renesas Kansai Semiconductor Co., Ltd., as the successor and surviving company

Names of the companies or businesses to be merged		Legal form of business combination
(1)	The semiconductor front-end production business of Renesas Electronics Corporation	Absorption-type split
(2)	The semiconductor front-end production business of Renesas Semiconductor Kyushu Yamaguchi Co., Ltd.	Absorption-type split
(3)	The crystal business of Renesas Northern Japan Semiconductor, Inc.	Absorption-type split
(4)	Renesas Yamagata Semiconductor Co., Ltd.	Absorption-type merger
(5)	Renesas Kofu Semiconductor, Co., Ltd.	Absorption-type merger
(6)	Renesas Naka Semiconductor Co., Ltd.	Absorption-type merger
(7)	Renesas Semiconductor Engineering Corp.	Absorption-type merger

##### (4) Name of company after business combination

Renesas Semiconductor Manufacturing Co., Ltd.

##### (5) Other matters relating to the outline of the transaction

The semiconductor manufacturing business of the Renesas Group is moving forward with reforms with a consistent focus on profitability and promotion of autonomous management as its hallmarks. Specifically, the semiconductor manufacturing business is undergoing structural reforms based on (1) boosting production efficiency, (2) building a flexible manufacturing system to respond to rapid market changes, and (3) maintaining and continuing in-house plants with advanced technologies and cost competitiveness.

As a part of this process, the Company decided to reorganize its front-end production-related group companies in Japan by means of absorption-type splits and absorption-type mergers, involving the Company and its subsidiaries.

#### 2. Overview of accounting treatment applied

This transfer of business has been accounted for as transactions under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

**(Reorganization of semiconductor back-end production business involving the Company and its subsidiaries, and Change of surviving company's name)**

1. Summary of transaction under common control

(1) Names and business of companies involved in business combination

Name of surviving company: Renesas Semiconductor Kyushu Yamaguchi Co., Ltd.

Name of the companies or businesses to be merged:

(1)	The semiconductor back-end production business of Renesas Electronics Corporation
(2)	Renesas Northern Japan Semiconductor, Inc.
(3)	Hokkai Electronics Co., Ltd.
(4)	Haguro Electronics Co., Ltd.
(5)	Renesas Yanai Semiconductor, Inc.
(6)	Renesas Kyushu Semiconductor Corp.

Business operations:

Mainly the semiconductor back-end production and contract manufacturing businesses

(2) Date of business combination

April 1, 2014

(3) Legal form of business combination

Absorption-type split or merger with Renesas Semiconductor Kyushu Yamaguchi Co., Ltd., as the successor and surviving company

Names of the companies or businesses to be merged		Legal form of business combination
(1)	The semiconductor back-end production business of Renesas Electronics Corporation	Absorption-type split
(2)	Renesas Northern Japan Semiconductor, Inc.	Absorption-type merger
(3)	Hokkai Electronics Co., Ltd.	Absorption-type merger
(4)	Haguro Electronics Co., Ltd.	Absorption-type merger
(5)	Renesas Yanai Semiconductor, Inc.	Absorption-type merger
(6)	Renesas Kyushu Semiconductor Corp.	Absorption-type merger

(4) Name of company after business combination

Renesas Semiconductor Package & Test Solutions Co., Ltd.

(5) Other matters relating to the outline of the transaction

The semiconductor manufacturing business of the Renesas Group is moving forward with reforms with a consistent focus on profitability and promotion of autonomous management as its hallmarks. Specifically, the semiconductor manufacturing business is undergoing structural reforms based on (1) boosting production efficiency, (2) building a flexible manufacturing system to respond to rapid market changes, and (3) maintaining and continuing in-house plants with advanced technologies and cost competitiveness.

As a part of this process, the Company decided to reorganize its back-end production-related group companies in Japan by means of absorption-type splits and absorption-type mergers, involving the Company and its subsidiaries.

2. Overview of accounting treatment applied

This transfer of business has been accounted for as transactions under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

**(Merger between the Company and its Subsidiary, Renesas Mobile Corporation)**

1. Summary of transaction under common control

(1) Names and businesses of companies involved in business combination

Name of surviving company: Renesas Electronics Corporation

Name of merged company: Renesas Mobile Corporation (hereafter "RMC")

Business operations: Design of SoC devices, etc., for use primarily in mobile devices and car information systems (hereafter "CIS")

(2) Date of business combination

October 1, 2014

(3) Legal form of business combination

The absorption-type merger with the Company as the surviving company and RMC as the absorbed company.

(4) Other matters relating to the outline of the transaction

As an important initiative among the structural reform measures currently being undertaken by the Company, an absorption-type merger will be executed with RMC to expand its CIS business in the automotive field, by concentrating resources involved in that business within the Company and to improve the Company's ability to develop solutions, while boosting the operational efficiency of that business and strengthening the profit structure.

2. Overview of accounting treatment applied

This transfer of business has been accounted for as transactions under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

## (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 0.5% to 5.5%.

### (3) Increase (decrease) of the amount of asset retirement obligations

For the disposal of equipment containing polychlorinated biphenyl (PCB), as the reasonable estimation of expenses to dispose the said equipment has become possible due to the issuance of a government guideline, the estimated expenses for the disposal of the company-owned equipment were recognized in the fiscal year ended March 31, 2015.

In addition, due to the decision for the reorganization of design and development sites, the changes in estimate has been made as it has become possible to more reasonably estimate the removal expenses at the time of asset retirement.

	(In millions of yen)	
	The year ended March 31, 2014	The year ended March 31, 2015
Balance at the beginning of the period	4,822	4,124
Increase due to acquisition of property, plant and equipment	3	105
Accretion adjustment	71	60
Increase due to changes in estimate	65	787
Decrease due to settlement of asset retirement obligations	(673)	(126)
Decrease due to extinguishment of asset retirement obligations	(229)	—
Increase (decrease) in other items	65	1
Balance at the end of the period	4,124	4,951

## (Segment Information)

### [Business Segment Information]

For the years ended March 31, 2014 and 2015

The semiconductor business segment is the sole operating segment of the Group. The information by business segment is therefore omitted.

### [Related Information]

For the year ended March 31, 2014

#### 1. Information by product and service

(In millions of yen)

	Automotive Business	General-Purpose Business	Other Semiconductors	Others	Total
Net sales to third parties	303,743	487,175	5,872	36,221	833,011

#### 2. Information by region and country

##### (1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
379,212	133,254	149,468	105,377	61,730	3,970	833,011

[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	Asia	Europe	North America	Total
178,904	24,030	579	741	204,254

#### 3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	111,091	Semiconductor business
Sanshin Electronics Co., Ltd.	74,086	Semiconductor business

For the year ended March 31, 2015

#### 1. Information by product and service

(In millions of yen)

	Automotive Business	General-Purpose Business	Other Semiconductors	Others	Total
Net sales to third parties	323,072	425,506	4,732	37,764	791,074

#### 2. Information by region and country

##### (1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
332,783	129,424	145,054	113,816	65,596	4,401	791,074

[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	Asia	Europe	North America	Total
156,333	24,170	539	773	181,815

#### 3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	108,843	Semiconductor business

## (Related Party Information)

### 1. Transactions with related parties

#### (1) Transactions between the Company and related parties

a) The parent company and major shareholders related to the company submitting consolidated financial statements (corporations only)  
For the year ended March 31, 2014

Attribution	Name	Address	Common stock or investments in common stock	Nature of operations
Other affiliated company	Hitachi, Ltd.	Chiyoda-ward, Tokyo	458,790 million yen	Production and distribution of products, and provision of services including Information & Telecommunication Systems / Power / Social & Industrial Systems / and others
Other affiliated company	Mitsubishi Electric Corporation	Chiyoda-ward, Tokyo	175,820 million yen	Development, production and distribution of products, and provision of services including Energy and Electric Systems / Industrial Automation Systems / Information and Communication Systems / Electronic Devices / Home Appliances
Other affiliated company	NEC Corporation	Minato-ward, Tokyo	397,199 million yen	IT Network solution involving manufacturing and sales of computers, network equipment and software

Ratio of share-holding (Owned)	Relation with related parties	Contents of transaction	Amounts of transaction (In millions of yen)	Account	Balance as of March 31, 2014 (In millions of yen)
(Owned) Direct 7.66 %	Sales of our products	Forgiveness of debts Borrowing	3,818 13,682	—	—
(Owned) Direct 6.26 %	Sales of our products	Borrowing	14,500	—	—
(Owned) Direct 0.75 % Indirect 8.11 %	Sales of our products	Forgiveness of debts Borrowing	3,818 13,682	—	—

- Note 1: Interest rate on borrowing is determined reasonably by considering market interest rates.  
 2: Consumption tax and other taxes are not included in the amounts of the transaction. Consumption tax and other taxes are included in the balances.  
 3: Due to the third-party allotment on September 30, 2013, Hitachi, Ltd. (hereafter "Hitachi"), Mitsubishi Electric Corporation (hereafter "Mitsubishi Electric") and NEC Corporation (hereafter "NEC") ceased to be other affiliated companies, and the amounts of transaction described above were only the amounts when these companies were regarded as related parties and the ratio of share-holding of these companies were the ratio at the end of this fiscal year.  
 4: Regarding the borrowing agreements with Hitachi, Mitsubishi Electric and NEC, the modification of terms and conditions was implemented. The main modification was for the borrowing rate and repayment schedules.

For the year ended March 31, 2015  
None

b) Non-consolidated subsidiaries and affiliates related to the company submitting consolidated financial statements  
None

c) Companies having the same parent company as the company submitting consolidated financial statements and subsidiaries of affiliates

For the year ended March 31, 2014

Attribution	Name	Address	Common stock or investments in common stock	Nature of operations
Subsidiary of other affiliated company	Hitachi Capital Corporation	Minato-ward, Tokyo	9,983 million yen	Financial services business for lease and loan etc.

Ratio of share-holding (Owned)	Relation with related parties	Contents of transaction	Amounts of transaction (In millions of yen)	Account	Balance as of March 31, 2014 (In millions of yen)
None	Assignment of claims Factoring	Factoring	5,551	—	—

Note 1: The Company has made a tripartite contract with its suppliers and Hitachi Capital Corporation (hereafter "Hitachi Capital") to settle accounts payable by factoring.

2: Due to the third-party allotment on September 30, 2013, Hitachi Capital was not regarded as a subsidiary of other affiliated company since Hitachi became an unrelated party, and the amounts of transaction described above were only the amounts when Hitachi Capital was regarded as the related party.

For the year ended March 31, 2015

None

d) Directors and major shareholders related to the company submitting consolidated financial statements (individuals only)

None

(2) Transactions between subsidiaries of the Company and related parties

a) The parent company and major shareholders related to the company submitting consolidated financial statements (corporations only)

None

b) Non-consolidated subsidiaries and affiliates related to the company submitting consolidated financial statements

None

c) Companies having the same parent company as the company submitting consolidated financial statements and subsidiaries of affiliates

For the year ended March 31, 2014

Attribution	Name	Address	Common stock or investments in common stock	Nature of operations
Subsidiary of other affiliated company	Hitachi Capital Corporation	Minato-ward, Tokyo	9,983 million yen	Financial services business for lease and loan etc.

Ratio of share-holding (Owned)	Relation with related parties	Contents of transaction	Amounts of transaction (In millions of yen)	Account	Balance as of March 31, 2014 (In millions of yen)
None	Assignment of claims	Assignment of claims	44,861	—	—
	Factoring	Factoring	207	—	—

Note 1: A subsidiary has made a contract for assignment of claims with Hitachi Capital, and parts of accounts receivable have been transferred to Hitachi Capital.

2: Certain subsidiaries have made a tripartite contract with their suppliers and Hitachi Capital to settle accounts payable by factoring.

3: Due to the third-party allotment on September 30, 2013, Hitachi Capital was not regarded as a subsidiary of other affiliated company since Hitachi became an unrelated party, and the amounts of transaction described above were only the amounts of when Hitachi Capital was regarded as the related party.

For the year ended March 31, 2015

None



- d) Directors and major shareholders related to the company submitting consolidated financial statements (individuals only)  
None

2. Notes related to the parent company and significant affiliates

- (1) Information of the parent company

None

- (2) Information of significant affiliates

None

**(Amounts per Share)**

Item	The year ended March 31, 2014	The year ended March 31, 2015
Net assets per share	128.73 yen	185.67 yen
Basic net income (loss) per share	(5.07) yen	49.41 yen

Note 1: For the year ended March 31, 2015, net income per share fully diluted was not presented, owing to the fact that dilutive shares did not exist.

Note 2: As described in the note "Changes in Accounting Policies", the Company has adopted "Accounting Standard for Retirement Benefits", and the adoption of the accounting standard is subject to the transitional treatment set forth in Clause 37 of the "Accounting Standard for Retirement Benefits". As a result of this adoption, net assets per share as of March 31, 2015 decreased by 15.04 yen. In addition, the impact on basic net income per share as well as net income per share fully diluted for the year ended March 31, 2015 was immaterial.

Note 3: The basis of calculation for net income (loss) per share was as follows

Item	The year ended March 31, 2014	The year ended March 31, 2015
Basic net income (loss) per share		
Net income (loss) (In millions of yen)	(5,291)	82,365
Amounts not attributable to common stock (In millions of yen)	—	—
Net income (loss) attributable to common stock (In millions of yen)	(5,291)	82,365
Average number of common stock during the fiscal year (In thousands)	1,043,834	1,667,122

Note 4: The basis of calculation for net assets per share was as follows

Item	As of March 31, 2014	As of March 31, 2015
Total net assets (In millions of yen)	227,314	311,909
Amounts deducted from total net assets (In millions of yen)	12,713	2,380
(Minority interests (In millions of yen))	(12,713)	(2,380)
Net assets attributable to common stock at the end of the year (In millions of yen)	214,601	309,529
The fiscal year-end number of common stock used for the calculation of net assets per share (In thousands)	1,667,122	1,667,122

### **(Significant Subsequent Events)**

(Reduction of common stock and capital legal reserve, and appropriation of surplus)

The Company passed the resolution at its board of directors meeting held on May 12, 2015 to submit the proposal on reduction of common stock and capital legal reserve and appropriation of surplus to the ordinary general meeting of shareholders held on June 24, 2015, and the resolution was approved by the ordinary general meeting of shareholders.

1. Purposes of reduction of common stock and capital legal reserve and appropriation of surplus  
The purposes are correction of capital composition and improvement of flexibility for capital policy by covering deficiency.
2. Method and procedure of reduction of common stock and capital legal reserve and appropriation of surplus
  - (1) Reduction of common stock  
Pursuant to the Paragraph 1, Article 447 of the Companies Act, the Company will reduce 218,255 million yen of common stock to 10,000 million yen, and transfer the entire amount of reduction of common stock to other capital surplus.
  - (2) Reduction of capital legal reserve  
Pursuant to the Paragraph 1, Article 448 of the Companies Act, the Company will reduce 163,789 million yen of all amount of its capital legal reserve and transfer the entire amount to other capital surplus.
  - (3) Appropriation of surplus  
Pursuant to the Article 452 of the Companies Act, following the reductions of common stock and capital legal reserve stated above, the Company will cover its deficiency by transferring 551,749 million yen from other capital surplus to retained earnings brought forward.
3. Schedules
  - (1) May 12, 2015 Resolution of the board of directors meeting
  - (2) June 24, 2015 Resolution of the ordinary general meeting of shareholders
  - (3) August 3, 2015 Initial date of public notice to creditors for objections (Planned)
  - (4) September 3, 2015 Final due date for objections by creditors (Planned)
  - (5) September 30, 2015 Effective date (Planned)

**(Consolidated Supplemental Schedules)**

**[Schedule of borrowings]**

Category	Balance at the beginning of the year (In millions of yen)	Balance at the end of the year (In millions of yen)	Average interest rate (%)	Maturity
Short-term borrowings	2,000	—	—	—
Current portion of long-term borrowings	3,366	6,700	1.7	—
Current portion of lease obligations	2,458	1,135	1.6	—
Long-term borrowings (excluding current portion)	256,625	246,505	1.1	From 2016 to 2018
Lease obligations (excluding current portion)	6,453	5,385	1.5	From 2016 to 2023
Other interest-bearing debts Accounts payable-other (Accounts payable-installment purchase)	—	—	—	—
Total	270,902	259,725	—	—

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	25,000	23,609	197,896	—
Lease obligations	5,203	89	69	22

**[Schedule of asset retirement obligations]**

The beginning and ending balances of asset retirement obligations in the fiscal year ended March 31, 2015 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 March 31, 2015**

	1st Quarter consolidated cumulative period (from April 1, 2014 to June 30, 2014)	2nd Quarter consolidated cumulative period (from April 1, 2014 to September 30, 2014)	3rd Quarter consolidated cumulative period (from April 1, 2014 to December 31, 2014)	The year ended March 31, 2015 (from April 1, 2014 to March 31, 2015)
Net sales (In millions of yen)	209,259	416,928	608,864	791,074
Income before income taxes and minority interests (In millions of yen)	24,396	42,508	85,838	94,100
Net income (In millions of yen)	21,199	35,118	73,320	82,365
Basic quarterly net income per share (Yen)	12.72	21.07	43.98	49.41

	1st Quarter (from April 1, 2014 to June 30, 2014)	2nd Quarter (from July 1, 2014 to September 30, 2014)	3rd Quarter (from October 1, 2014 to December 31, 2014)	4th Quarter (from January 1, 2015 to March 31, 2015)
Basic quarterly net income per share (Yen)	12.72	8.35	22.91	5.43

**(2) Matters subsequent to the fiscal year-end**

None

**(3) Lawsuits**

Described in “4 Contingent liabilities (3) Others” of “Consolidated Balance Sheets” of the notes to Consolidated Financial Statements

## (Appendix) Renesas Electronics Group Companies

The Renesas Electronics Group comprises 31 consolidated subsidiaries and 3 equity method affiliates, listed below according to primary business activity.

	Japan	Overseas
Sales Companies	<u>&lt;Equity Method Affiliate&gt;</u> RENASAS EASTON Co., Ltd.	<u>&lt;Consolidated Subsidiary&gt;</u> 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)
Manufacturing and Engineering Service Companies	<u>&lt;Consolidated Subsidiary&gt;</u> Renesas Semiconductor Manufacturing, Co., Ltd. Renesas Semiconductor Package & Test Solutions Co., Ltd.	<u>&lt;Consolidated Subsidiary&gt;</u> Renesas Semiconductor (Beijing) Co., Ltd. Renesas Semiconductor (Suzhou) Co., Ltd. Renesas Semiconductor Singapore Pte. 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	<u>&lt;Consolidated Subsidiary&gt;</u> Renesas System Design Co., Ltd. Renesas Solutions Corp. Renesas Engineering Services Co., Ltd.	<u>&lt;Consolidated Subsidiary&gt;</u> Renesas Semiconductor Design (Beijing) Co., Ltd. Renesas Design Vietnam Co., Ltd. Renesas Semiconductor Design (Malaysia) Sdn. Bhd.
Business Corporations and Others	<u>&lt;Equity Method Affiliate&gt;</u> 1 company	<u>&lt;Consolidated Subsidiary&gt;</u> 3 companies  <u>&lt;Equity Method Affiliate&gt;</u> 1 company

## 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 March 31, 2015, 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 March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

As described in "Significant Subsequent Events," the Company passed the resolution at its board of directors meeting held on May 12, 2015 to submit the proposal on reduction of common stock and capital legal reserve and appropriation of surplus to the ordinary general meeting of shareholders held on June 24, 2015. The resolution was approved by the ordinary general meeting of shareholders. Our opinion is not qualified in respect of this matter.

*Ernst & Young ShinNihon LLC*

June 24, 2015  
Tokyo, Japan