RENESAS

Media Contacts
Kyoko Okamoto
Renesas Electronics Corporation
+81 3-6773-3001
pr@renesas.com

Investor Contacts
Makie Uehara
Renesas Electronics Corporation
+81 3-6773-3002
ir@renesas.com

Renesas Electronics Reports Financial Results for the Year Ended December 31, 2016

Tokyo, Japan, February 8, 2017 — Renesas Electronics Corporation (TSE:6723) today announced consolidated financial results for the year ended December 31, 2016.

Summary of Consolidated Financial Results

	Year ended December 31, 2016	
	Billion Yen	% of Net Sales
Net sales	471.0	100.0
Sales from semiconductors	457.2	
Sales from others	13.9	
Operating income	54.7	11.6
Ordinary income	50.0	10.6
Net income attributable to shareholders of parent company	44.1	9.4
Capital expenditures	72.8	
Depreciation and others	45.3	
R&D expenses	78.1	
	Yen	
Exchange rate (USD)	106	
Exchange rate (EUR)	118	

	As of December 31, 2016
	Billion Yen
Total assets	823.1
Net assets	422.4
Equity Capital	420.2
Equity ratio (%)	51.0
Interest-bearing debt	157.3

Note 1: All figures are rounded to the nearest 100 million yen.
Note 2: At the 14th Ordinary General Shareholders' Meeting held on June 28, 2016, a partial amendment to the Articles of Incorporation was approved and Renesas Electronics Group implemented a change of the fiscal term in which the fiscal year-end changed from March 31 to December 31 starting from the fiscal year 2016. The fiscal year (fiscal year ended December 31, 2016) in which the transition to the new accounting period took place, comprised the financial results for the nine months from April 1, 2016, to December 31, 2016.
Note 3: Capital expenditures refer to the amount of order placed for property, plant and equipment (manufacturing equipment) and intangible assets.
Note 4: Depreciation and others includes depreciation and amortization of intangible assets and amortization of long-term prepaid expenses in quarterly consolidated statements of cash flows.

Consolidated Financial Results for the Year Ended December 31, 2016

English translation from the original Japanese-language document

February 8, 2016

Company name : **Renesas Electronics Corporation**
Stock exchanges on which the shares are listed : Tokyo Stock Exchange, First Section
Code number : 6723
URL : http://www.renesas.com
Representative : Bunsei Kure, Representative Director, President and CEO
Contact person : Yoichi Kobayashi, Senior Manager
Corporate Communications Dept.
Tel. +81 (0)3-6773-3002
Date of the ordinary general shareholders' meeting (scheduled)
: March 30, 2017
Filing date of Yukashoken Hokokusho (scheduled) : March 30, 2017

(Amounts are rounded to the nearest million yen)

1. Consolidated financial results for the year ended December 31, 2016

1.1 Consolidated financial results

(% of change from corresponding period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended December 31, 2016	471,031	---	54,711	---	49,986	---	44,119	---
Year ended March 31, 2016	693,289	(12.4)	103,782	(0.6)	102,100	(3.1)	86,292	4.8

Reference: Comprehensive income for the year ended December 31, 2016: 40,638 million yen (--%)
Comprehensive income for the year ended March 31, 2016: 69,838 million yen (-43.0%)

	Net income per share basic	Net income per share diluted	Net income ratio per equity	Ordinary income ratio per total assets	Operating income ratio per sales
	Yen	Yen	%	%	%
Year ended December 31, 2016	26.46	26.46	11.0	6.0	11.6
Year ended March 31, 2016	51.76	---	25.0	12.1	15.0

Reference: Equity in net income of affiliates of the year ended December 31, 2016: 33 million yen
Equity in net income of affiliates of the year ended March 31, 2016: 5 million yen

Renesas Electronics Group implemented a change of the fiscal term in which the fiscal year-end changed from March 31 to December 31, starting from the fiscal year 2016. Accordingly, the percent of change from the corresponding period of the previous year is not indicated, since the fiscal year ended December 31, 2016 (March 31, 2016 to December 31, 2016) and the previous fiscal year (April 1, 2015 to March 31, 2016) cover different periods.

[Reference]

The following adjusted change [%] are comparisons of consolidated results for the fiscal year ended December 31, 2016 and the consolidated results listed below are compared with the corresponding period of the previous year (April 1, 2015 to December 31, 2015). (All numbers are in millions of yen)

Net sales	Operating income	Ordinary income	Net income attributable to shareholders of parent company
471,031	54,711	49,986	44,119
-10.4%	-37.9%	-10.4%	-41.9%

1.2 Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
December 31, 2016	823,054	422,393	51.0	252.03
March 31, 2016	849,376	381,739	44.7	227.63

Reference: Equity as of December 31, 2016: 420,162 million yen
Equity as of March 31, 2016: 379,479 million yen

1.3 Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended December 31, 2016	95,882	(48,911)	(97,161)	354,287
Year ended March 31, 2016	126,296	(33,551)	(30,339)	398,410

2. Cash dividends

	Cash dividends per share					Total dividends during the year	Dividends payout ratio (consolidated)	Dividends ratio per net assets (consolidated)
	At the end of first quarter	At the end of second quarter	At the end of third quarter	At the end of year	Total			
	Yen	Yen	Yen	Yen	Yen			
Year ended March 31, 2016	---	0.00	---	0.00	0.00	---	---	---
Year ended December 31, 2016	---	0.00	---	0.00	0.00	---	---	---
Year ending December 31, 2017 (forecast)	---	---	---	---	---		---	

3. Forecast of consolidated results for the three months ending March 31, 2017

(% of change from corresponding period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of parent company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
Three months ending March 31, 2017	171,000	---	23,000	---	22,000	---	19,000	---	11.40

Note: Change in forecast of consolidated results since the most recently announced forecast: No

Renesas Electronics Group implemented a change of the fiscal term in which the fiscal year-end changed from March 31 to December 31, starting from the fiscal year 2016. Accordingly, the percent of change from the corresponding period of the previous year is not indicated, since the first quarter of the fiscal year ending December 31, 2017 (January 1, 2017 to March 31, 2017) and the first quarter of the previous fiscal year (April 1, 2016 to June 30, 2016) cover different periods. The Group reports its consolidated forecast on a quarterly basis as a substitute for a yearly forecast. For details, refer to page 3 of the Appendix.

[Reference]
The following adjusted changes [%] are comparisons of consolidated results for the fiscal year ended December 31, 2016 adjusted for a 12-month period (January 1, 2016 to December 31, 2016) with the forecasts for the three months ending March 31, 2017. Note that the consolidated results for the fiscal year ended December 31, 2016 adjusted for a

12-month period (January 1, 2016 to December 31, 2016) have not been subject to an audit procedure. (All numbers are in millions of yen)

Net sales	Operating income	Ordinary income	Net income attributable to shareholders of parent company
171,000	23,000	22,000	19,000
+1.9%	+46.3%	+95.7%	+84.6%

4. Others

4.1 Changes in significant subsidiaries for the year ended December 31, 2016
(Changes in specified subsidiaries resulting in changes in scope of consolidation): No

4.2 Changes in Accounting Policies, Changes in Accounting Estimates and Corrections of Prior Period Errors

1. Changes in accounting policies with revision of accounting standard: No
2. Changes in accounting policies except for 4.2.1: No
3. Changes in accounting estimates: No
4. Corrections of prior period errors: No

4.3 Number of shares issued and outstanding (common stock)

1. Number of shares issued and outstanding (including treasury stock)
   As of December 31, 2016: 1,667,124,490 shares
   As of March 31, 2016: 1,667,124,490 shares

2. Number of treasury stock
   As of December 31, 2016: 2,581 shares
   As of March 31, 2016: 2,581 shares

3. Average number of shares issued and outstanding
   For the year ended December 31, 2016: 1,667,121,909 shares
   For the year ended March 31, 2016: 1,667,121,924 shares

(Reference) Non-consolidated results for the year ended December 31, 2016

Non-consolidated financial results

(% of change from corresponding period of the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended December 31, 2016	434,837	--	36,514	--	30,321	--	27,241	--
Year ended March 31, 2016	651,022	(9.4)	93,020	25.4	88,258	22.5	65,555	(22.5)

	Net income per share: basic	Net income per share: diluted
	Yen	Yen
Year ended December 31, 2016	16.34	16.34
Year ended March 31, 2016	39.32	--

Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share

	Million yen	Million yen	%	Yen
December 31, 2016	740,756	318,895	43.0	191.27
March 31, 2016	798,625	282,617	35.4	169.52

Reference: Equity at the end of the year ended December 31, 2016: 318,872 million yen
Equity at the end of the year ended March 31, 2016: 282,617 million yen

(Note) Information regarding the implementation of audit procedures
These financial statements are under the audit procedures based upon the Financial Instruments and Exchange Act at the time of issuance of this report.

Cautionary Statement

The statements with respect to the financial outlook of Renesas Electronics Corporation (hereafter “the Company”) and its consolidated subsidiaries (hereafter “the Group”) are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may differ materially from such forward-looking statements due to changes in several important factors.
The Group will hold an earnings conference for institutional investors and analysts on February 8, 2017. The Group plans to post the materials which are provided at the meeting, on the Group’s website on that day.

[APPENDIX]

1. Business Results

1.1 Analysis of Business Results

At the 14th Ordinary General Shareholders' Meeting held on June 28, 2016, a partial amendment to the Articles of Incorporation was approved and Renesas Electronics Group implemented a change of the fiscal term in which the fiscal year-end changed from March 31 to December 31 starting from the fiscal year 2016. The same change in the fiscal term has been applied to the consolidated subsidiaries of the Group, with some exceptions. As a result, the fiscal year ended December 31, 2016 comprised the nine months from April 1, 2016 to December 31, 2016, and the consolidated results listed below are compared with the corresponding period of the previous year (April 1, 2015 to December 31, 2015).

In addition, at the end of the section 1-1 includes business results prepared on a calendar year basis as if fiscal year 2015 and 2016 covered the 12 months from January to December for reference.

1.1.1 Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2016

	April 1 - December 31, 2015	Year ended December 31, 2016	Increase (Decrease)	
	Billion yen	Billion yen	Billion yen	% Change
Net sales	525.5	471.0	(54.5)	(10.4)
Sales from semiconductors	512.4	457.2	(55.2)	(10.8)
Sales from others	13.1	13.9	0.8	5.8
Operating income	88.1	54.7	(33.3)	(37.9)
Ordinary income	90.9	50.0	(40.9)	(45.0)
Net income attributable to shareholders of parent company	76.0	44.1	(31.9)	(41.9)
	Yen	Yen		
Exchange rate (USD)	122	106	-	-
Exchange rate (EUR)	134	118	-	-

[Net sales]

Consolidated net sales for the year ended December 31, 2016 were 471.0 billion yen, a 10.4% decrease year on year. This was mainly due to the continuing strong yen and the Group's efforts to exit from non-focus products especially among the General-Purpose business, in addition to the temporary shutdown of the Group's part of the production lines that was damaged by the 2016 Kumamoto Earthquake.

[Sales from Semiconductors]

Sales from semiconductors for the year ended December 31, 2016 were 457.2 billion yen, a 10.8% 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: 231.8 billion yen

The automotive business includes the product categories "Automotive control," comprising semiconductor devices for controlling automobile engines and bodies, and "Automotive information," comprising semiconductor devices used in automotive information systems such as navigation systems. The Group 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 December 31, 2016 were 231.8 billion yen, a decrease of 3.5 % year on year. This was mainly due to decreased sales in the “Automotive information” category, despite the sales in the “Automotive control” category which remained flat.

<u>General-Purpose Business: 221.0 billion yen</u>

The general-purpose business includes the product categories “Industrial”, comprising semiconductor devices for industrial equipment, “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 (including home appliances). 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 December 31, 2016 were 221.0 billion yen, a decrease of 17.8% year on year. This was mainly due to decreases in sales in the “Industrial”, “OA/ICT” and “General-Purpose” categories resulting from the Group’s ongoing efforts to withdraw from non-focus products, etc., as part of its promotion of selection and concentration.

<u>Other Semiconductors: 4.4 billion yen</u>

Sales of Other semiconductors mainly include production by commissioning and royalties.

[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 December 31, 2016 were 13.9 billion yen, a 5.8% increase year on year.

[Operating income]

Operating income for the year ended December 31, 2016 was 54.7 billion yen, 33.3 billion yen decrease year on year. This was mainly due to the continuing strong yen in addition to the opportunity loss incurred by the temporary shutdown of the Group’s part of the production lines caused by the damages from the 2016 Kumamoto Earthquake.

[Ordinary income]

Ordinary income for the year ended December 31, 2016 was 50.0 billion yen, 40.9 billion yen decrease year on year. This was mainly due to deteriorating foreign exchange gains (losses) resulting from the continuing strong yen, in addition to a decrease in operating income.

[Net income attributable to shareholders of parent company]

Net income attributable to shareholders of parent company for year ended December 31, 2016 was 44.1 billion yen, 31.9 billion yen decrease year on year. This was mainly due to a decrease in ordinary income resulting from a decrease in sales and the continuing strong yen.

The calendar year-based business results for 2016 is as follows:

Reference values

	CY 2015 (January 1 - December 31)	CY 2016 (January 1 - December 31)	Increase (Decrease)	
	Billion yen	Billion yen	Billion yen	% Change
Net sales	707.7	638.8	(68.9)	(9.7)
Sales from semiconductors	687.5	620.4	(67.1)	(9.8)
Sales from others	20.2	18.4	(1.7)	(8.6)
Operating income	112.5	70.4	(42.1)	(37.4)
Ordinary income	113.9	61.2	(52.7)	(46.3)
Net income attributable to shareholders of parent company	85.0	54.4	(30.6)	(36.0)
	Yen	Yen		
Exchange rate (USD)	121	109	-	-
Exchange rate (EUR)	136	121	-	-

1.1.2. Consolidated Forecasts

In accordance with the change of the fiscal term in which the fiscal year-end changed from March 31 to December 31, the fiscal year ended December 31, 2016 in which the transition to the new accounting period took place, comprised the financial results for the nine months from April 1, 2016 to December 31, 2016. Therefore, in the descriptions below, the first quarter of the fiscal year 2017 (January 1, 2017 to March 31, 2017) is compared with the corresponding period of the previous calendar year, from January 1, 2016 to March 31, 2016.

Additionally, the Group reports its consolidated forecasts on a quarterly basis because of the difficulty of forecasting full-year results with high accuracy due to the short-term volatility of the semiconductor market.

(For the three months ending March 31, 2017 (January 1, 2017 – March 31, 2017))

(In millions of yen)

	Net Sales	(Reference) Sales from Semiconductors	Operating Income	Ordinary Income	Net Income Attributable to Shareholders of Parent Company
Current forecasts (February 8, 2017)	171,000	167,000	23,000	22,000	19,000
Reference: Results for January 1 – March 31, 2017	167,792	163,207	15,725	11,241	10,292

The consolidated forecasts for the first quarter ending March 31, 2017 are calculated at the rate of 111 yen per USD and 118 yen per Euro.

The statements with respect to the financial outlook of Renesas Electronics Corporation and its consolidated subsidiaries are forward-looking statements involving risks and uncertainties. The Company cautions you in advance that actual results may vary materially from such forward-looking statements due to several important factors.

1.2 Consolidated Financial Condition

1.2.1 Total Assets, Liabilities and Net assets

	March 31, 2016	December 31, 2016	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Total assets	849.4	823.1	(26.3)
Net assets	381.7	422.4	40.7
Equity	379.5	420.2	40.7
Equity ratio (%)	44.7	51.0	6.3
Interest-bearing debt	244.3	157.3	(87.0)
Debt / Equity ratio	0.64	0.37	(0.27)

Total assets at December 31, 2016 were 823.1 billion yen, a 26.3 billion yen decrease from March 31, 2016. This was mainly due to a decrease in cash and deposits resulting from repayment of debts. Net assets were 422.4 billion yen, a 40.7 billion yen increase from March 31, 2016. This was mainly due to recording of net income attributable to shareholders of parent company in the amount of 44.1 billion yen.

Equity increased by 40.7 billion yen from March 31, 2016 and the equity ratio was 51.0%. Interest-bearing debt decreased by 87.0 billion yen from March 31, 2016. Consequently, the debt to equity ratio became 0.37.

1.2.2 Cash Flows

	Year ended March 31, 2016	Year ended December 31, 2016
	Billions of yen	Billions of yen
Net cash provided by (used in) operating activities	126.3	95.9
Net cash provided by (used in) investing activities	(33.6)	(48.9)
Free cash flows	92.7	47.0
Net cash provided by (used in) financing activities	(30.3)	(97.2)
Cash and cash equivalents at the beginning of period	343.7	398.4
Cash and cash equivalents at the end of period	398.4	354.3

(Net cash provided by (used in) operating activities)
Net cash provided by operating activities for the year ended December 31, 2016 was 95.9 billion yen. This was mainly due to a recording of income before income taxes in the amount of 41.0 billion yen and adjustment of non-expenditure items including depreciation and amortization, etc. within these income before taxes.

(Net cash provided by (used in) investing activities)
Net cash used in investing activities for the year ended December 31, 2016 was 48.9 billion yen, mainly due to the purchase of property, plant and equipment in the amount of 44.9 billion yen.

The foregoing resulted in positive free cash flows of 47.0 billion yen for the year ended December 31, 2016.

(Net cash provided by (used in) financing activities)
Net cash used in financing activities for the year ended December 31, 2016 was 97.2 billion yen. This was mainly due to the new long-term loan concluded with the main financing banks to secure long-term working capital, as well as the repayment of the loan for the existing agreements.

Consequently, cash and cash equivalents at the end of the period were 354.3 billion yen, 44.1 billion yen decrease compared to the end of the previous consolidated fiscal year.

1.3 Dividend Payments

For the year ended December 31, 2016, while the Group recorded a consolidated net income (net income attributable to shareholders of parent company) for the year ended December 31, 2016, the Group regrettably forewent dividend payment for this period.

The Group will divert its retained earnings for strategic investment opportunities that will enable the Group to respond to rapid environmental changes to thrive into the global marketplace, and will aim to increase shareholder profit by improving corporate value. In addition, based on a long-term standpoint, the Group aims to realize stable and sustained growth in profits and intends to resume divided payments.

For the year ending December 31, 2017, whether the Group provides interim and year-end dividend payments remain undecided, and the Group will immediately announce it when the decisions are made.

1.4 Risk Factors

Please refer to the Group's "Financial Report" for risk factors.

2. Renesas Electronics Group Companies

The Renesas Electronics Group comprises 30 consolidated subsidiaries and 1 equity method affiliate, as listed below according to primary business activity.

	Japan	Overseas
Sales Companies	<Equity Method Affiliate> RENESAS EASTON Co., Ltd.	<Consolidated Subsidiary> Renesas Electronics (China) Co., Ltd. Renesas Electronics (Shanghai) Co., Ltd. Renesas Electronics Hong Kong Limited Renesas Electronics Taiwan Co., Ltd. Renesas Electronics Korea Co., Ltd. Renesas Electronics Singapore Pte. Ltd. Renesas Electronics Malaysia Sdn. Bhd. Renesas Electronics India Private Limited Renesas Electronics America, Inc. Renesas Electronics Canada Limited Renesas Electronics Brasil-Servicos Ltda. Renesas Electronics Europe Limited (UK) Renesas Electronics Europe GmbH (Germany)
Manufacturing and Engineering Service Companies	<Consolidated Subsidiary> Renesas Semiconductor Manufacturing, Co., Ltd. Renesas Semiconductor Package & Test Solutions Co., Ltd.	<Consolidated Subsidiary> Renesas Semiconductor (Beijing) Co., Ltd. Renesas Semiconductor (Suzhou) Co., Ltd. Renesas Semiconductor KL Sdn. Bhd. Renesas Semiconductor (Malaysia) Sdn. Bhd. Renesas Semiconductor (Kedah) Sdn. Bhd. Renesas Semiconductor Technology (Malaysia) Sdn. Bhd.
Design and Application Technologies Companies	<Consolidated Subsidiary> Renesas System Design Co., Ltd. Renesas Engineering Services Co., Ltd.	<Consolidated Subsidiary> Renesas Semiconductor Design (Beijing) Co., Ltd. Renesas Design Vietnam Co., Ltd. Renesas Semiconductor Design (Malaysia) Sdn. Bhd.
Business Corporations and Others		<Consolidated Subsidiary> 4 companies

Note: Some of the Group's overseas sales companies are also engaged in design and development activities.

3. Management Policies

3.1 Management Policies

In January 2017 Renesas Electronics Group proclaimed a new Corporate Vision (the direction Renesas Electronics Group should aim for) and Mission (the tasks Renesas Electronics Group must carry out) to enable the entire Group to work together as a united team in order to achieve the goal. Under these Vision and Mission, the Group aims to be the world's leading semiconductor company and increase both its business value and its shareholder value.

<Vision>

Renesas creates leading semiconductor solutions that spark innovation for a connected world, building a trusted brand we can be proud of.

<Mission>

1. Drive progress toward a safer, healthier, greener, and smarter world.
2. Deliver creative semiconductor solutions and support that meet and exceed customer expectations.
3. Strengthen our offering to customers in focus segments through strategic partnerships, alliances and acquisitions.
4. Develop a global culture that encourages open communication, collaboration, and respect for diversity.
5. Seek continuous improvement in everything we do.

3.2 Management Targets

The Reform Plan which the Group promoted from October 30, 2013 with the aim of realizing a company that generates consistent revenue, was completed at the end of March 2016, and the establishment of a stable financial base is now clearly in view. The Group has set the fiscal year 2017 as the starting year of a period of dramatic growth as a global player and announced the "Mid-Term Growth Strategy" on November 2, 2016. Under this strategy, the Group is now embarking on efforts to expand and strengthen its business portfolio in order to accelerate growth.

The "Mid-Term Growth Strategy" aims to double the revenue growth rate of semiconductor business in the markets the Group is focusing on in and around 2020, targeting to achieve a 50 percent gross margin and a 20 percent or more operating margin, by concentrating management resources in focus markets. To boost future growth, the Group will exert its utmost efforts into tackling the target described in "3.3 Mid-Term Corporate Strategies and Issues to Address" in the fiscal year ending December 31, 2017.

3.3 Mid-Term Corporate Strategies and Issues to Address

As indicated in the "1. Business Results, 1.1 Analysis of Business Results" section, during the fiscal year ended December 31, 2016, the Group, as a result of unified efforts to execute the above-mentioned Reform Plan, achieved double-digit operating margin in spite of a reduction in net sales from the previous fiscal year, bringing the establishment of a stable financial base clearly into view.

Nevertheless, the Group believes that it must maintain further growth and expanded earnings in order to come thrive in the rapidly changing and fiercely competitive semiconductor industry and continue to meet the expectations of all stakeholders.

To achieve this goal, moving forward the Group will tackle the following three tasks: “Expansion and Strengthening of Business Portfolio to Accelerate the Leap from Structural Reforms to the Growth Stage”, “Continuous Optimization of the Manufacturing Structure” and “Vigorous Advancement of the Growth Strategy through Organizational Restructuring”.

3.3.1 Expansion and Strengthening of Business Portfolio to Accelerate the Leap from Structural Reforms to the Growth Stage

In order to make the leap from structural reforms to the growth stage and achieve stable growth in profits, the Group will accelerate efforts to expand and strengthen its business portfolio, through both organic and inorganic approaches, in its focus areas including automotive, industrial, and broad-based, where the Group possesses global strengths and is competitive.

First, efforts based on an organic approach will include ongoing efforts to further optimize the business structure and research and development (R&D), while at the same time accelerating changes in the Group’s business portfolio and areas of technology development accompanying the acquisition of Intersil Corporation.

To achieve stable growth in profits in the focus areas, the Group will regularly analyze and evaluate the business environment in terms of markets, customers, competitors, etc., in each of the focus areas. At the same time, the Group will review its business portfolio from the standpoint of competitiveness and profitability, implement selection and concentration of business domains and products, and strengthen products and technologies that support product competitiveness and make possible the realization of platform solutions with high added value. Specifically, the Group will examine its common technologies such as intellectual property (IP), design technology, and manufacturing technology utilized in each product, taking into account factors such as future necessity, importance, and the Group’s technological position, select which common technologies should be focused on, and concentrate management resources on these key common technologies. Moving forward, the Group will continue to strengthen these efforts in order to maintain and further bolster its solid position in the fiercely competitive global semiconductor market.

With regard to efforts based on an inorganic approach, during the fiscal year ended December 31, 2016, the Group signed an agreement with Intersil under which Renesas will acquire Intersil and Intersil will become a wholly owned subsidiary. While the Group works to finalize the acquisition properly, it will exert its efforts to maximize synergies and expand and strengthen its business in the focus areas, and the Group works to finalize the acquisition promptly by enhancing its product lineup, expanding sales routes while fusing development technologies and products, and by building a global manufacturing system based on the production models of both companies.

3.3.2 Continuous Optimization of the Manufacturing Structure

The Group has implemented a wide-ranging optimization of its manufacturing structure as part of its Reform Plan mentioned above. Moving forward, the Group will continue to make further improvements to make the manufacturing structure more efficient, while also putting in place a flexible manufacturing system capable of meeting the requirements of customers worldwide.

Specifically, some of the Group's production facilities continue to operate using equipment or manufacturing processes that are not as efficient as newer equipment. Therefore, the Group will continue unceasingly its optimization of the manufacturing structure, with the goal of further improvement in production efficiency and reduced cost.

In addition, due to booming demand for the Group's focus products, in the fiscal year ended December 31, 2016, the Group invested aggressively to boost production capacity and to upgrade the production facility. Moving forward, the Group will continue capital investment in facilities at the Group's in-house factories to make their production processes more competitive and smarter, while also utilizing outside fabs for outsourced production etc., as it pushes forward with efforts to build a manufacturing structure capable of responding flexibly to customer demand.

3.3.3 Vigorous Advancement of the Growth Strategy through Organizational Restructuring

The Group believes that in order to vigorously advance its growth strategy it must redouble efforts to clarify business ownership, reinforce global marketing functions, speed up decision-making, and eliminate organizational redundancy.

In order to address these issues, a fundamental organizational restructuring will be undertaken Group-wide from the standpoint of optimal business process reengineering (BPR).

4. Primary policy for selection of accounting standards

Renesas Electronics Group are planning to adopt International Financial Reporting Standards (IFRS) for its consolidated financial statements from annual securities report for the fiscal year ending December 31, 2017* to increase the international comparability of financial information considering that the Group drives its business globally further, although currently the consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in Japan (JGAAP).

*On the premise that partial amendments to the articles of incorporation related to the change in fiscal term are resolved at the 14th Ordinary General Shareholders' Meeting to be held on June 28, 2016.

5. Consolidated Financial Statements

5.1 Consolidated Balance Sheets

As of March 31, 2016 and December 31, 2016

(In millions of yen)

	Prior Fiscal Year (As of March 31, 2016)	Current Fiscal Year (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	398,673	354,569
Notes and accounts receivable-trade	81,866	80,480
Merchandise and finished goods	※1 39,028	34,432
Work in process	※1 62,950	55,754
Raw materials and supplies	※1 6,376	7,110
Deferred tax assets	1,738	3,579
Accounts receivable-other	16,155	12,721
Other current assets	5,146	9,925
Allowance for doubtful accounts	(89)	(71)
Total current assets	611,843	558,499
Long-term assets		
Property, plant and equipment		
Buildings and structures	219,651	204,379
Accumulated depreciation	※3 (155,034)	※3 (144,487)
Buildings and structures, net	※1 64,617	※1 59,892
Machinery and equipment	590,383	588,694
Accumulated depreciation	※3 (532,480)	※3 (502,699)
Machinery and equipment, net	※1 57,903	※1 85,995
Vehicles, tools, furniture and fixtures	102,494	105,139
Accumulated depreciation	※3 (85,791)	※3 (86,179)
Vehicles, tools, furniture and fixtures, net	16,703	18,960
Land	※1 22,516	※1 22,456
Construction in progress	11,307	14,202
Total property, plant and equipment	173,046	201,505
Intangible assets		
Software	10,111	13,882
Other intangible assets	14,987	14,671
Total intangible assets	25,098	28,553
Investments and other assets		
Investment securities	※2 6,196	※2 6,098
Net defined benefit asset	1,574	2,113
Deferred tax assets	1,796	2,263
Long-term prepaid expenses	27,209	21,971
Other assets	2,617	2,411
Allowance for doubtful accounts	(3)	(359)
Total investments and other assets	39,389	34,497
Total long-term assets	237,533	264,555
Total assets	849,376	823,054

(In millions of yen)

	Prior Fiscal Year (As of March 31, 2016)	Current Fiscal Year (As of December 31, 2016)
Liabilities		
Current liabilities		
Electronically recorded obligations	9,246	11,138
Notes and accounts payable-trade	76,882	74,750
Current portion of long-term borrowings	※1 25,000	-
Current portion of lease obligations	※1 5,229	※1 4,481
Accounts payable-other	33,161	44,652
Accrued expenses	31,246	32,473
Accrued income taxes	5,041	2,309
Provision for product warranties	376	287
Provision for business structure improvement	4,273	2,002
Provision for contingent loss	271	220
Provision for loss on disaster	-	708
Asset retirement obligations	116	22
Other current liabilities	7,690	12,546
Total current liabilities	198,531	185,588
Long-term liabilities		
Long-term borrowings	※1 213,806	※1 152,568
Lease obligations	307	269
Deferred tax liabilities	9,934	9,198
Provision for business structure improvement	110	89
Net defined benefit liability	31,850	39,571
Asset retirement obligations	2,744	2,645
Other liabilities	10,355	10,733
Total long-term liabilities	269,106	215,073
Total liabilities	467,637	400,661
Net assets		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	191,919	191,919
Retained earnings	162,226	206,345
Treasury stock	(11)	(11)
Total shareholders' equity	364,134	408,253
Accumulated other comprehensive income		
Unrealized gains (losses) on securities	316	474
Deferred gains or losses on hedges	-	9,012
Foreign currency translation adjustments	(201)	(3,221)
Remeasurements of defined benefit plans	15,230	5,644
Total accumulated other comprehensive income	15,345	11,909
Subscription rights to shares	-	23
Non-controlling interests	2,260	2,208
Total net assets	381,739	422,393
Total liabilities and net assets	849,376	823,054

5.2 Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

5.2.1 Consolidated Statements of Operations For the Years Ended March 31, 2016 and December 31, 2016

(In millions of yen)

	The year ended March 31, 2016	The year ended December 31, 2016
Net sales	693,289	471,031
Cost of sales	387,713	268,345
Gross profit	305,576	202,686
Selling, general and administrative expenses	201,794	147,975
Operating income	103,782	54,711
Non-operating income		
Interest income	680	483
Dividends income	127	70
Equity in earnings of affiliates	5	33
Foreign exchange gains	30	-
Settlement received	-	200
Insurance income	884	91
Other non-operating income	1,263	579
Total non-operating income	2,989	1,456
Non-operating expenses		
Interest expenses	2,851	1,578
Loss on disposal of long-term assets	483	270
Foreign exchange losses	-	2,055
Other non-operating expenses	1,337	2,278
Total non-operating expenses	4,671	6,181
Ordinary income	102,100	49,986
Special income		
Gain on sales of property, plant and equipment	1,964	2,096
Gain on transfer of business	261	-
Gain on sales of investment securities	311	53
Gain on liquidation of subsidiaries and affiliates	-	63
Reversal of provision for contingent loss	-	18
Total special income	2,536	2,230
Special loss		
Loss on sales of property, plant and equipment	171	37
Impairment loss	※1 350	※1 254
Loss on disaster	-	※2 7,915
Business structure improvement expenses	※1, ※3 12,702	※1, ※3 2,206
Loss on sales of investment securities	155	72
Provision for contingent loss	88	541
Loss on sales of subsidiaries and affiliates’ stocks	385	170
Total special loss	13,851	11,195
Income before income taxes	90,785	41,021
Income taxes-current	6,018	3,794
Income taxes-deferred	(1,696)	(7,055)
Total income taxes	4,322	(3,261)
Net income	86,463	44,282
Net income attributable to non-controlling interests	171	163
Net income attributable to shareholders of parent company	86,292	44,119

5.2.2 Consolidated Statements of Comprehensive Income
For the Years Ended March 31, 2016 and December 31, 2016

(In millions of yen)

	The year ended March 31, 2016	The year ended December 31, 2016
Net income	86,463	44,282
Other comprehensive income		
Unrealized gains (losses) on securities	(360)	135
Deferred gains (losses) on hedges	-	9,012
Foreign currency translation adjustments	(14,200)	(3,228)
Remeasurements of defined benefit plans, net of tax	(2,037)	(9,574)
Share of other comprehensive income of affiliates accounted for by the equity method	(28)	11
Total other comprehensive income	(16,625)	(3,644)
Comprehensive income	69,838	40,638
Comprehensive income attributable to:		
Shareholders of parent company	69,950	40,683
Non-controlling interests	(112)	(45)

5.3 Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2016 and December 31, 2016

The year ended March 31, 2016

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	228,255	525,413	(475,815)	(11)	277,842
Changes during the period					
Transfer to other capital surplus from capital stock	(218,255)	218,255			—
Deficit disposition		(551,749)	551,749		—
Net income			86,292		86,292
Purchase of treasury shares				0	0
Net changes other than shareholders' equity					
Total changes during the period	(218,255)	(333,494)	638,041	0	86,292
Balance at the end of the period	10,000	191,919	162,226	(11)	364,134

	Accumulated other comprehensive income				Non-controlling 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	716	13,716	17,255	31,687	2,380	311,909
Changes during the period						
Transfer to other capital surplus from capital stock						—
Deficit disposition						—
Net income						86,292
Purchase of treasury shares						0
Net changes other than shareholders' equity	(400)	(13,917)	(2,025)	(16,342)	(120)	(16,462)
Total changes during the period	(400)	(13,917)	(2,025)	(16,342)	(120)	69,830
Balance at the end of the period	316	(201)	15,230	15,345	2,260	381,739

The year ended December 31, 2016

(In millions of yen)

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

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

5.4 Consolidated Statements of Cash Flows
For the Years Ended March 31, 2016 and December 31, 2016

(In millions of yen)

	The year ended March 31, 2016	The year ended December 31, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	90,785	41,021
Depreciation and amortization	49,691	35,620
Amortization of long-term prepaid expenses	12,691	9,666
Impairment loss	350	254
Loss on disaster	-	2,584
Increase (decrease) in net defined benefit liability	(21,109)	(2,193)
Increase (decrease) in provision for business structure improvement	(403)	(1,882)
Increase (decrease) in provision for loss on disaster	-	708
Interest and dividends income	(807)	(553)
Insurance income	(884)	(91)
Interest expenses	2,851	1,578
Equity in (earnings) losses of affiliates	(5)	(33)
Loss (gain) on sales of property, plant and equipment	(1,793)	(2,059)
Business structure improvement expenses	5,779	1,276
Decrease (increase) in notes and accounts receivable-trade	5,213	1,343
Decrease (increase) in inventories	901	10,404
Decrease (increase) in accounts receivable-other	1,956	187
Increase (decrease) in notes and accounts payable-trade	3,620	(308)
Increase (decrease) in accounts payable-other and accrued expenses	(11,668)	7,060
Other cash provided by (used in) operating activities, net	(30)	2,139
Subtotal	137,138	106,721
Interest and dividends received	886	601
Proceeds from insurance income	884	91
Interest paid	(2,858)	(1,578)
Income taxes paid	(5,819)	(6,753)
Payments for extra retirement benefits	(3,935)	(638)
Payments for loss on disaster	-	(2,562)
Net cash provided by (used in) operating activities	126,296	95,882

(In millions of yen)

	The year ended March 31, 2016	The year ended December 31, 2016
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(42,950)	(44,864)
Proceeds from sales of property, plant and equipment	9,120	3,391
Purchase of intangible assets	(4,401)	(9,600)
Purchase of long-term prepaid expenses	(2,543)	(1,897)
Purchase of investment securities	(656)	(526)
Proceeds from sales of investment securities	1,287	498
Proceeds from sales of subsidiaries and affiliates' stocks	584	231
Proceeds from transfer of business	262	3,631
Collection of loans receivable	4,550	-
Other cash provided by (used in) investing activities, net	1,196	225
Net cash provided by (used in) investing activities	(33,551)	(48,911)
Net cash provided by (used in) financing activities		
Proceeds from long-term borrowings	-	148,603
Repayment of long-term borrowings	(14,399)	(236,239)
Repayments of finance lease obligations	(1,154)	(864)
Repayments of installment payables	(14,786)	(8,621)
Other, net	-	(40)
Net cash provided by (used in) financing activities	(30,339)	(97,161)
Effect of exchange rate change on cash and cash equivalents	(7,718)	6,067
Net increase (decrease) in cash and cash equivalents	54,688	(44,123)
Cash and cash equivalents at the beginning of the year	343,722	398,410
Cash and cash equivalents at the end of the year	398,410	354,287

Notes to Consolidated Financial Statements

(Notes about Going Concern Assumption)

Not applicable

(Basis of Consolidated Financial Statements)

1. Scope of Consolidation

All subsidiaries are consolidated.

The number of consolidated companies of Renesas Electronics Corporation Group: 30

The names of major subsidiaries:
Names of the major consolidated subsidiaries are listed on "2. Renesas Electronics Group Companies" and omitted in this part.

Number of subsidiaries decreased by merger: 1
Renesas Semiconductor Singapore Pte. Ltd

The number of subsidiaries increased by foundation: 1
The establishment of a subsidiary for acquisition Intersil Corporation.

2. Application of Equity Method

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

The names of affiliates accounted for by the equity method:
Renesas Easton Co., Ltd.

The number of affiliates decreased by stock sales: 1

(2) Of the affiliates accounted for by the equity method, because the closing date differs from that of the consolidated financial statements, the financial statements prepared with the provisional closing date of December 31, 2016 (same as that of consolidated financial statements) are used.

3. Change in Consolidated Fiscal Term

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

Then at the 14th Ordinary General Shareholders' Meeting held on June 28, 2016, a partial amendment to the Articles of Incorporation was approved and the Group implemented a change of the fiscal term in which the fiscal year-end will change from March 31 to December 31 starting from the fiscal year 2016. The current fiscal year (fiscal year ending December 31, 2016) in which the transition to the new accounting period is to take place, will comprise the financial results for the nine months from April1, 2016 to December 31, 2016.

4. Significant Accounting Policies

(1) Valuation methods for significant assets

1) Securities

Other securities:

Marketable securities:

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

Non-marketable securities:

Non-marketable securities classified as other securities are carried at cost.

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.

6) Provision for loss on disaster

Provision for loss on disaster is made for the amount of estimated losses to be incurred in connection with removal or restoration costs for the assets damaged by the 2016 Kumamoto Earthquake

(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 asset or liability for retirement benefits is based on a benefit formula basis.

2) Actuarial gains and losses and prior service costs

Actuarial gains and losses are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly over 11 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 11 years).

(5) Foreign currency translation

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

(6) Amortization method and term for goodwill

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

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

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

(8) Hedge accounting

1) Hedge accounting method

Hedging activities are accounted for with deferred hedge accounting.

2) Hedging instruments and hedged items

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

Hedging items: Forecast transaction in foreign currency

3) Hedging policy

Based on the Group's internal rules, the Company applies hedge accounting to reduce the risk of foreign exchange fluctuations associated with hedging items.

4) Assessment of hedge effectiveness
The effectiveness of the hedging is evaluated by comparing the accumulated cash flow of the hedging instruments with that of the hedging items.

(9) Others
1) Accounting for consumption tax
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

2) Adoption of consolidated taxation system
The Company and its subsidiaries in Japan adopt the consolidated taxation system.

(Changes in Presentation)

(Consolidated Statements of Cash Flows)

"Increase (decrease) in provision for contingent loss" and "Loss (gain) on sales and valuation of investment securities", "Loss (gain) on liquidation of subsidiaries and affiliates", "Loss (gain) on transfer of business" are presented separately in the previous fiscal year and included in the "Other cash provided by (used in) operating activities, net" of net cash provided by (used in) operating activities from the current fiscal year due to the lack of monetary significance.

In order to, reflect the change in presentation, the Consolidated Statements of Cash Flows in the previous fiscal year has been restated to reflect a consistent presentation format.

As a result of this change, 19 million yen presented as "Increase (decrease) in provision for contingent loss", 156 million yen (negative figure) presented as "Increase (decrease) in provision for contingent loss" , 385 million yen (negative figure) presented as "Loss (gain) on liquidation of subsidiaries and affiliates" , 261 million yen (negative figure) presented as "Loss (gain) on transfer of business" in the previous fiscal are restated as "Other cash provided by (used in) operating activities, net" for "Net cash provided by (used in) operating activities".

(Additional Information)

1.Adoption of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

From the fiscal year, the Group has adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, issued on March 28, 2016).

Regarding Acquisition of Stock of Intersil Corporation

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

(1) Purpose of the Acquisition

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

Intersil is a global enterprise engaged in the development, production, and sale of, and provision of services related to, analog semiconductor products such as power management ICs and high-precision analog devices for markets that place a particularly high priority on reliability and performance, such as the industrial, infrastructure, automotive, aerospace and other fields. Intersil has annual sales of approximately US$520 million (approximately 52.0 billion yen at an exchange rate of 100 yen to the dollar, FY2015).

The company has maintained a top global position over many years in the automotive semiconductor field, where further growth is anticipated in areas such as autonomous driving systems and electric or hybrid vehicles. Now, as the pillars of its growth strategy, The company is accelerating its focus in the automotive field, as well as the industrial field (where new initiatives are advancing in areas such as Industry 4.0), the infrastructure field, and the rapidly growing IoT field.

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

(2) Overview of Intersil (Surviving Company)

1) Name Intersil Corporation
2) Address 1001 Murphy Ranch Road, Milpitas, CA 95035
3) Type of business Manufacturer of high performance analog integrated circuits.
4) Capital 1,560,661 thousand US$
5) Established August, 1999

(3) Acquisition Method

The company will establish for the purpose of the acquisition a wholly-owned subsidiary (hereafter "acquisition subsidiary") in Delaware, United States that will then merge with Intersil. The surviving company following the merger will be Intersil. Cash will be issued for Intersil's shares as consideration for the merger, and the shares of the acquisition subsidiary owned by the company will be converted into outstanding shares in the surviving company, making the surviving company a whollyowned subsidiary of the company.

Number of Shares to Be Acquired, Acquisition Price, and Share Ownership Before and After Acquisition are follows.

1) Shares owned before transfer 0 share (Ownership percentage: 0.0%)
2) Number of shares to be acquired 143,050,746 shares (Percentage of outstanding shares: 100.0%)
3) Acquisition price US$3,219 million (approximately ¥321.9 billion at an exchange rate of 100 yen to the dollar)
4)Shares owned after transfer 100 shares (Ownership percentage: 100.0%)

(Note) Based on the number of shares on a fully-diluted basis as of September 13, 2016
(reflecting dilutions, etc., that occurred following the stock-related compensation from the said acquisition.)
Above figures have been rounded off to the closest whole number.

(4) Schedule

1) The company Board approval September 13, 2016
2) Intersil Board approval September 13, 2016
3) Conclusion of merger agreement September 13, 2016
4) Intersil General Shareholders approval of the merger agreement
December 8, 2016
5) Effective date of merger Within first half of the fiscal year ending December 31, 2017

(Note) The conclusion of the transaction is subject to regulatory approvals and other customary closing conditions in the U.S and other countries.

(5) Financing

Current cash reserves are expected to be sufficient to cover the purchase price.

(Consolidated Balance Sheets)

*1 Assets pledged as collateral and secured liabilities

(Assets pledged as collateral)

(In millions of yen)

	As of March 31, 2016		As of December 31, 2016	
Merchandise and finished goods	25,972	(—)	—	(—)
Work in process	50,819	(—)	—	(—)
Raw materials and supplies	5,528	(—)	—	(—)
Buildings and structures	49,290	(48,705)	46,128	(45,594)
Machinery and equipment	33,904	(33,904)	54,151	(54,151)
Land	22,285	(18,577)	22,226	(18,532)
Total	187,798	(101,186)	122,505	(118,277)

(Secured liabilities)

(In millions of yen)

	As of March 31, 2016		As of December 31, 2016	
Current portion of long-term borrowings	25,000	(25,000)	—	(—)
Current portion of lease obligations	5,051	(—)	4,344	(—)
Long-term borrowings	213,806	(213,806)	152,568	(152,568)
Total	243,857	(236,806)	156,912	(152,568)

*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, 2016	As of December 31, 2016
Investment securities (Stock)	3,487	3,165

*3 Accumulated impairment loss was included in accumulated depreciation.

*4 Contingent liabilities

(1) Debt guarantees

(In millions of yen)

As of March 31, 2016		As of December 31, 2016	
Guarantees of employees' housing loans	159	Guarantees of employees' housing loans	131
Other	378	Other	321
Total	537	Total	452

(2) Others

The Group has been named in Canada as one of the defendants in a civil lawsuit related to possible violations of the competition law involving smartcard chips.

The Company and its subsidiary in 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 Impairment loss
The details of impairment loss were as follows:

For the year ended March 31, 2016

Location	Usage	Type
Itami-city, Hyogo-prefecture Tsuruoka-city, Yamagata-prefecture Showa-town、Nakakoma-country, Yamanashi-prefecture Otsu-city, Shiga-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
Taiwan China etc.	Idle assets	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures

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 3,752 million yen, which was included in special loss.

Also, the Group recognized impairment loss on idle assets with no business use by reducing their net book values to their recoverable values because their fair values declined significantly. Such loss amounted to 323 million yen, which was included in special loss.

The assets to be disposed of and idle assets amounted to 4,075 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 3,725 million yen and impairment loss except for business structure improvement expenses, which amounted to 350 million yen.

The components of impairment loss (4,075 million yen) were as follows:

	(In millions of yen)
Buildings and structures	2,897
Machinery and equipment	214
Vehicles, tools, furniture and fixtures	184
Land	754
Construction in progress	13
Software	12
Other intangible assets	1
Total	4,075

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

For the year ended December31, 2016

Location	Usage	Type
Kai-city, Yamanashi-prefecture Showa-town、Nakakoma-country, Yamanashi-prefecture Konan-city, Kochi-prefecture etc.	Assets to be disposed of	Buildings and structures, Land, Construction in progress
Taiwan China Mashiki-town, Kamimashiki-country Kumamoto-prefecture etc.	Idle assets	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land

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

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

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

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

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

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

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

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

*2 Loss on disaster

The loss on disaster was related to the 2016 Kumamoto Earthquake, and the components of the amount of loss on disaster for the year ended December 31, 2016 were as follows:

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

*3 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, 2016	The year ended December 31, 2016
Personnel expenses including the special incentive of early retirement program	2,737	582
Impairment loss	3,725	1,025
Other*	6,240	599
Total	12,702	2,206

(*)The main item of "Other" for the year ended March 31, 2016 is equipment removal related expenses to realignment of the manufacturing sites and equipment relocation related expenses etc. to reorganize the design and development operation including its locations.

(Consolidated Statements of Changes in Net Assets)

For the year ended March 31, 2016

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 (*Note1*)	2,548	33	—	2,581
Total	2,548	33	—	2,581

Note1: The increase in the number of common stock of 33 was due to purchase of stocks less than a standard unit.

For the year ended December 31, 2016

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	2,581	—	—	2,581
Total	2,581	—	—	2,581

(Financial Instruments)

(Financial Instruments)

1. Conditions of Financial Instruments

(1) Policies for Financial Instruments

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

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

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

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

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

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

For details including hedging instruments, hedged items, hedging policy, Method of assessing hedge effectiveness, please refer to the aforementioned Notes to the Basis of Preparing Consolidated Financial Statements, "4 Significant Accounting Policies (8) Hedge Accounting"

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

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

2. Fair Value of Financial Instruments

The fair values of financial instruments in consolidated balance sheets as of March 31, 2016 and December 31, 2016 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, 2016

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	398,673	398,673	—
(2) Notes and accounts receivable-trade	81,866	81,866	—
(3) Accounts receivable-other	16,155	16,155	—
(4) Long-term investment securities			
Stocks of affiliates	3,392	1,901	(1,491)
Other securities	2,595	2,595	—
Total assets	502,681	501,190	(1,491)
(5) Electronically recorded obligations	9,246	9,246	—
(6) Notes and accounts payable-trade	76,882	76,882	—
(7) Accounts payable-other	33,161	33,161	—
(8) Accrued income taxes	5,041	5,041	—
(9) Long-term borrowings			
(including current portion)	238,806	240,980	2,174
(10) Lease obligations			
(including current portion)	5,536	5,696	160
Total liabilities	368,672	371,006	2,334

As of December 31, 2016

(In millions of yen)

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

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

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

(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.

(11) Derivative transactions

Derivatives not subject to hedge accounting

Derivative transactions not subject to hedge accounting is forward exchange contracts. The fair value of forward exchange contracts was measured at the forward rate.The fair value of interest rate swaps was measured at the price presented by financial institutions.

Derivatives subject to hedge accounting were forward exchange contracts and

None

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, 2016	As of December 31, 2016
Non-marketable securities	209	117

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.

(Segment Information)

[Business Segment Information]

For the years ended March 31, 2016 and December 31, 2016

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, 2016

1. Information by product and service

(In millions of yen)

	Automotive Business	General-Purpose Business	Other Semiconductors	Others	Total
Net sales to third parties	321,669	349,371	4,573	17,676	693,289

2. Information by region and country

(1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
303,465	110,000	115,018	96,636	64,584	3,586	693,289

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

(2) Property, plant and equipment

(In millions of yen)

Japan	Malaysia	Asia (Excluding Malaysia)	Europe	North America	Total
143,680	14,781	13,321	563	701	173,046

3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	99,033	Semiconductor business

For the year ended December 31, 2016

1. Information by product and service

(In millions of yen)

	Automotive Business	General-Purpose Business	Other Semiconductors	Others	Total
Net sales to third parties	231,806	220,953	4,421	13,851	471,031

2. Information by region and country

(1) Net sales

(In millions of yen)

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

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

(2) Property, plant and equipment

(In millions of yen)

Japan	Malaysia	Asia (Excluding Malaysia)	Europe	North America	Total
161,272	21,275	17,442	717	799	201,505

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

3. Information by major customer

(In millions of yen)

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

(Amount per Share Information)

Item	The year ended March 31, 2016	The year ended December 31, 2016
Net assets per share	227.63 yen	252.03 yen
Basic net income per share	51.76 yen	26.46 yen
Net income per share fully diluted	—	26.46 yen

Note 1: Net income per share fully diluted was not presented, owing to the fact that dilutive shares did not exist.

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

Item	The year ended March 31, 2016	The year ended December 31, 2016
Basic net income per share		
Net income attributable to shareholders of parent company (In millions of yen)	86,292	44,119
Amounts not attributable to common stock (In millions of yen)	—	—
Net income attributable to shareholders of parent company attributable to common stock (In millions of yen)	86,292	44,119
Average number of common stock during the fiscal year (Thousands)	1,667,122	1,667,122
Net income per share fully diluted		
Net income adjustment attributable to shareholders of parent company (In millions of yen)	—	—
Increase in the number of common stock(Thousands)	—	76
(Subscription rights to shares(Thousands))	—	(76)
Brief description of residual shares excluded from diluted earnings per share, because it does not have the dilutive effect.	—	—

Note 3: The basis of calculation for net assets per share was as follows

Item	As of March 31, 2016	As of December 31, 2016

Total net assets (In millions of yen)	381,739	422,393
Amounts deducted from total net assets (In millions of yen)	2,260	2,231
Subscription rights to shares(In millions of yen)	—	(23)
(Non-controlling interests (In millions of yen))	(2,260)	(2,208)
Net assets attributable to common stock at the end of the year (In millions of yen)	379,479	420,162
The fiscal year-end number of common stock used for the calculation of net assets per share (Thousands)	1,667,122	1,667,122

(Significant Subsequent Events)

(Transfer of Electronics Engineering Service and Image Recognition System Businesses)

Renesas Semiconductor Package & Test Solutions Co., Ltd., the Company's wholly owned subsidiary, signed a definitive agreement with Hitachi Maxell, Ltd. on January 31,2017 to transfer its electronics engineering and manufacturing service of electronic control boards for use in various industrial equipment and other semiconductor manufacturing equipment and development, manufacturing and sale of image recognition systems. Sales from the project for the year ended March 31, 2016 were 4,898 million yen. The transfer of ownership of the businesses is aimed to complete on May 1, 2017.

Currently, the amount of the gain (loss) on transfer of business is undecided.