# FY13/3 Q3 Financial Results

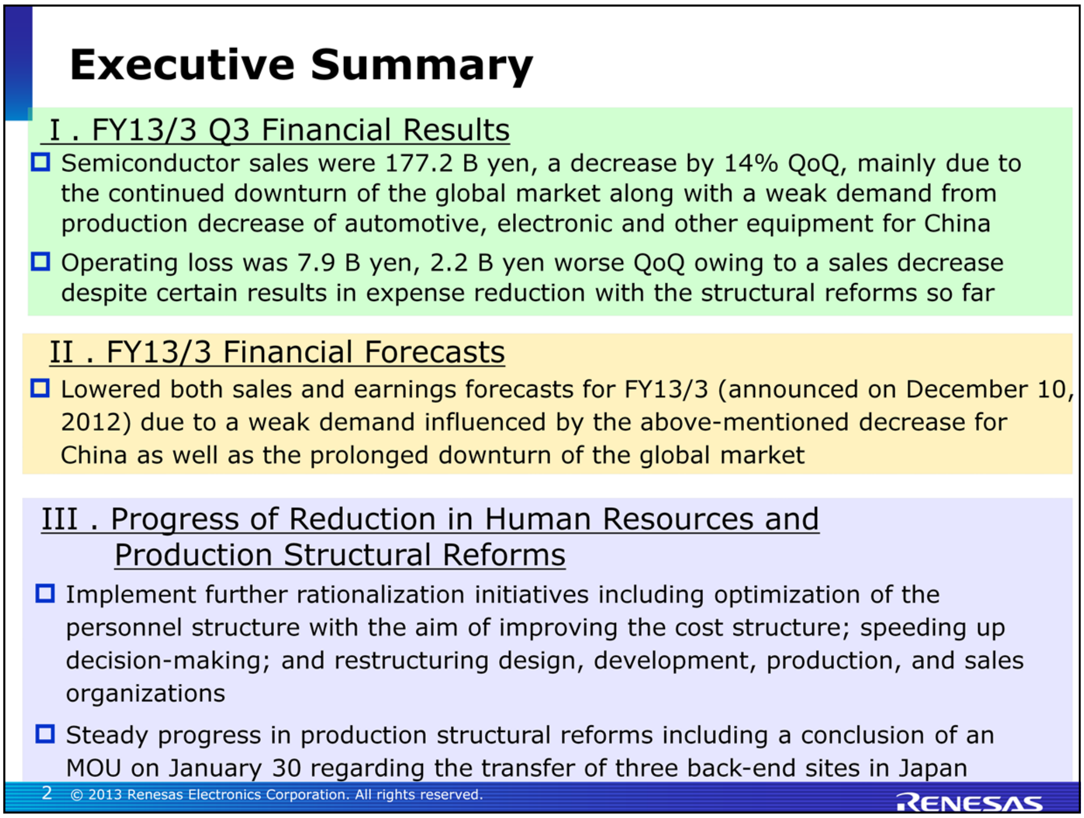
Renesas Electronics Corporation

February 8, 2013

Yasushi Akao, President

Thank you for joining Renesas Electronics' earnings briefing for the third quarter of the fiscal year ending March 2013.

Before we begin, please be sure to review the cautionary statement on page 23.




This is an overview of the points we will discuss today.

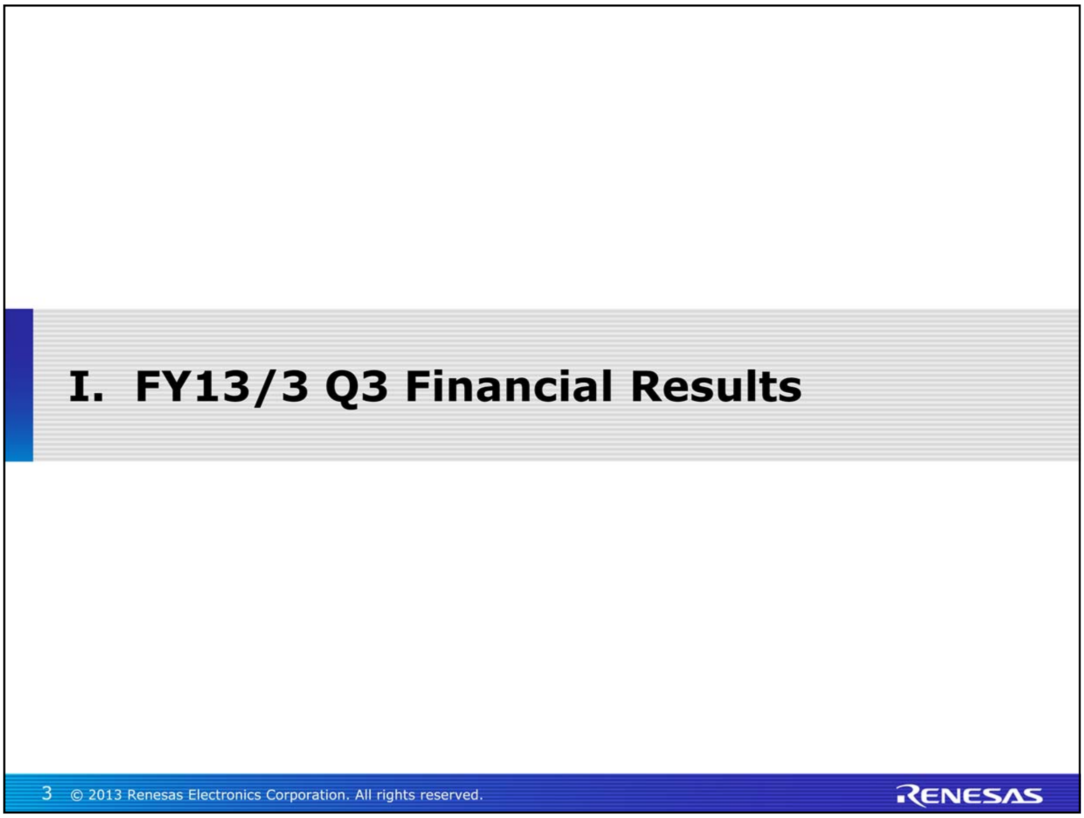
First, regarding financial results for the third quarter of the year ending March 2013, semiconductor sales were 177.2 billion yen, a decrease by 14% quarter on quarter, mainly due to the continued downturn of the global market along with a weak demand from production decrease of automotive, electronic and other equipment for China.

Operating loss was 7.9 billion yen, 2.2 billion yen worse quarter on quarter owing to a sales decrease despite certain results in expense reduction with the structural reforms so far.

Second, as for the financial forecasts for the year ending March 2013, the company lowered both sales and earnings forecasts, which were announced on December 10, 2012, due to a weak demand influenced by the above-mentioned decrease for China as well as the prolonged downturn of the global market.

Third, regarding progress of reduction in human resources and production structural reforms, the company has been implementing further rationalization initiatives including optimization of the personnel structure with the aim of improving the cost structure; speeding up decision-making; and restructuring design, development, production, and sales organizations.

Also, the company made steady progress in production structural reforms including a conclusion of an MOU on January 30 regarding the transfer of the three back-end sites in Japan.




Now let us discuss our financial results for the third quarter of the fiscal year ending March 2013.

## FY13/3 Q3 Financial Snapshot

- Semiconductor sales were 177.2 B yen, a decrease by 14% QoQ, mainly due to the continued downturn of the global market along with a weak demand from production decrease of automotive, electronic and other equipment for China
- Operating loss was 7.9 B yen, 2.2 B yen worse QoQ owing to a sales decrease despite certain results in expense reduction with the structural reforms so far

| | FY12/3 | FY13/3 | | | |
|---|---|---|---|---|---|
| (B yen) | Q3 | Q2 | Q3 | QoQ | YoY |
| Net Sales | 222.9 | 222.8 | 191.0 | -31.8 (-14%) | -31.8 (-14%) |
| Semiconductor Sales | 198.0 | 205.3 | 177.2 | -28.1 (-14%) | -20.8 (-11%) |
| Operating Income (Loss) | -4.0 | -5.7 | -7.9 | -2.2 | -4.0 |
| Ordinary Income (Loss) | -3.6 | -6.8 | -11.1 | -4.3 | -7.5 |
| Net Income (Loss) | -2.4 | -94.3 | -46.6 | +47.7 | -44.2 |
| 1US$= | 77 yen | 79 yen | 79 yen | ±0 yen | 2 yen weak |
| 1Euro= | 105 yen | 98 yen | 102 yen | 4 yen weak | 3 yen strong |

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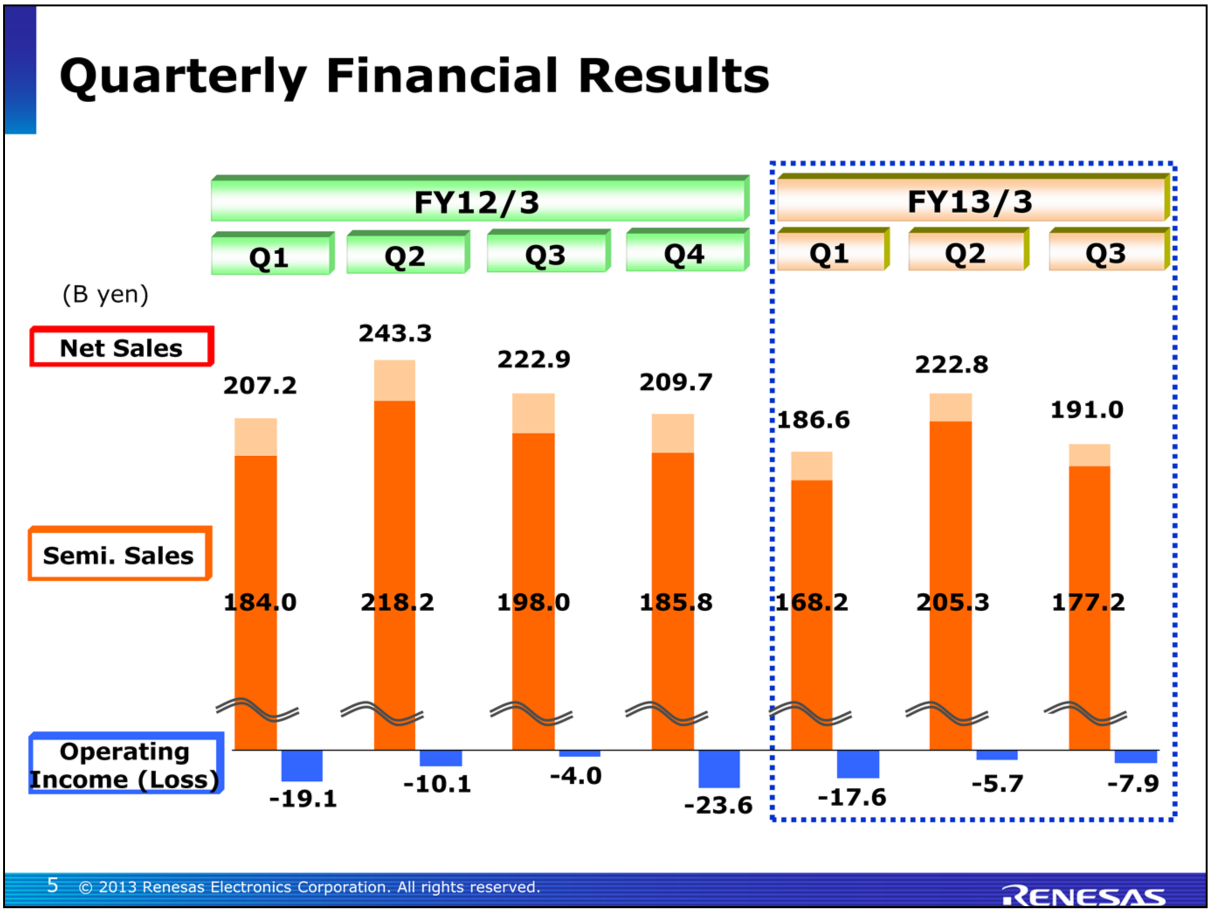
Slide 4 shows the summary of the third quarter results.

Semiconductor sales were 177.2 billion yen, a decrease by 14% quarter on quarter, mainly due to the continued downturn of the global market along with a weak demand from production decrease of automotive, electronic and other equipment for China.

Operating loss was 7.9 billion yen, 2.2 billion yen worse quarter on quarter owing to a sales decrease despite certain results in expense reduction with the structural reforms so far.




Slide 5 shows the trend of quarterly financial results.

As previously explained, semiconductor sales for the third quarter decreased by 14% quarter on quarter. Operating loss was worsened by 2.2 billion yen quarter on quarter due to sales decrease despite certain results in expense reduction.

## FY13/3 Q3 Semiconductor Sales by Business (1)

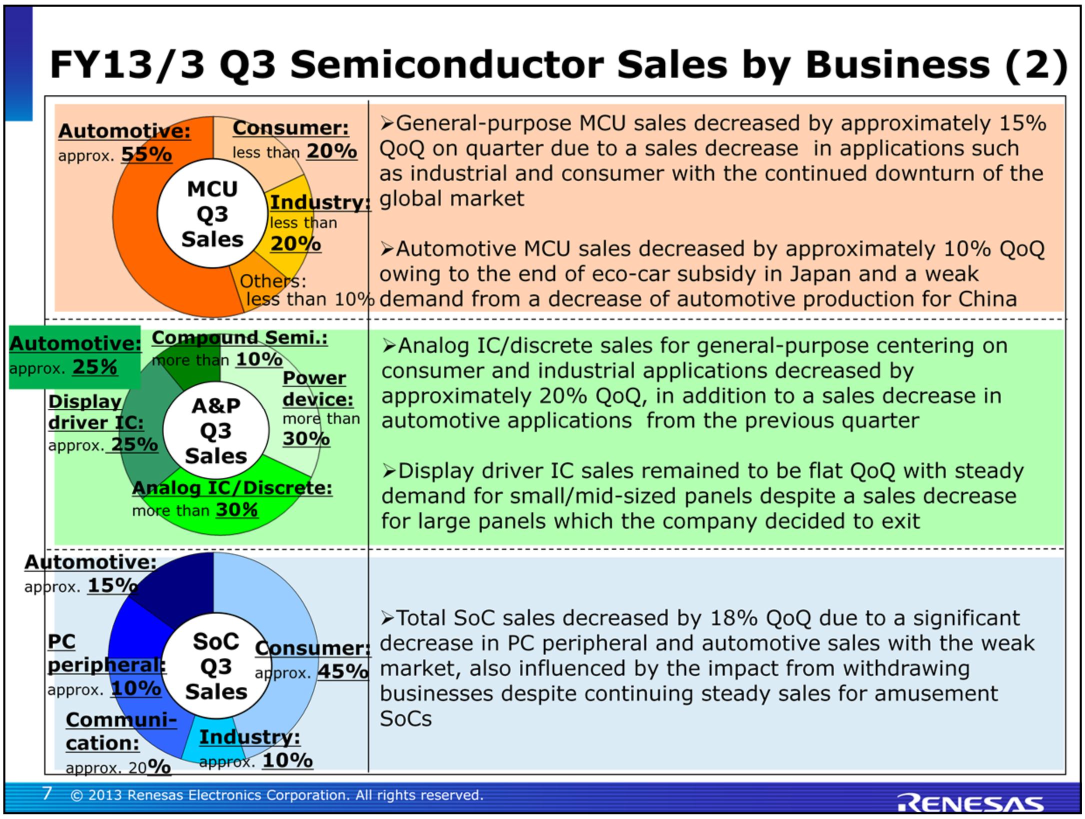
- Q3 semiconductor sales decreased QoQ in three business units

| (B yen) | FY12/3 Q3 | FY13/3 Q2 | FY13/3 Q3 | QoQ | YoY |
|---|---|---|---|---|---|
| Semiconductor Sales (Total) | 198.0 | 205.3 | 177.2 | -28.1 (-14%) | -20.8 (-11%) |
| MCU | 88.6 | 80.9 | 71.2 | -9.8 (-12%) | -17.5 (-20%) |
| Analog & Power | 54.5 | 68.1 | 57.8 | -10.3 (-15%) | +3.3 (+6%) |
| SoC | 53.4 | 55.0 | 45.1 | -9.9 (-18%) | -8.3 (-16%) |
| Other Semiconductors | 1.4 | 1.3 | 3.1 | +1.7 | +1.7 |



Slide 6 shows the breakdown of the third quarter semiconductor sales by business unit.

Due to factors previously explained, semiconductor sales decreased quarter on quarter in three business units.




Slide 7 shows details on the third quarter sales of each business unit per application segment.

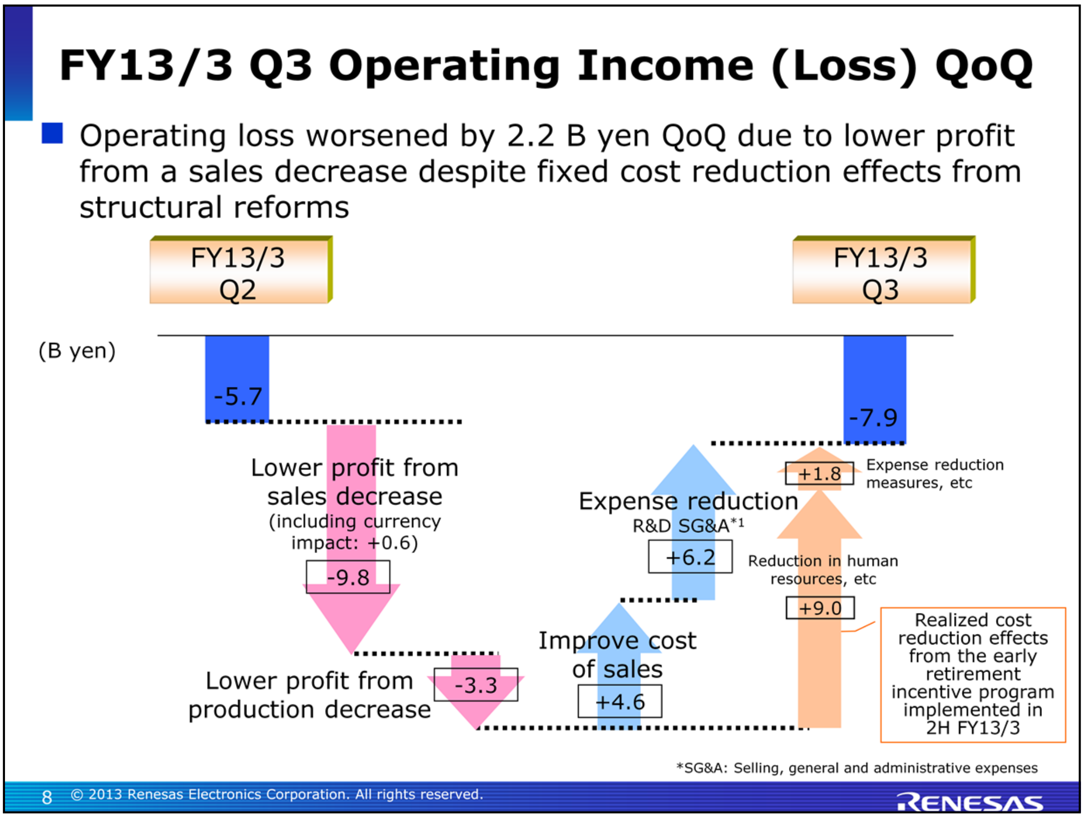
As for MCUs, general-purpose MCU sales decreased by approximately 15% quarter on quarter due to a sales decrease in applications such as industrial and consumer with the continued downturn of the global market.

On the other hand, automotive MCU sales decreased by approximately 10% quarter on quarter owing to the end of eco-car subsidy in Japan and a weak demand from a decrease of automotive production for China.

As for Analog & Power semiconductors, analog IC/discrete sales for general-purpose centering on consumer and industrial applications decreased by approximately 20% quarter on quarter, in addition to a sales decrease in automotive applications from the previous quarter.

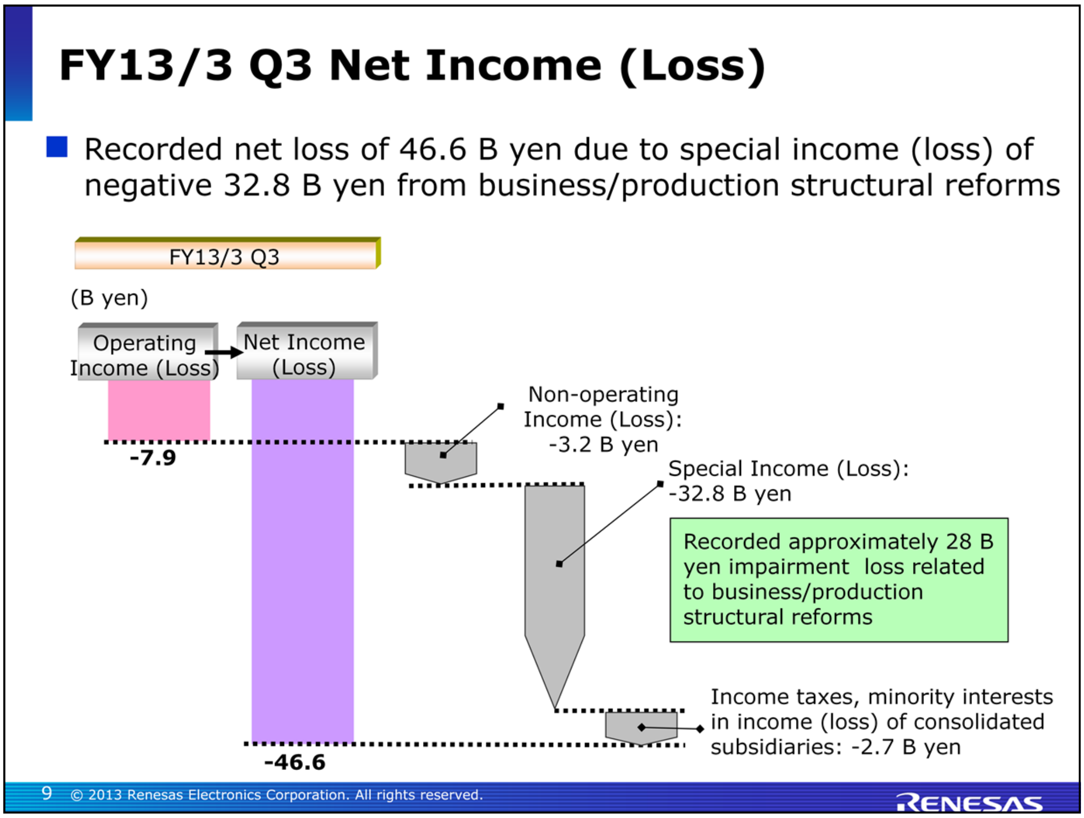
Display driver IC sales remained to be flat quarter on quarter with steady demand for small/mid-sized panels despite a sales decrease for large panels which the company decided to exit.

As for SoCs, sales decreased by 18% quarter on quarter due to a significant decrease in PC peripheral and automotive sales with the weak market, also influenced by the impact from withdrawing businesses despite continuing steady sales for amusement SoCs.




Slide 8 shows the increase and decrease of operating income and loss from the second quarter to the third quarter.

Operating loss worsened by 2.2 billion yen quarter on quarter due to lower profit from a sales decrease despite fixed cost reduction effects from structural reforms.




Slide 9 shows the factors affecting net loss in the third quarter.

Net loss was 46.6 billion yen due to recording special income (loss) of negative 32.8 billion yen from business/production structural reforms.

Regarding the breakdown of the special loss, the company recorded approximately 28 billion yen impairment loss from business/production structural reforms.

# FY13/3 Q3 Balance Sheets

| (B yen) | As of Mar. 31, 2012 | As of Sep. 31, 2012 | As of Dec. 31, 2012 |
|---|---|---|---|
| Total Assets | 858.2 | 748.3 | 716.7 |
| Cash and Cash Equivalents | 131.9 | 69.6 | 95.1 |
| Inventories | 151.8 | 147.9 | 149.3 |
| Liabilities | 631.7 | 641.4 | 643.3 |
| Interest-Bearing Debt | 258.3 | 239.3 | 316.2 |
| Shareholders' Equity | 243.4 | 128.3 | 81.7 |
| Net Assets | 226.5 | 106.8 | 73.4 |
| D/E Ratio (Gross) | 1.19 | 2.46 | 5.00 |
| D/E Ratio (Net) | 0.58 | 1.74 | 3.50 |
| Equity Ratio | 25.4% | 13.0% | 8.8% |

Note 1) "Cash and Cash Equivalents": Sum of cash and deposits, and short-term investment securities minus the Time deposits with maturities of more than three months
2) "Interest-bearing debt": Short-term borrowings, Current portion of long-term borrowings, lease obligations, Long-term borrowings
3) "Equity": Shareholders' equity, Accumulated other Comprehensive Income
4) "D/E ratio (gross)": Interest-bearing debt / Equity

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Slide 10 shows the status of the company's balance sheets.

Cash and cash equivalents increased quarter on quarter due to an increase in long-term borrowings. On the other hand, equity ratio was 8.8 billion yen owing to posting quarterly net loss.

Under such circumstances, the company announced the capital increase through third-party allotment for the Innovation Network Corporation of Japan and eight companies on December 10, 2012. The company will obtain a total of 150 billion yen through the scheme by September 30, 2013. The company's balance sheets will be significantly improved with this capital.

# FY13/3 Q3 Cash Flows

- Without the impact from lump-sum payout for implementation of the early retirement incentive program, the company continued to secure positive cash flows from operating activities since Q2 and recovered free cash flows to be positive although the actual free cash flows were negative 53.6 B yen

| (B yen) | FY12/3 Q3 | FY12/3 9 months cumulative (Apr-Dec) | FY12/3 Full-year | FY13/3 Q1 | FY13/3 Q2 | FY13/3 Q3 | FY13/3 9 months cumulative (Apr-Dec) |
|---|---|---|---|---|---|---|---|
| Cash Flows from Operating Activities | 18.0 | -3.1 | -9.7 | -18.1 | 4.6 | -47.5 | -61.0 |
| Cash Flows from Investing Activities | -15.2 | -47.7 | -55.1 | -10.7 | -9.8 | -6.1 | -26.5 |
| Free Cash Flows | 2.9 | -50.8 | -64.8 | -28.7 | -5.2 | -53.6 | -87.5 |

 

Slide 11 shows the status of cash flows.

Free cash flows in the third quarter of this fiscal year was negative 53.6 billion yen. However, without the impact from lump-sum payout for implementation of the early retirement incentive program,  the company continued to secure positive cash flows from operating activities and recovered free cash flows to be positive.

## II. FY13/3 Financial Forecasts

 

Next, we will explain financial forecasts of the fiscal year ending March 2013.

## FY13/3 Financial Forecasts

- Lowered full-year sales forecasts due to a decline in demand of semiconductors for automotive and industrial applications which were expected to recover at certain level in 2H of FY13/3 as well as semiconductors for consumer electronics whose sales were expected to be steady through a large-scale custom project, influenced by a weak demand from production decrease of automotive, electronic and other equipment for China as well as the continued downturn of the global market
- Expect full-year operating loss to be 26 B yen and net loss to be 176 B yen

| | FY12/3 | | | FY13/3 | | | | |
|---|---|---|---|---|---|---|---|---|
| (B yen) | 1H Actual | 2H Actual | Full-year Actual | 1H Actual | 2H Forecasts | Full-year Forecasts | Previous Full-year Forecasts* | Difference from Previous Forecasts (YoY) |
| Net Sales | 450.5 | 432.6 | 883.1 | 409.4 | 360.6 | 770.0 | 820.0 | -50.0 (-113.1) |
| Semiconductor Sales | 402.2 | 383.8 | 786.0 | 373.6 | 337.4 | 711.0 | 760.0 | -49.0 (-75.0) |
| Operating Income (Loss) | -29.2 | -27.6 | -56.8 | -23.3 | -2.7 | -26.0 | 21.0 | -470 (+30.8) |
| Ordinary Income (Loss) | -33.3 | -27.8 | -61.2 | -24.4 | -9.6 | -34.0 | 10.0 | -44.0 (+27.2) |
| Net Income (Loss) | -42.0 | -20.6 | -62.6 | -115.1 | -60.9 | -176.0 | -150.0 | -26.0 (-113.4) |
| 1 US$= | 81 yen | 78 yen | 79 yen | 80 yen | 83 yen | 82 yen | 80 yen | 2 yen weak |
| 1 Euro= | 115 yen | 104 yen | 109 yen | 102 yen | 109 yen | 106 yen | 103 yen | 3 yen weak |

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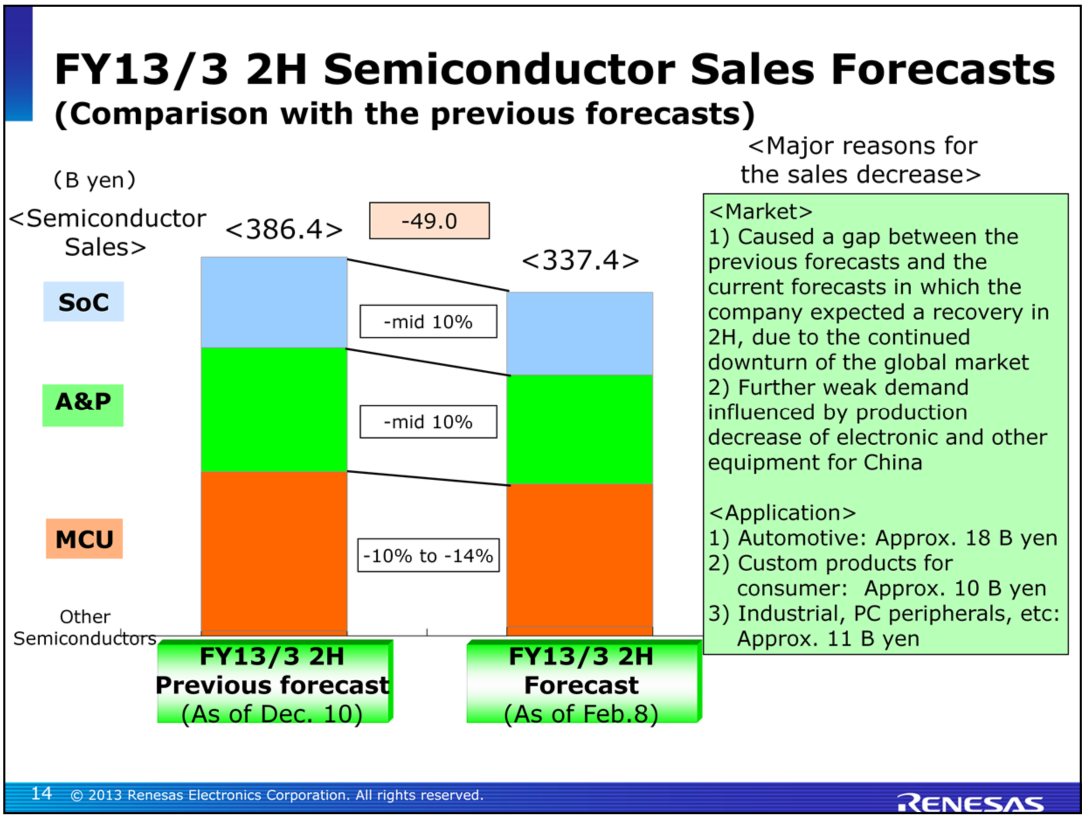
*As of December 10, 2012 RENESAS

As for the consolidated sales forecasts for the fiscal year ending March 2013, the company lowered its sales forecasts as announced separately under timely disclosure rules of the Tokyo Stock Exchange.

The company lowered its previous sales forecasts announced on December 10, 2012, by 50 billion yen to be 770 billon yen.

At the previous forecasts, the company expected demand increase at certain level in automotive and industrial applications, in addition to steady sales in consumer electronics through a large-scale custom project. In these automotive, industrial and consumer applications, the demand decreased influenced by a weak demand from production decrease of automotive, electronic and other equipment for China as well as the continued downturn of the global market, thus the company revised its sales forecasts downward.

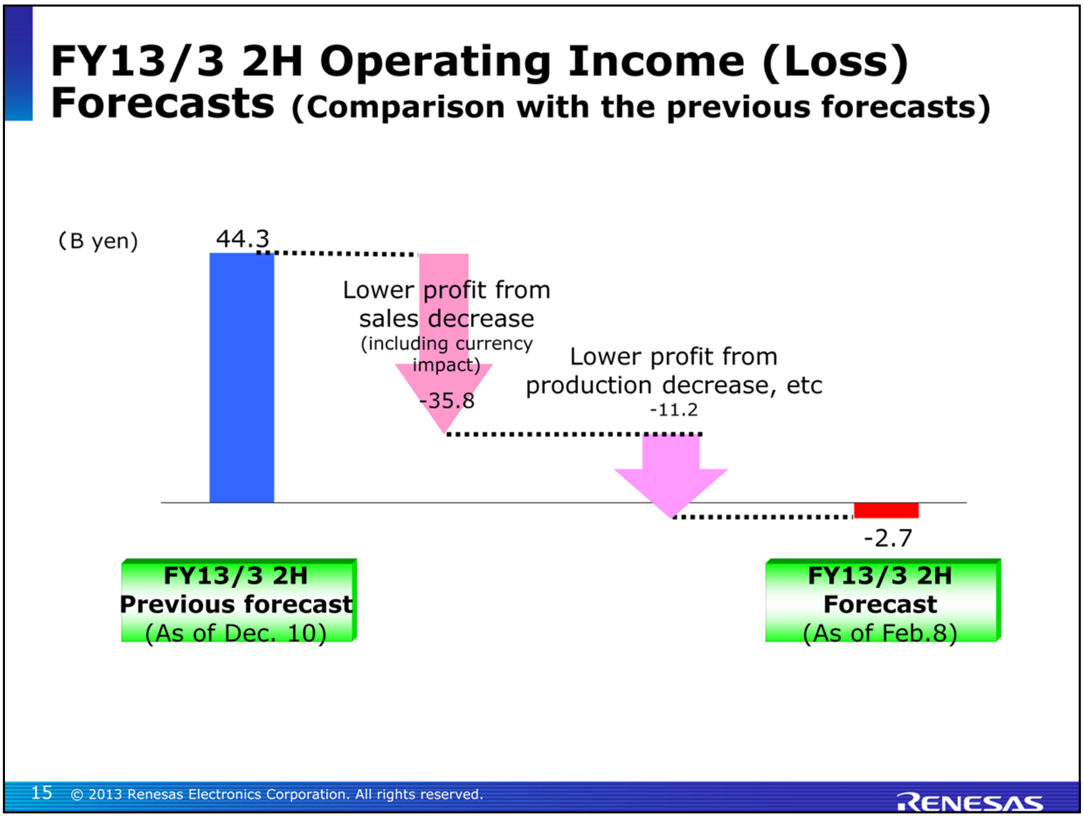
With the sales decrease, the company expects the full-year operating loss to be 26 billion yen and the net loss to be 176 billion yen.




Slide 14 shows the increase and decrease of semiconductor sales forecasts for the second half of this fiscal year compared with the previous forecasts.

The semiconductor sales are expected to be 337.4 billion yen, decreased by 49 billion yen from the previous forecasts as of last December.

Major reasons for the sales decrease include causing a gap between the previous forecasts and the current forecasts in which the company expected a recovery in the second half, due to the continued downturn of the global market. In addition, further weak demand became visible, influenced by production decrease of electronic and other equipment for China. As a result, sales for SoCs and Analog & Power semiconductors are expected to decrease by mid 10%. MCU sales are expected to decrease by 10% to 14%.



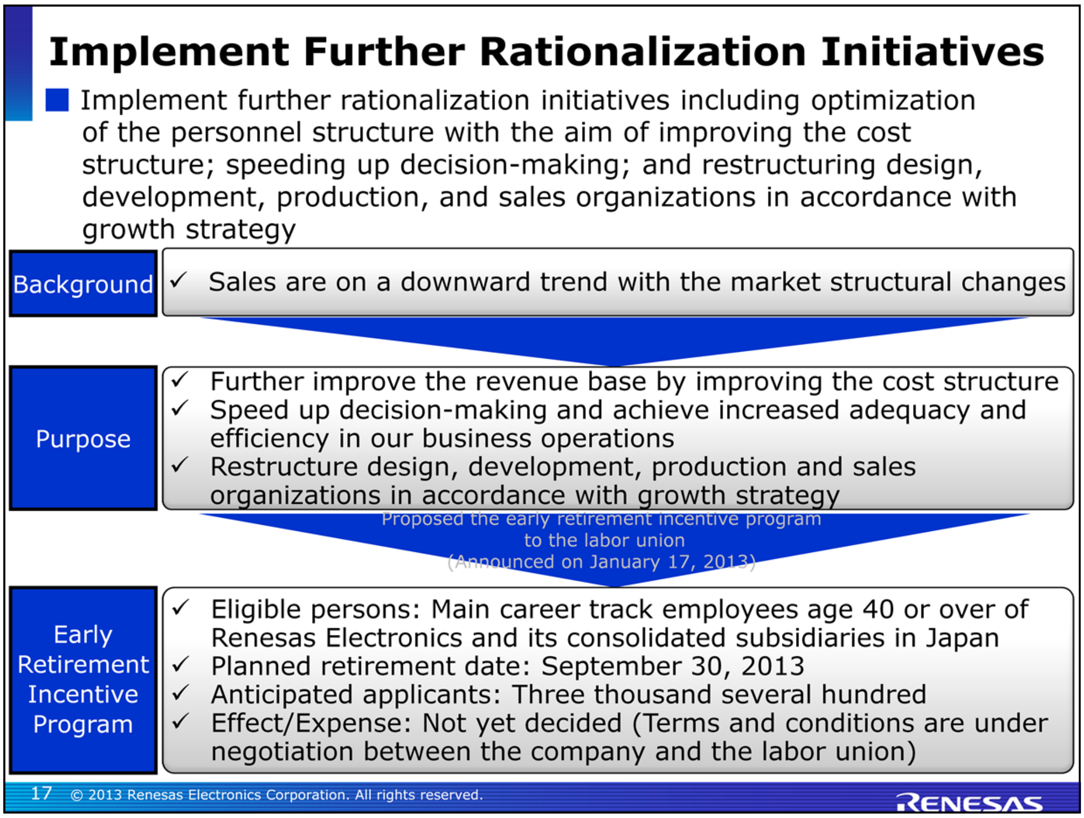

Slide 15 shows the increase and decrease of operating income and loss from the previous forecast of the second half of this fiscal year to the current forecast.

Operating loss is expected to be 2.7 billion yen due to lower profit from production decrease as a result of holding down production and inventory level from the time the company announced the previous forecasts, in addition to a significant decrease in profit from a sales decrease.

## III. Progress of Reduction in Human Resources and Production Structural Reforms

Next, we will discuss progress of reduction in human resources and production structural reforms.




The company announced implementation of further rationalization initiatives including the early retirement incentive program on January 17, 2013.

The company's sales are on a downward trend with the market structural changes. Against this background, the company targeted to further improve the revenue base by improving the cost structure; speeding up decision-making; achieving increased adequacy and efficiency in our business operations; and restructure design, development, production, and sales organizations in accordance with growth strategy. In order to attain these aims, the company presented to the labor union on January 17, 2013, a proposal for implementation of the early retirement incentive program to realize optimization of the personnel structure.

The early retirement incentive program is intended for main career track employees age 40 or over of the company and its consolidated subsidiaries in Japan. The company anticipated three thousand several hundred applicants, however, the effect and expense is not yet decided as terms and conditions are under negotiation between the company and the labor union.

## Progress of Production Structural Reforms

- Progress as planned in structural reforms including the transfer of three back-end sites decided on January 30, 2013, following the completion of transferring one back-end site since the reforms were announced on July 3, 2012

| | Direction | Current Sites/Lines | Sites/Lines after Production Structural Reforms |
|---|---|---|---|
| Front-end | ✓ Enlargement and miniaturization of wafers<br>✓ Outsourcing of leading-edge products<br>✓ Continuing of in-house production of specialized products | 9 Sites / 14 Lines | 7 Sites / 9 Lines |
| Back-end | ✓ Acceleration of shift production overseas<br>✓ Expand use of subcontractors inside/outside Japan | 8 Sites => 5 Sites (June, 2013) | 2 Sites |

■ Completed on January 1, 2013

✓ Transferred Renesas High Components *1(Aomori Factory) to AOI ELECTRONICS*2

■ Announced on January 30, 2013

✓ Scheduled to transfer the Hakodate Factory of Renesas Northern Japan Semiconductor*3, the Fukui Factory of Renesas Kansai Semiconductor*4, and the Kumamoto Factory of Renesas Kyushu Semiconductor*5 to J-Devices*6 in early June, 2013

*1:Renesas High Components, Inc. (Tsuruta, Aomori)
*2:AOI ELECTRONICS CO., LTD. (Takamatsu, Kagawa)
*3:Hakodate Factory, Renesas Northern Japan Semiconductor, Inc (Nanae, Hokkaido)
*4: Fukui Factory, Renesas Kansai Semiconductor Co., Ltd. (Sakai, Fukui)
*5: Kumamoto Factory, Renesas Kyushu Semiconductor Corp. (Ozu, Kumamoto)
*6: J-Devices Corporation (Usuki, Oita)

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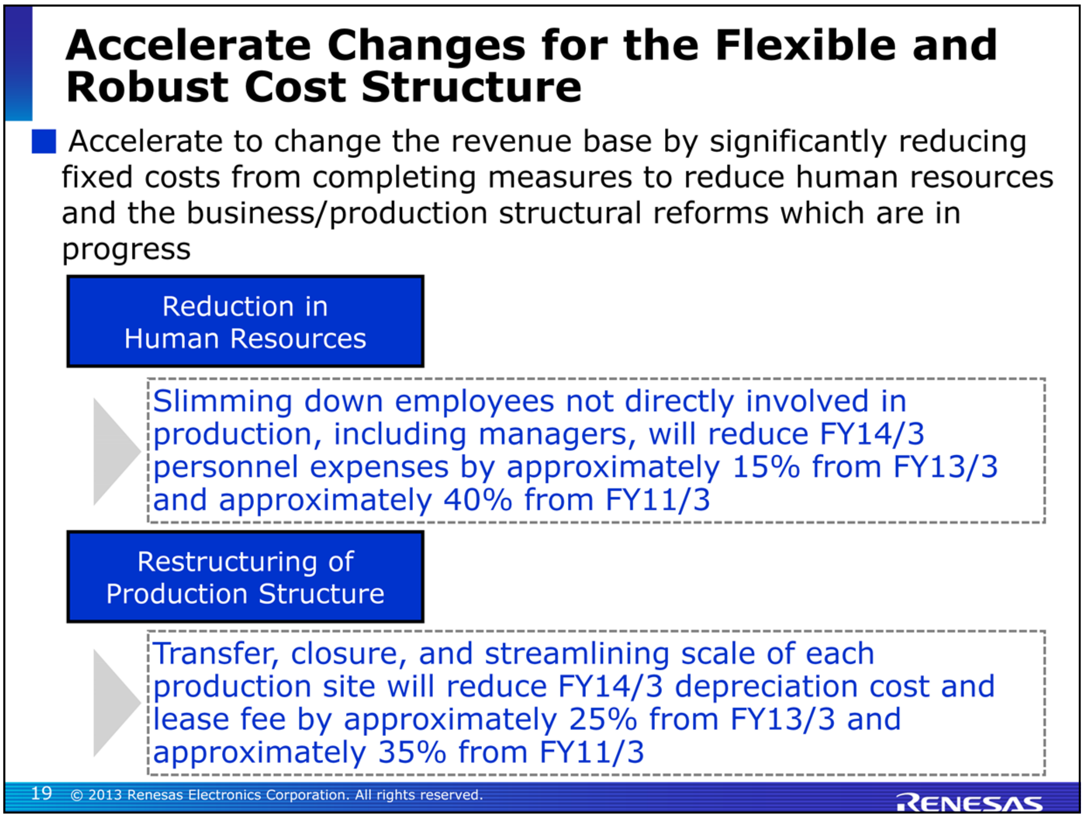
Also, the company announced production structural reforms centering on restructuring of production sites in Japan on July 3, 2012. As the first item of the reforms, the company completed a transfer of Renesas High Components, a back-end production site in Aomori to AOI ELECTRONICS CO., LTD. on January 1, 2013.

In addition to this, on January 30, 2013, the company decided and announced the transfer of three back-end sites whose directions were announced as “transfer will be considered within a year”. With these initiatives, the production structural reforms are progressed as planned. The company will transfer the Hakodate Factory of Renesas Northern Japan Semiconductor, the Fukui Factory of Renesas Kansai Semiconductor, and the Kumamoto Factory of Renesas Kyushu Semiconductor to J-Devices Corporation in early June, 2013.

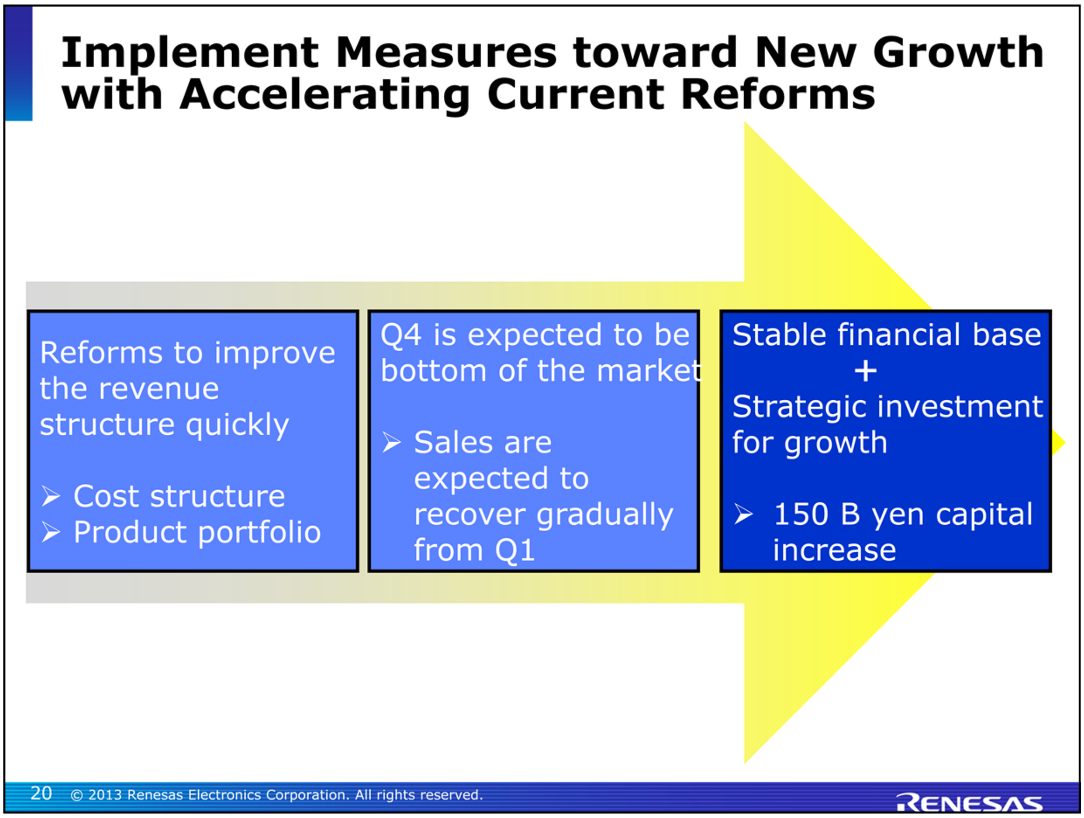
With this transfer, number of the company’s back-end sites in Japan will be five and finally two after implementation of the structural reforms announced last July. On the other hand, number of the company’s front-end sites in Japan will be seven with nine lines after implementation of the reforms from current nine sites with fourteen lines.




In order to accelerate changes for the flexible and robust cost structure, the company will significantly reduce fixed costs by completing measures to reduce human resources and the business/production structural reforms which are in progress.

For examples, to reduce human resources, the company will implement the early retirement incentive program aimed at slimming down employees not directly involved in production, including managers, in addition to the business/production structural reforms. This will reduce personnel expenses of the fiscal year ending March 2014 by approximately 15% from the fiscal year ending March 2013 and approximately 40% from the fiscal year ending March 2011.

As a result of reorganizing production structure including the transfer, closure, and streamlining scale of each production site, the company will reduce depreciation cost and lease fee for the fiscal year ending March 2014 by approximately 25% from the fiscal year ending March 2013 and approximately 35% from the fiscal year ending March 2011.




The company is now accelerating reforms to improve the revenue structure by improving the cost structure with reducing human resources and restructuring production sites as previously explained, in addition to streamlining its product portfolio.

Meanwhile, sales are expected to bottom out in the fourth quarter of this fiscal year ending March 2013 and recover gradually from the first quarter of the fiscal year ending March 2014.

Under such business environment, the company plans to complete 150 billion yen capital increase through the third-party allotment for the Innovation Network Corporation of Japan and others by the end of September 2013 as announced last December, aiming to secure the stable financial base and implement strategic investment for growth with accelerating current reforms.

## Summary

- FY13/3 Q3 semiconductor sales were 177.2 billion yen, decreased by 14% QoQ and the operating loss was 7.9 billion yen despite certain results in expense reduction with the structural reforms so far
- Lowered both sales and earnings forecasts for FY13/3 due to a weak demand from production decrease of automotive, electronic and other equipment for China as well as the continued downturn of the global market
- Implement further rationalization initiatives including optimization of the personnel structure with the aim of improving the cost structure; speeding up decision-making; and restructuring design, development, production, and sales organizations
- Structural reforms are in progress now ahead of the plan to increase capital toward the new growth

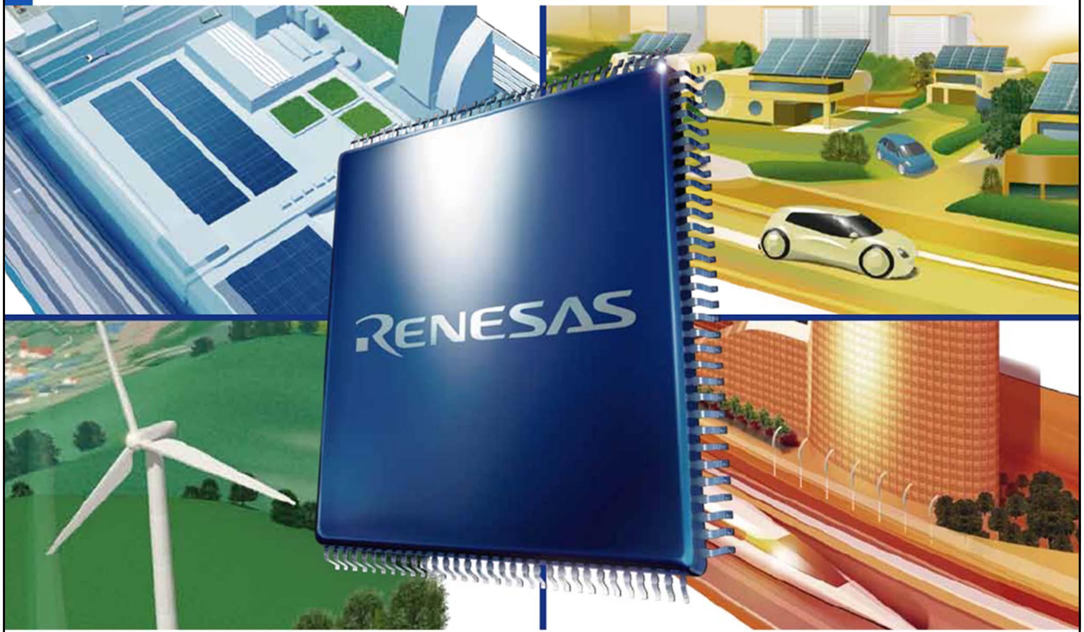
Finally, let us explain today's summary.

Semiconductor sales for the third quarter of the fiscal year ending March 2013 were 177.2 billion yen, decreased by 14% quarter on quarter. Operating loss for the same period was 7.9 billion yen despite certain results in expense reduction with structural reforms so far.

As for the full-year financial forecasts, the company lowered both sales and earnings forecasts due to a weak demand from production decrease of automotive, electronic and other equipment for China as well as the continued downturn of the global market.

The company will implement further rationalization initiatives including optimization of the personnel structure with the aim of improving the cost structure; speeding up decision-making.; and restructuring design, development, production, and sales organizations.

The company is now accelerating the structural reforms ahead of the plan to increase capital toward the new growth, which was announced last December.



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(FOREWARD-LOOKING STATEMENTS)
The statements in this presentation with respect to the plans, strategies and forecasts of Renesas Electronics and its consolidated subsidiaries (collectively "we") are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results could differ materially from such forward-looking statements due to several factors. The important factors that could cause actual results to differ materially from such statements include, but are not limited to: general economic conditions in our markets, which are primarily Japan, North America, Asia and Europe; demand for, and competitive pricing pressure on, our products and services in the marketplace; our ability to continue to win acceptance of its products and services in these highly competitive markets; and movements in currency exchange rates, particularly the rate between the yen and the U.S. dollar. Among other factors, a worsening of the world economy; a worsening of financial conditions in the world markets, and a deterioration in the domestic and overseas stock markets, would cause actual results to differ from the projected results forecast.

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Thank you very much for your continuous support of Renesas Electronics.

This concludes our presentation today.