

Renesas

FINANCIAL REPORT 2025
Fiscal Year Ended December 31, 2025

RENESAS ELECTRONICS CORPORATION

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The following section, Management’s Discussion and Analysis of Operations, provides an overview of the consolidated financial statements of Renesas Electronics Corporation (hereinafter “the Company”) and its consolidated subsidiaries (hereinafter “the Group”), as of and for the fiscal year ended December 31, 2025.

Introduction

Financial Position, Operating Results and Cash Flow Analysis

Forward-looking statements concerning financial position, operating results and cash flow are prepared using the Group’s judgment as of December 31, 2025.

(1) Material Accounting Policies and Estimates

The Group’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) and in accordance with Article 312 of the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements”. In preparing these consolidated financial statements, estimates and assumptions deemed necessary are made based on reasonable standards. Material accounting policies, assumptions for the future and uncertainties involved in the estimates used in the consolidated financial statements are listed under “Note 3. Material Accounting Policies, Note 4. Significant Accounting Estimates and Judgments” in the Financial Section.

(2) Consolidated Financial Position

	As of December 31, 2024	As of December 31, 2025	Increase (Decrease)
	Billion yen	Billion yen	Billion yen
Total assets	4,490.4	4,177.2	(313.2)
Total equity	2,542.3	2,448.5	(93.8)
Equity attributable to owners of parent	2,537.4	2,443.0	(94.4)
Equity ratio attributable to owners of parent (%)	56.5	58.5	2.0
Interest-bearing liabilities	1,422.8	1,226.8	(196.0)
Debt to equity ratio	0.56	0.50	(0.06)

Total assets as of December 31, 2025 amounted to 4,177.2 billion yen, a 313.2 billion yen decrease from December 31, 2024. This was mainly due to the amortization of intangible assets arising from past acquisitions, as well as a decrease resulting from the recognition of valuation losses on other financial assets related to Wolfspeed, Inc. (hereinafter “Wolfspeed”), following its filing for protection under the U. S. Bankruptcy Code and its restructuring plan.

Total equity as of December 31, 2025 amounted to 2,448.5 billion yen, a 93.8 billion yen decrease from December 31, 2024. This was mainly due to a decrease in other components of equity, such as exchange differences on translation of foreign operations due to fluctuations in foreign exchange rates, as well as a reduction in retained earnings due to the net loss for the year ended December 31, 2025.

Equity attributable to owners of the parent as of December 31, 2025 amounted to 2,443.0 billion yen, a 94.4 billion yen decrease from December 31, 2024, and the equity ratio attributable to owners of the parent was 58.5% as of December 31, 2025. In addition, interest-bearing liabilities as of December 31, 2025 amounted to 1,226.8 billion yen, a 196.0 billion yen decrease from December 31, 2024, mainly due to a decrease in borrowings. Consequently, the Debt to equity ratio was 0.50 as of December 31, 2025.

(3) Overview of Financial Results

The Group discloses consolidated business results in terms of both its internal measures which management relies upon in making decisions (hereinafter “Non-GAAP”) and those under IFRS.

Non-GAAP revenue, Non-GAAP gross profit and Non-GAAP operating profit are revenue, gross profit and operating profit under IFRS (hereinafter “IFRS revenue,” “IFRS gross profit” and “IFRS operating profit”) after excluding or adjusting non-recurring items and other adjustments following a certain set of rules. The Group believes providing non-GAAP forecasts will help to better understand the Group’s constant business results. Non-recurring items include depreciation of intangible assets recognized from acquisitions, other purchase price allocation (hereinafter “PPA”) adjustments and stock-based compensation as well as other non-recurring expenses and income the Group believes to be applicable.

The Group consists of “Automotive Business” and “Industrial/Infrastructure/IoT Business” and those are the Group’s reportable segments. For details, please refer to “Note 7. Business Segments” in the Financial Section.

(Note) For non-GAAP disclosure, the Group refers to the rules specified by the U.S. Securities and Exchange Commission but does not fully comply with such rules.

A) Overview of the current financial operation (Non-GAAP basis)

Summary of Consolidated Financial Results for the Fiscal Years Ended December 31, 2025 and 2024 (Non-GAAP basis)

	Year ended December 31, 2024 (Jan 1 – Dec 31, 2024)	Year ended December 31, 2025 (Jan 1 – Dec 31, 2025)	Increase (Decrease)	
	Billion yen	Billion yen	Billion yen	% Change
Non-GAAP revenue	1,348.5	1,318.5	(30.0)	(2.2%)
Automotive	702.8	639.7	(63.1)	(9.0%)
Industrial/Infrastructure/IoT	636.8	671.8	35.0	5.5%
Non-GAAP gross profit	756.3	759.9	3.7	0.5%
Non-GAAP gross margin	56.1%	57.6%	1.6pts	—
Automotive	367.8 52.3%	346.3 54.1%	(21.4) 1.8pts	(5.8%) —
Industrial/Infrastructure/IoT	385.8 60.6%	410.9 61.2%	25.1 0.6pt	6.5% —
Non-GAAP operating profit	397.9	386.9	(11.0)	(2.8%)
Non-GAAP operating margin	29.5%	29.3%	(0.2pt)	—
Automotive	222.5 31.7%	196.6 30.7%	(25.9) (0.9pt)	(11.6%) —
Industrial/Infrastructure/IoT	173.4 27.2%	169.4 25.2%	(4.0) (2.0pts)	(2.3%) —
Exchange rate (USD)	Yen 151	Yen 150	Yen (1)	—
Exchange rate (EUR)	164	167	4	—

(Note) 1. For details on the above, please refer to “Note 7. Business Segments” in the Financial Section.

2. Exchange rates are the average of each month’s rates used for the conversion of revenues and expenses.

The financial results for the year ended December 31, 2025 are as follows:

<Non-GAAP revenue>

Consolidated Non-GAAP revenue for the year ended December 31, 2025 was 1,318.5 billion yen, a 30.0 billion yen (2.2%) decrease year on year. This was mainly attributable to a decrease in revenue from the Automotive Business due to market softening, although revenue from the Industrial, Infrastructure, and IoT Business increased driven by stronger demand in the infrastructure business.

<Non-GAAP gross profit (margin)>

Non-GAAP gross profit for the year ended December 31, 2025 was 759.9 billion yen, a 3.7 billion yen (0.5%) increase year on year. This was due to lower manufacturing costs, despite the above-mentioned decrease in revenue from the Automotive Business and the resulting decrease in utilization rate. As a result, Non-GAAP gross margin for the year ended December 31, 2025 was 57.6%, an increase by 1.6 points year on year.

<Non-GAAP operating profit (margin)>

Non-GAAP operating profit for the year ended December 31, 2025 was 386.9 billion yen, a 11.0 billion yen (2.8%) decrease year on year. This was mainly due to an increase in SG&A expenses, despite the above-mentioned increase in gross profit. As a result, Non-GAAP operating margin for the year ended December 31, 2025 was 29.3%, a decrease by 0.2 point year on year.

The revenue breakdown of the business segments for the year ended December 31, 2025 are as follows:

Automotive Business

The Automotive Business includes the product categories “Automotive Control,” comprising of semiconductor devices for controlling automobile engines and bodies, and “Automotive Information,” comprising of semiconductor devices used in sensing systems for detecting environments inside and outside the vehicle as well as Automotive Information devices such as in-vehicle infotainment (IVI) and instrument panels used to give various information to the driver of the vehicle. The Group mainly supplies microcontrollers (MCUs), system-on-chip (SoC), analog semiconductor devices and power semiconductor devices in each of these categories.

Non-GAAP revenue of the Automotive Business for the year ended December 31, 2025 was 639.7 billion yen, a 63.1 billion yen (9.0%) decrease year on year. As mentioned above, this was mainly due to market softening.

Non-GAAP gross profit of the Automotive Business for the year ended December 31, 2025 was 346.3 billion yen, a 21.4 billion yen (5.8%) decrease year on year. This was mainly due to a decrease in revenue.

Non-GAAP operating profit of the Automotive Business for the year ended December 31, 2025 was 196.6 billion yen, a 25.9 billion yen (11.6%) decrease year on year. This was mainly due to a decrease in gross profit.

Industrial/Infrastructure/IoT Business

The Industrial/Infrastructure/IoT Business includes the categories “Industrial,” “Infrastructure” and “IoT” which support a smart society. The Group mainly supplies MCUs, SoC, analog semiconductor devices and power semiconductor devices in each of these categories.

Non-GAAP revenue of the Industrial/Infrastructure/IoT Business for the year ended December 31, 2025 was 671.8 billion yen, a 35.0 billion yen (5.5%) increase year on year. This was due to an increase in revenue driven by stronger demand in the infrastructure business.

Non-GAAP gross profit of the Industrial/Infrastructure/IoT Business for the year ended December 31, 2025 was 410.9 billion yen, a 25.1 billion yen (6.5%) increase year on year. This was mainly due to increase in revenue.

Non-GAAP operating profit of the Industrial/Infrastructure/IoT Business for the year ended December 31, 2025 was 169.4 billion yen, a 4.0 billion yen (2.3%) decrease year on year. This was mainly due to an increase in SG&A expenses, despite higher gross profit mentioned above.

The Group announced the “Mid-Term Growth Strategy” and “Financial Model” on February 17, 2020. The Group set as a long-term target of achieving sales growth exceeding that of the market through concentrated investment of management resources in markets on which the Group is focusing its attention. The Group also targets to optimize production efficiency, improve the product mix and realize synergies from the integrations of acquired companies.

On a non-GAAP basis and on a constant currency basis, assuming exchange rates of JPY 100 per U.S. dollar and JPY 120 per euro, the Group has established targets of a gross margin of 55% and an operating margin in the range of 25% to 30%.

At the Capital Markets Day held on June 25, 2025, the Group revised its operating margin target from the previously stated level of 30% to a range of 25% to 30%. This revision aims to proactively create capacity to strengthen both the organizational and financial foundations of the Group, enabling the steady implementation of measures for long-term growth.

For the current consolidated fiscal year, the Group’s non-GAAP gross margin is approximately 55% and its non-GAAP operating margin is approximately 24%, on a constant currency basis assuming exchange rates of JPY 100 per U.S. dollar and JPY 120 per euro.

The targets in the “Mid-Term Growth Strategy” and “Financial Model” are the Group’s long-term management objectives as of the date of filing and we cannot guarantee that they will be achieved. Results may be affected by a number of risk factors and other changes in the external environment, including the matters described under “Risk Factors” in the Management’s Discussion and Analysis of Operations.

B) Reconciliation of Non-GAAP gross profit to IFRS gross profit and Non-GAAP operating profit to IFRS operating profit

(Billion yen)

	Year ended December 31, 2024 (Jan 1 – Dec 31, 2024)	Year ended December 31, 2025 (Jan 1 – Dec 31, 2025)
Non-GAAP gross profit	756.3	759.9
Non-GAAP gross margin	56.1%	57.6%
Reconciliation items in non-recurring revenue (Note 1)	—	2.7
Amortization of purchased intangible assets and depreciation of property, plant and equipment	(1.0)	(0.8)
Stock-based compensation	(2.8)	(2.7)
Other reconciliation items in non-recurring expenses and adjustments (Note 2)	(2.6)	(5.4)
IFRS gross profit	749.8	753.8
IFRS gross margin	55.6%	57.1%
Non-GAAP operating profit	397.9	386.9
Non-GAAP operating margin	29.5%	29.3%
Reconciliation items in non-recurring revenue (Note 1)	—	2.7
Amortization of purchased intangible assets and depreciation of property, plant and equipment	(122.4)	(111.4)
Stock-based compensation	(36.3)	(37.1)
Other reconciliation items in non-recurring expenses and adjustments (Note 2)	(16.2)	(39.9)
IFRS operating profit	223.0	201.2
IFRS operating margin	16.5%	15.2%

(Note) 1. Non-recurring revenue that the Group has determined should be excluded.

2. “Other reconciliation items in non-recurring expenses and adjustments” includes the non-recurring items related to acquisitions and other adjustments as well as non-recurring profits or losses the Group believes to be applicable.

Overview of the current financial operation (IFRS)

Summary of Consolidated Financial Results for the Years Ended December 31, 2025 and 2024 (IFRS basis)

	Year ended December 31, 2024 (Jan 1 – Dec 31, 2024)	Year ended December 31, 2025 (Jan 1 – Dec 31, 2025)	Increase (Decrease)	
	Billion yen	Billion yen	Billion yen	% Change
Revenue	1,348.5	1,321.2	(27.3)	(2.0%)
Gross profit	749.8	753.8	4.0	0.5%
Gross margin	55.6%	57.1%	1.4 pts	—
Operating profit	223.0	201.2	(21.8)	(9.8%)
Operating margin	16.5%	15.2%	(1.3 pts)	—

C) Overview of production, orders and sales

The Group manufactures and sells a wide variety of products and even if the products are of the same type, their performance, structure, and format are not necessarily uniform. In addition, there are many products that do not take the form of built-to-order production. Accordingly, the Group does not disclose the scale of production or the scale of orders received for each product category in terms of value or quantity.

Therefore, the status of production, orders received, and sales is shown in relation to the revenue segment in "Management's Discussion and Analysis."

Sales to major customers and the ratio to total sales are as follows.

	Business Segments	Year ended December 31, 2024 (Jan 1 – Dec 31, 2024)		Year ended December 31, 2025 (Jan 1 – Dec 31, 2025)	
		Million yen	%	Million yen	%
WT Microelectronics Co., Ltd.	Automotive and Industrial/Infrastructure/IoT	170,954	12.7	225,419	17.1
HAGIWARA ELECTRONICS CO., LTD.	Automotive and Industrial/Infrastructure/IoT	171,375	12.7	—	—

(Note) During the current consolidated fiscal year, revenue from sales to HAGIWARA ELECTRONICS CO., LTD. accounted for less than 10% of total consolidated revenue; therefore, the related amount and percentage have been omitted.

(4) Cash Flows

	Year ended December 31, 2024 (Jan 1 – Dec 31, 2024)	Year ended December 31, 2025 (Jan 1 – Dec 31, 2025)
	Billion yen	Billion yen
Net cash provided by (used in) operating activities	340.5	452.9
Net cash provided by (used in) investing activities	(1,284.1)	(124.7)
Free cash flows (Note)	(943.6)	328.2
Net cash provided by (used in) financing activities	677.3	(269.7)
Cash and cash equivalents at the beginning of period	434.7	229.2
Cash and cash equivalents at the end of period	229.2	295.9

(Note) As defined as a total of net cash flows provided by (used in) operating and investing activities.

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

Net cash provided by operating activities for the year ended December 31, 2025 was 452.9 billion yen. This was mainly due to adjustments for non-cash items such as depreciation and the valuation loss on other financial assets related to Wolfspeed, though a recording of 30.3 billion yen in loss before tax.

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

Net cash used in investing activities for the year ended December 31, 2025 was 124.7 billion yen. This was mainly due to the purchase of property, plant, and equipment as well as intangible assets.

The foregoing resulted in positive free cash flows of 328.2 billion yen for the year ended December 31, 2025.

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

Net cash used in financing activities for the year ended December 31, 2025 was 269.7 billion yen. This was mainly due to the repayment of borrowings to major financial institutions and the payment of dividends.

(5) Liquidity and Capital Resources

The Group's basic financial policy is to secure adequate liquidity and capital resources for its operations and to maintain a strong balance sheet.

On August 31, 2021, the Company borrowed term loans with a total amount of 270.0 billion yen from MUFG Bank, Ltd. and Mizuho Bank, Ltd., to finance the acquisition of Dialog.

On December 23, 2021, with the purpose of refinancing the remaining 240.0 billion yen of the existing loan of 270.0 billion yen to mid- to long-term funds, and after having repaid 30.0 billion yen, the Company concluded a syndicated loan agreement with MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited and others for the total of 96.0 billion yen. On the same day, the Company concluded a JBIC loan agreement with JBIC (Japan Bank for International Cooperation) for a total of 144.0 billion yen. Based on these agreements, the Company borrowed a total amount of 240.0 billion yen on December 30, 2021, and made an early repayment on December 30, 2025.

The Company decided on November 19, 2021, to issue US dollar-denominated senior notes in multiple tranches. The Company issued 500 million of US dollar-denominated senior notes due 2024 and 850 million of US dollar-denominated senior notes due 2026, for total proceeds of 1,350 million US dollars. In November 2024, the Company redeemed the 500 million of U.S. dollar-denominated senior notes due 2024.

The yen-converted amount of the outstanding balance of the Company's bonds as of December 31, 2025 was 133.0 billion yen.

For the purpose of responding to the demand for funds for future business development and securing flexible means of procuring working capital, the Company entered into a term loan agreement with Bank of America, N.A., Tokyo Branch dated June 28, 2022 for a total of 200 million US dollars, and the Company entered into a term loan agreement with MUFG Bank, Ltd. dated June 30, 2022 for a total of 20.0 billion yen. Based on these agreements, the Company borrowed a total of 47.1 billion yen on June 30, 2022.

On June 25, 2024, the Company entered into a term loan agreement with MUFG Bank, Ltd., Mizuho Bank, Ltd. and Sumitomo Mitsui Trust Bank, Limited, and executed a loan of 250.0 billion yen on June 28, 2024.

In addition, on May 30, 2024, the Company entered into a loan agreement with MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited, and five other financial institutions to secure the necessary funds for the acquisition of Altium, and executed a total loan of 788.0 billion yen on July 24, 2024.

On September 30, 2024, the Company entered into a JBIC loan agreement with JBIC and executed a loan of 149.0 billion yen on the same day.

In April 2025, the Company executed a short-term borrowing of 38.0 billion yen from MUFG Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Trust Bank, Limited. under a commitment line agreement dated June 25, 2024. The Company repaid 28.0 billion yen of the borrowed amount in June 2025, and the entire amount was fully repaid by July 2025.

As of December 31, 2025, the total amount of borrowings was 1,073.6 billion yen, and cash and cash equivalents were 295.9 billion yen.

(6) Off-balance Sheet Arrangements

The Group conducts liquidation of accounts receivable on a regular basis. As of December 31, 2025, the balance of liquidated accounts receivable was 3.1 billion yen.

Risk Factors

The Group's operations and financial results are subject to various risks and uncertainties, including those described below, that could significantly affect investors' judgment. In addition, the following statements include matters which might not necessarily fall within the scope of such significant risks but are deemed important for investors' judgment from a standpoint of affirmative disclosure. Statements regarding the future in the following paragraphs are based on the Group's understanding of the information available as of March 19, 2026.

1) Market Fluctuations

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

2) Fluctuations in foreign exchange and interest rates

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

Since expenses as well as asset and debt values associated with the Group's business operation are influenced by fluctuations in interest rates, it is also possible for the Group's businesses, performance, and financial condition to be adversely influenced by these fluctuations.

3) Natural Disasters

Natural disasters such as earthquakes, tsunamis, typhoons, and floods, accidents such as fires, power outages, and system failures, acts of terror, war, infectious diseases and other unpredictable factors could adversely affect the Group's business operation. In particular, as the Group owns key facilities and equipment in areas where earthquakes occur at a frequency higher than the global average, the effects of earthquakes and other events could damage the Group's facilities and equipment and force a halt to manufacturing and other operations, and such events could consequently cause severe damage to the Group's business. Similar situations may also occur due to other types of natural disasters, accidents such as fires, power outages, and system failures, acts of terror, war, infectious diseases, and other similar events. In preparation for these risks, the Group sets and manages the BCP (Business Continuity Plan), which defines preventive plans and contingency plans and others, and also purchase various insurances; however, such plans and insurances may not fully hedge the risks or cover the losses and damages from events that we could not anticipate.

4) Competition

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

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

5) Implementation of Management Strategies

The Group is implementing a variety of business strategies and structural measures, including the development of a "Mid-Term Growth Strategy" and reforming the organizational structure of the Group, to strengthen the foundations of its profitability. Implementing these business strategies and structural measures requires a certain level of cost. Due to changes in economic conditions and the business environment, factors for which the future is uncertain, as well as additional unforeseeable factors, it is possible that some of those reforms may become difficult to carry out and others may not achieve the originally planned results. Furthermore, additional costs, which are higher than originally expected, may arise. Thus, these issues may adversely influence the Group's performance and financial condition.

6) Business Activities Worldwide

The Group conducts business worldwide, which can be adversely affected by factors such as barriers to long-term relationships with potential customers and local enterprises, restrictions on investment and imports/exports tariffs, fair trade regulations, political, social and economic risk including changes in trade policies, trade barriers and heightened trade

conflicts among countries, outbreaks of illness or disease, exchange rate fluctuations, rising wage levels, and transportation delays. As a result, the Group may fail to achieve its initial targets regarding business in overseas markets, which could have a negative impact on the business growth and performance of the Group.

7) Strategic Alliance and Corporate Acquisition

For business expansion and strengthening of competitiveness, the Group may engage in strategic alliances, including joint investments, and corporate acquisitions. However, it is not certain that the Group will be able to find any suitable potential partner or acquisition target in the future, and even if such suitable partner or acquisition target is found, it may not be possible to reach an agreement on terms acceptable to the Company. Also, even if the Group reaches an agreement with an alliance partner or acquisition target, there is no guarantee that the Group will be able to execute the acquisition because the Group may not be able to raise funds for the acquisition, or it may not be able to obtain shareholder approval of the alliance partner or acquisition target, it may not be able to obtain necessary permits and approvals, or there may be restrictions due to laws and regulations or other reasons.

With regard to such alliances and acquisitions, the Group examines the likely return on investment and profitability from a variety of perspectives. However, in cases where there is a mismatch with the prospective alliance partner or acquisition target in areas of management strategy such as capital procurement, technology management, and product development, or there are financial or other problems affecting the business of the prospective collaboration partner or acquisition target, in addition to the time and expense required for integration of aspects such as business execution, technology, products, personnel, systems and response to antitrust laws and other regulations of the relevant authorities, there is a possibility that the alliance relationship or capital ties will not be sustainable, or in the case of acquisitions, that the anticipated return on investment or profitability cannot be realized. Furthermore, there is a possibility that the anticipated synergies or other advantages cannot be realized due to an inability to retain or secure the main customers or key personnel of the prospective alliance partner or acquisition target. Thus, there is no certainty that an alliance or acquisition will achieve the goals initially anticipated.

8) Financing

While the Group has been procuring business funds by methods such as borrowing from financial institutions and other sources, and issuance of bonds, in the future it may become necessary to procure additional financing to implement business and investment plans, expand manufacturing capabilities, acquire technologies and services, and repay debts. It is possible that the Group may face limitations on its ability to raise funds due to a variety of reasons, including the fact that the Group may not be able to acquire required financing in a timely manner or may face increasing financing costs due to the worsening business environment in the semiconductor industry, worsening conditions in the financial and stock markets, and changes in the financing policies of lenders. In addition, the Company may also finance acquisitions from financial institutions and other sources when conducting acquisitions. However, the Company will incur interest-bearing debt as a result of borrowing from financial institutions and sources if the Company is unable to generate the cash flow it initially anticipated, its financial condition may deteriorate and its credit rating may be lowered, which could also result in increased financing costs and restrictions on the Group's ability to raise capital. In addition, some of the borrowing contracts executed between the Group and some financial institutions stipulate articles of financial covenants. If the Group breaches these articles due to reasons such as a deterioration of the Group's financial condition, the Group may lose the benefit of term on the contract, and it may adversely influence the Group's business performance and financial conditions.

9) Rapid Technological Evolutions and Other Issues

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

10) Product Production

A. Production Process Risk

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

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

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

C. Risks Associated with Outsourced Production

The Group outsources the manufacturing of certain semiconductor products to external foundries (contract manufacturers) and other entities. In doing so, the Group selects its trusted outsourcers, rigorously screened in advance based on their technological capabilities, supply capacity, and other relevant traits; however, there is some possibility of delivery delays, product defects and other production-side risks stemming from outsourcers. In particular, inadequate production capacity

among outsourcers or operation shutdown of the outsourcers as a result of a natural disaster, could result in the Group being unable to supply enough products.

D. Maintenance of Production Capacity at an Appropriate Level

The semiconductor market is sensitive to fluctuations in the business climate, and it is difficult to predict future product demand accurately. Thus, it is not always possible for the Group to maintain production capacity at an appropriate level that matches product demand. Unanticipated events such as fires, power outages or system failures at manufacturing plants could also significantly reduce the Group's production capacity for a given period of time. In addition, even if the Group engages in capital investment to boost production capacity, there is generally a certain amount of time required before the actual increase in production capacity takes place.

Therefore, if demand for specific products substantially exceeds the Group's production capacity at a certain point and the state of excess demand continues over time, there is a possibility that the Group will be unable to supply customers with the products they desire, that opportunities to sell the products in question will be lost, that the Group will lose market share as customers switch to competing products, and that the relationship of the Group and its customers will suffer. On the other hand, if in response to a rise in demand for specific products the Group undertakes capital investment with the aim of increasing production capacity, there is no guarantee that demand for the products in question will remain strong once production capacity actually increases and afterward. There is a possibility that actual product demand may turn out to be less than anticipated, in which case it may not be possible to recover the capital investment with the anticipated earnings.

11) Product Quality

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

12) Product Sales

A. Reliance on Key Customers

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

B. Changes in production plans by customers of custom products

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

C. Reliance on Authorized Sales Agents

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

13) Securing Human Resources

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

14) Defined Benefit Obligations

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

15) Capital Expenditures and Fixed Cost Ratio

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

business performance and the financial condition of the Group.

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

16) Impairment Loss on Long-term Assets

The Group owns substantial long-term assets, consisting of both property, plant and equipment such as plant facilities and intangible assets such as goodwill obtained through the past acquisition. When there are indications of impairment, the Group examines the possibility of recovering the book value of assets based on the future cash flow to be generated from the assets. It may be necessary to recognize impairment of such assets if insufficient cash flow is generated.

17) Information Systems and related systems

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

Furthermore, in recent years, the adoption of generative AI tools has grown rapidly. In order to improve operational efficiency and productivity and to promote innovation, the Group is actively exploring AI technologies, including generative AI. However, the use of AI may involve various risks, such as the leakage of confidential or personal information, the generation of inaccurate information, infringement of intellectual property rights, and ethical concerns. If these risks are not adequately addressed, restoring trust may entail significant costs and could adversely affect our business operations. To prevent such situations, the Group has established a working group comprising relevant departments and is working to develop and strengthen its internal management framework through measures such as formulating internal rules and guidelines for the use of generative AI and conducting internal training. However, notwithstanding these efforts, if unforeseen circumstances were to arise as a result of the use of generative AI, responding to such circumstances could entail substantial costs, adversely affect the Group's operating results and financial condition, and potentially lead to a decline in our social credibility.

18) Information Management

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

19) Legal Restrictions

The Group is subject to a variety of legal restrictions in the various countries and regions. These include requirements for approval for businesses and investments, antitrust laws and regulations, export restrictions, customs duties and tariffs, accounting standards and taxation, and environment laws. In the future, it is possible that the Group's businesses, performance, and financial condition may be adversely affected by increased costs and restrictions on business activities associated with the strengthening of local laws.

The Group makes use of an internal regulation system to ensure legal compliance and appropriate financial reporting. However, since by its nature an internal regulation system is inherently limited, there is no guarantee that it will accomplish its goals completely. Consequently, the possibility is not nonexistent that legal violations, and others, may occur in the future. Should a violation of the law or other regulations occur, the Group could be subject to administrative penalties such as fines, legal penalties, or claims for compensatory damages, or there could be a negative impact on the social standing of the Group. This could have an adverse effect on the businesses, business performance, and financial condition of the Group.

20) Environmental Factors

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

21) Intellectual Property

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

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

22) Legal Issues

Details are listed under "Note 38. Commitments and Contingent Liabilities, (5) Others" in the Financial Section.

FINANCIAL SECTION

1. Basis of Preparation of the Consolidated Financial Statements

(1) The consolidated financial statements of Renesas Electronics Corporation (hereinafter “the Company”) and its consolidated subsidiaries (hereinafter “the Group”) have been prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) pursuant to the provisions of Article 312 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance Ordinance No. 28, 1976, hereinafter “Ordinance on Consolidated Financial Statements”).

(2) In the consolidated financial statements, figures are presented by rounding them to the nearest million yen.

2. Audit Certification

The consolidated financial statements for the year ended December 31, 2025 (from January 1, 2025 to December 31, 2025) were audited by PricewaterhouseCoopers Japan LLC in accordance with Article 193-2, Section 1, of the Financial Instruments and Exchange Act.

3. Special Measures for Preparing Fairly Stated Financial Statements

These measures involve attaining a thorough understanding of accounting standards and developing a system for addressing changes made to these standards. To this end, the Company has registered with the Financial Accounting Standards Foundation, and participates in seminars.

4. Development of a System to Appropriately Prepare Consolidated Financial Statements Based on IFRS

To appropriately prepare its consolidated financial statements in accordance with IFRS, the Company obtains press releases and accounting standards issued by the International Accounting Standards Board as required to understand the latest standards and analyze the impact. The Company has also prepared the Group accounting policies or “Global Rule Book” in accordance with IFRS and formulates accounting treatments based on the Group accounting policies. In addition, the Company makes efforts to accumulate in-house expertise by participating in seminars hosted by the Financial Accounting Standards Foundation, audit corporations and others.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated Statements of Financial Position

		(In millions of yen)	
	Notes	As of December 31, 2024	As of December 31, 2025
Assets			
Current assets			
Cash and cash equivalents	9	229,249	295,897
Trade and other receivables	10, 35	167,113	169,124
Inventories	11	176,544	185,903
Other current financial assets	17, 35	9,236	38,601
Income taxes receivable		12,454	10,757
Other current assets	12	22,730	23,277
Total current assets		617,326	723,559
Non-current assets			
Property, plant and equipment	13, 15, 16	341,447	355,835
Goodwill	8, 14, 16	2,256,169	2,239,337
Intangible assets	14, 16	724,768	593,324
Investments accounted for using the equity method		328	825
Other non-current financial assets	17, 35	450,702	168,363
Deferred tax assets	18	47,107	51,414
Other non-current assets	12	52,589	44,506
Total non-current assets		3,873,110	3,453,604
Total assets		4,490,436	4,177,163

		(In millions of yen)	
	Notes	As of December 31, 2024	As of December 31, 2025
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19, 35	231,029	219,167
Bonds and borrowings	20, 35	144,137	242,478
Other current financial liabilities	21, 35	8,071	9,477
Income taxes payable		5,930	24,377
Provisions	22	11,273	4,099
Other current liabilities	12	90,998	116,782
Total current liabilities		491,438	616,380
Non-current liabilities			
Trade and other payables	19, 35	22,938	7,070
Borrowings	20, 35	1,122,281	964,089
Other non-current financial liabilities	21, 35	15,616	14,598
Income taxes payable		6,537	4,393
Retirement benefit liability	23	23,564	22,516
Provisions	22	3,066	3,551
Deferred tax liabilities	18	117,151	83,479
Other non-current liabilities	12	145,547	12,636
Total non-current liabilities		1,456,700	1,112,332
Total liabilities		1,948,138	1,728,712
Equity			
Share capital	24	153,209	153,209
Capital surplus	24	289,377	299,286
Retained earnings	24	1,308,948	1,213,791
Treasury shares	24	(92,120)	(70,012)
Other components of equity		877,968	846,760
Total equity attributable to owners of parent		2,537,382	2,443,034
Non-controlling interests		4,916	5,417
Total equity		2,542,298	2,448,451
Total liabilities and equity		4,490,436	4,177,163

(ii) Consolidated Statements of Profit or Loss and Consolidated Statements of Comprehensive Income
Consolidated Statements of Profit or Loss

(In millions of yen)			
	Notes	The year ended December 31, 2024	The year ended December 31, 2025
Revenue	7, 26	1,348,479	1,321,212
Cost of sales		(598,683)	(567,420)
Gross profit		749,796	753,792
Selling, general and administrative expenses	27	(527,475)	(521,249)
Other income	28	19,961	6,244
Other expenses	29	(19,305)	(37,621)
Operating profit		222,977	201,166
Finance income	30	52,100	14,652
Finance costs	30	(10,972)	(245,641)
Share of loss of investments accounted for using equity method		(272)	(452)
Profit (loss) before tax		263,833	(30,275)
Income tax expense	18	(44,411)	(21,383)
Profit (loss)		219,422	(51,658)
Profit (loss) attributable to			
Owners of parent		219,084	(51,763)
Non-controlling interests		338	105
Profit (loss)		219,422	(51,658)
Earnings (losses) per share	32		
Basic earnings (losses) per share (yen)		122.51	(28.65)
Diluted earnings (losses) per share (yen)		120.85	(28.65)

Consolidated Statements of Comprehensive Income

(In millions of yen)

	Notes	The year ended December 31, 2024	The year ended December 31, 2025
Profit (loss)		219,422	(51,658)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		(81)	534
Equity instruments measured at fair value through other comprehensive income		(2,972)	105
Total of items that will not be reclassified to profit or loss		(3,053)	639
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		320,341	(31,349)
Cash flow hedges		(3,748)	2,384
Cost of hedges		(3,753)	(614)
Total of items that may be reclassified subsequently to profit or loss		312,840	(29,579)
Total other comprehensive income	31	309,787	(28,940)
Total comprehensive income		529,209	(80,598)
Comprehensive income attributable to			
Owners of parent		528,320	(81,108)
Non-controlling interests		889	510
Total comprehensive income		529,209	(80,598)

(iii) Consolidated Statements of Changes in Equity
The year ended December 31, 2024

(In millions of yen)

	Notes	Equity attributable to owners of parent						
		Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity		
						Share acquisition rights	Remeasurements of defined benefit plans	Equity instruments measured at fair value through other comprehensive income
Balance as of January 1, 2024		153,209	359,398	1,157,236	(217,691)	3,106	—	(2,311)
Profit (loss)		—	—	219,084	—	—	—	—
Other comprehensive income		—	—	—	—	—	(81)	(2,972)
Total comprehensive income		—	—	219,084	—	—	(81)	(2,972)
Purchase and disposal of treasury shares	24	—	18,463	—	21,042	—	—	—
Cancellation of treasury shares	24	—	(104,529)	—	104,529	—	—	—
Dividends of surplus	25	—	—	(49,758)	—	—	—	—
Share-based payment transactions	34	—	196	—	—	(1,909)	—	—
Transfer to retained earnings		—	15,849	(17,614)	—	(110)	81	1,794
Transfer to non-financial assets	8	—	—	—	—	—	—	—
Total transactions with owners		—	(70,021)	(67,372)	125,571	(2,019)	81	1,794
Balance as of December 31, 2024		153,209	289,377	1,308,948	(92,120)	1,087	—	(3,489)

	Notes	Equity attributable to owners of parent					Non-controlling interests	Total equity
		Other components of equity				Total equity attributable to owners of parent		
		Exchange differences on translation of foreign operations	Cash flow hedges	Cost of hedges	Total			
Balance as of January 1, 2024		564,215	(19,379)	3,770	549,401	2,001,553	4,035	2,005,588
Profit (loss)		—	—	—	—	219,084	338	219,422
Other comprehensive income		319,790	(3,748)	(3,753)	309,236	309,236	551	309,787
Total comprehensive income		319,790	(3,748)	(3,753)	309,236	528,320	889	529,209
Purchase and disposal of treasury shares	24	—	—	—	—	39,505	—	39,505
Cancellation of treasury shares	24	—	—	—	—	—	—	—
Dividends of surplus	25	—	—	—	—	(49,758)	(8)	(49,766)
Share-based payment transactions	34	—	—	—	(1,909)	(1,713)	—	(1,713)
Transfer to retained earnings		—	—	—	1,765	—	—	—
Transfer to non-financial assets	8	—	19,475	—	19,475	19,475	—	19,475
Total transactions with owners		—	19,475	—	19,331	7,509	(8)	7,501
Balance as of December 31, 2024		884,005	(3,652)	17	877,968	2,537,382	4,916	2,542,298

The year ended December 31, 2025

(In millions of yen)

	Notes	Equity attributable to owners of parent						
		Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity		
						Share acquisition rights	Remeasurements of defined benefit plans	Equity instruments measured at fair value through other comprehensive income
Balance as of January 1, 2025		153,209	289,377	1,308,948	(92,120)	1,087	—	(3,489)
Profit (loss)		—	—	(51,763)	—	—	—	—
Other comprehensive income		—	—	—	—	—	534	105
Total comprehensive income		—	—	(51,763)	—	—	534	105
Purchase and disposal of treasury shares	24	—	8,538	—	22,108	—	—	—
Dividends of surplus	25	—	—	(50,320)	—	—	—	—
Share-based payment transactions	34	—	7,421	—	—	(987)	—	—
Transfer to retained earnings		—	(6,050)	6,926	—	(84)	(534)	(258)
Total transactions with owners		—	9,909	(43,394)	22,108	(1,071)	(534)	(258)
Balance as of December 31, 2025		153,209	299,286	1,213,791	(70,012)	16	—	(3,642)

	Notes	Equity attributable to owners of parent				Total equity attributable to owners of parent	Non-controlling interests	Total equity
		Other components of equity			Total			
		Exchange differences on translation of foreign operations	Cash flow hedges	Cost of hedges				
Balance as of January 1, 2025		884,005	(3,652)	17	877,968	2,537,382	4,916	2,542,298
Profit (loss)		—	—	—	—	(51,763)	105	(51,658)
Other comprehensive income		(31,754)	2,384	(614)	(29,345)	(29,345)	405	(28,940)
Total comprehensive income		(31,754)	2,384	(614)	(29,345)	(81,108)	510	(80,598)
Purchase and disposal of treasury shares	24	—	—	—	—	30,646	—	30,646
Dividends of surplus	25	—	—	—	—	(50,320)	(9)	(50,329)
Share-based payment transactions	34	—	—	—	(987)	6,434	—	6,434
Transfer to retained earnings		—	—	—	(876)	—	—	—
Total transactions with owners		—	—	—	(1,863)	(13,240)	(9)	(13,249)
Balance as of December 31, 2025		852,251	(1,268)	(597)	846,760	2,443,034	5,417	2,448,451

(iv) Consolidated Statements of Cash Flows

(In millions of yen)

	Notes	The year ended December 31, 2024	The year ended December 31, 2025
Cash flows from operating activities			
Profit (loss) before tax		263,833	(30,275)
Depreciation and amortization		210,728	188,597
Impairment losses		3,015	18,430
Finance income and finance costs		(26,053)	230,979
Share-based payment expenses		36,299	37,085
Insurance income		(587)	(169)
Foreign exchange loss (gain)		(292)	2,927
Loss (gain) on sales of property, plant and equipment, and intangible assets		(293)	(1,625)
Loss on disposal of fixed assets		1,665	4,127
Decrease (increase) in inventories		(5,070)	(8,605)
Decrease (increase) in trade and other receivables		25,918	887
Decrease (increase) in other financial assets		1,166	19,885
Decrease (increase) in long term prepaid expenses		(28,154)	—
Increase (decrease) in trade and other payables		(35,562)	(208)
Increase (decrease) in retirement benefit liability		(1,821)	(2,100)
Increase (decrease) in provisions		(749)	(6,747)
Increase (decrease) in other current liabilities		(23,898)	21,947
Increase (decrease) in other financial liabilities		(2,405)	501
Other		(5,852)	669
Subtotal		411,888	476,305
Interest received		27,752	10,449
Dividends received		866	1,544
Proceeds from insurance income		587	169
Income taxes paid		(108,506)	(35,610)
Income taxes refund		7,897	—
Net cash flows from operating activities		340,484	452,857
Cash flows from investing activities			
Purchase of property, plant and equipment		(129,889)	(89,151)
Proceeds from sales of property, plant and equipment		878	5,238
Purchase of intangible assets		(39,946)	(44,619)
Purchase of other financial assets		(3,964)	(5,219)
Proceeds from sales of other financial assets		2,422	4,449
Payments for acquisitions of subsidiaries	8	(962,825)	(6,663)
Purchase of shares of subsidiaries and associates		(284)	(975)
Subsidies received		9,791	4,143
Payments for long-term loans receivable		(155,220)	—
Proceeds from sale of businesses		—	4,728
Other		(5,068)	3,383
Net cash flows from investing activities		(1,284,105)	(124,686)

(In millions of yen)

	Notes	The year ended December 31, 2024	The year ended December 31, 2025
Cash flows from financing activities			
Proceeds from short-term borrowings	33	180,000	38,000
Repayments of short-term borrowings	33	(180,316)	(38,000)
Proceeds from long-term borrowings	33	1,187,000	—
Repayments of long-term borrowings	33	(377,529)	(192,738)
Redemption of bonds	20	(57,170)	—
Dividends paid	25	(49,702)	(50,311)
Repayments of lease liabilities	33	(9,931)	(10,784)
Interest paid		(15,001)	(15,834)
Other		(6)	(6)
Net cash flows from financing activities		<u>677,345</u>	<u>(269,673)</u>
Effect of exchange rate changes on cash and cash equivalents		60,844	8,150
Net increase (decrease) in cash and cash equivalents		(205,432)	66,648
Cash and cash equivalents at beginning of the period	9	434,681	229,249
Cash and cash equivalents at end of the period	9	<u>229,249</u>	<u>295,897</u>

Notes to Consolidated Financial Statements

1. Reporting Entity

Renesas Electronics Corporation (hereinafter "the Company") is a public company established under the Companies Act of Japan and domiciled in Japan. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (hereinafter "the Group") are composed of the Company, its subsidiaries and interests of the Group in its associates, with December 31, 2025 as the closing date. The Group engages in research, development, design, manufacturing, sales and services related to various kinds of semiconductors as a manufacturer specializing in semiconductors. For details of the Group's major business, please refer to "Note 7. Business Segments."

The consolidated financial statements for the year ended December 31, 2025 were approved on March 19, 2026 by Hidetoshi Shibata, President and CEO, and Shuhei Shinkai, Senior Vice President, Member of the Board and CFO.

2. Basis for Preparation

(1) In accordance with IFRS

The Group meets the requirements of "specified company complying with designated international accounting standards" as stipulated in Article 1-2, Item 1 of the Ordinance on Consolidated Financial Statements. Therefore, the provisions of Article 312 of the same regulations are applied, and the Group's consolidated financial statements are prepared in accordance with IFRS.

(2) Basis of measurement

The Group's consolidated financial statements are prepared based on the accounting policies outlined in the "Note 3. Material Accounting Policies." The balances of assets and liabilities are measured at cost, unless otherwise specified.

(3) Functional currency and presentation currency

The consolidated financial statements are presented in Japanese yen (rounded to the nearest million yen), which is the functional currency of the Company.

(4) Change in presentation

(Consolidated Statement of Financial Position)

"Borrowings" which was included in "Bonds and borrowings" under non-current liabilities for the year ended December 31, 2024, has been presented as a separate line item to enhance clarity of presentation. In order to reflect this change in presentation, reclassification was made in the consolidated statement of financial position as of December 31, 2024.

As a result, in the consolidated statement of financial position as of December 31, 2024, the amount of 1,256,535 million yen previously presented as "Bonds and borrowings" under non-current liabilities has been reclassified and is now presented as "Borrowings" of 1,122,281 million yen, and "Other non-current liabilities" has been changed from 11,293 million yen to 145,547 million yen.

3. Material Accounting Policies

The material accounting policies of the Group are as follows and are applied to all the periods presented in the consolidated financial statements.

(1) Basis of consolidation

A. Subsidiaries

Subsidiaries are entities controlled by the Group. Control refers to a case in which the Group has power over an entity, is exposed to variable returns from involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when control is obtained until the date when control is lost. In the event that the Group disposes of some of its ownership interest in a subsidiary that does not result in a loss of control, the change in ownership interest of the Group is accounted for as an equity transaction, and the difference between the adjustment of non-controlling interests and the fair value of the consideration is directly recognized in equity as equity attributable to owners of parent.

If the closing dates of a subsidiary and that of the consolidated financial statements are different, financial statements prepared with a provisional closing date, which is same as that of consolidated financial statements, are used.

B. Associates

Associates are entities over which the Group has a significant influence over the decisions on financial and operating policies but does not have control. Investments in associates are accounted for using the equity method.

Investments in associates are initially recognized at cost. Ownership interests of the Group in profit or loss and other comprehensive income of the associate from the date when the Group obtains significant influence until the date when the Group loses significant influence are recognized as changes in the amount of investments in associates.

C. Transactions eliminated on consolidation

Inter-company balances of receivables and payables, transactions and unrealized gains or losses resulting from inter-company transactions are eliminated on consolidation.

(2) Business combinations

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, liabilities to former owners of the acquiree, and equity instruments issued by the Company in exchange for control over the acquiree.

Any excess of the consideration for acquisition, the non-controlling interests in the acquiree and the fair value of assets of the acquiree that the acquirer previously held over the net amount of identifiable assets and liabilities as of the date of acquisition is recognized as goodwill. Conversely, if the consideration for acquisition is lower than the net amount of identifiable assets and liabilities as of the date of acquisition, it is immediately recognized in profit or loss. Acquisition-related costs are recognized in profit or loss. The additional acquisition of non-controlling interests after obtaining control is accounted for as an equity transaction, and no corresponding goodwill is recognized.

If the initial accounting treatment of a business combination is not completed by the end of the fiscal year when the business combination took place, provisional amounts for the items for which accounting is incomplete are reported, and such provisional amounts that were recognized as of the date of acquisition are adjusted retrospectively during the measurement period within one year from the date of acquisition.

(3) Foreign currency translation

A. Functional currency and presentation currency

The financial statements of the Group entities are prepared in their respective functional currency. The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company.

B. Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate or a rate approximate to the spot exchange rate on the date of the transaction. Monetary items denominated in a foreign currency at the end of the reporting period are translated into the functional currency using the closing rate, while non-monetary items denominated in a foreign currency that are measured at historical cost are translated using the exchange rate in effect on the date of the initial transaction, and those that are measured at fair value are translated using the exchange rate in effect on the date when the fair value was calculated.

Exchange differences from translation or settlement are recognized in profit or loss during the period when they arise. However, exchange differences arising from equity instruments and cash flow hedges measured through other comprehensive income are recognized in other comprehensive income.

C. Foreign operations

In preparing the consolidated financial statements, the assets and liabilities of a foreign operation are translated into Japanese yen at the exchange rate as of the closing date of the consolidated financial statements, and profit or loss and cash flows of the foreign operation are translated into Japanese yen at the exchange rate on the date of the transaction or the average exchange rate for the period that is approximate to the exchange rate on the date of the transaction. Exchange differences are recognized in other comprehensive income, and the cumulative amount thereof is recognized in other components of equity.

On disposal of the entire ownership interest in a foreign operation or part of the interest that results in a loss of control or significant influence, the exchange differences of the foreign operation that were recognized in other comprehensive income and accumulated in equity are reclassified from equity to profit or loss when the related gains or losses on disposal are recognized.

Monetary items, which are receivables or payables from foreign operations that settlements are neither planned nor likely to occur in the foreseeable future, are a part of the entity's net investment in that foreign operation. Exchange differences arising from the monetary items are recognized in other comprehensive income.

(4) Financial instruments

A. Financial assets other than derivatives

(a) Initial recognition and measurement

Trade and other receivables are initially recognized at their transaction price on that date, and all other financial assets are initially recognized on the date of the transaction when the Company becomes the contracting party to the financial assets.

At the time of initial recognition, financial assets are classified as financial assets measured at amortized cost or financial assets measured at fair value.

(i) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met.

- Assets are held within a business model that aims to hold assets to collect contractual cash flows.
- The contract terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Financial assets measured at fair value through other comprehensive income

- Debt instruments measured at fair value through other comprehensive income

If both of the following conditions are met, financial assets are classified as debt instruments measured at fair value through other comprehensive income.

- Assets are held within a business model whose objective is achieved by both the collection and sale of contractual cash flows.
- The contract terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Equity instruments measured at fair value through other comprehensive income

When an irrevocable election at the time of initial recognition is made, subsequent changes in fair value are recognized in other comprehensive income and such equity instruments are classified as financial assets measured at fair value through other comprehensive income.

(iii) Financial assets measured at fair value through profit or loss

Financial assets that do not meet the criteria for either (i) or (ii) above are classified into financial assets measured at fair value through profit or loss.

Financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs for financial assets measured at fair value through profit or loss are recognized in profit or loss.

(b) Subsequent measurement

After the initial recognition, financial assets are measured as follows according to their classification.

(i) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(ii) Financial assets measured at fair value through other comprehensive income

- Debt instruments measured at fair value through other comprehensive income

The amount of changes in the fair value of debt instruments measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gain or loss, until the financial assets are derecognized. If the financial assets are derecognized, gains or losses accumulated in other comprehensive income are reclassified to profit or loss.

- Equity instruments measured at fair value through other comprehensive income

The amount of changes in the fair value of equity instruments measured at fair value through other comprehensive income is recognized in other comprehensive income. If the financial assets are derecognized, or if the fair value has declined significantly, gains or losses accumulated in other comprehensive income are directly reclassified to retained earnings. Dividend income from the financial assets is recognized as finance income in profit or loss.

(iii) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value after the initial recognition, and changes in fair value are recognized in profit or loss.

(c) Impairment of financial assets

For impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses of financial assets. On each reporting date, the Group assesses whether the credit risk of the financial instruments has increased significantly since the initial recognition.

If the credit risk of financial instruments has not increased significantly since the initial recognition, the loss allowance of the financial instruments is measured at the amount of 12-month expected credit losses, and if the credit risk of the financial instruments has increased significantly since the initial recognition, the loss allowance of the financial instruments is measured at the amount of lifetime expected credit losses.

However, for trade receivables, the loss allowance is always measured at the amount of lifetime expected credit losses.

Expected credit losses of the financial instruments are estimated in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
 - The time value of money
 - Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions
- Changes in the amount of the measurement are recognized in profit or loss.

(d) Derecognition

The Group derecognizes financial assets if the contractual rights to the cash flows from the financial assets expire, or if substantially all risks and rewards associated with ownership of the financial assets are transferred as a result of assigning the contractual right to receive cash flows from the financial assets.

B. Financial liabilities other than derivatives

(a) Initial recognition and measurement

At the time of initial recognition, financial liabilities are classified as financial liabilities measured at amortized cost or financial liabilities measured at fair value through profit or loss. Although all financial liabilities are initially measured at fair value, financial liabilities measured at amortized cost are measured at an amount obtained by deducting directly attributable transaction costs.

(b) Subsequent measurement

(i) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method.

(ii) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value after the initial recognition, and the changes are recognized in profit or loss.

(c) Derecognition

The Group derecognizes financial liabilities when they are extinguished, for example when the obligations specified in the contract are discharged, cancelled or expired.

C. Derivatives and hedge accounting

The Group holds derivative financial instruments for the purpose of hedging the risk of exchange rate fluctuations and others. The Group has a policy of not conducting speculative derivative transactions.

Derivatives are initially recognized at fair value, related transaction costs and the difference between the fair value at the time of initial recognition and the transaction price are recognized in profit or loss when they are incurred. After the initial recognition, derivatives are remeasured at fair value, and changes in the fair value are accounted for as described below, depending on whether the derivative financial instruments that are designated as hedging instruments meet the requirements for hedge accounting. The Group designates the derivatives that meet the requirements for hedge accounting as hedging instruments and applies hedge accounting. In addition, at the inception of a hedge, the Group formally documents the risk management objective, the relationship between hedging instruments and the hedged items, along with strategies when executing hedging transactions, the nature of the risk being hedged and the method of assessing hedge effectiveness.

(a) Cash flow hedges

Of gains or losses from hedging instruments, the effective portion of the hedge is recognized in other comprehensive income, and the ineffective portion is recognized in profit or loss.

When applying cash flow hedges to currency swap contracts, the portion excluding the currency basis spread is designated as the hedging instrument, and for the currency basis spread portion, the amount of change in fair value is recognized as hedging cost through other components of equity and included in the comprehensive income. The amount accumulated in other components of equity is transferred to profit or loss during the same period in which the cash flows to be hedged affect profit or loss. If the hedged item is the acquisition of a non-financial asset, the amount accumulated in other components of equity will be treated as an adjustment to the initial acquisition cost of the non-financial asset.

When the Group recognizes hedging cost for a derivative transaction entered in order to hedge a time-period related hedged item, it transfers the cumulative costs of hedging accumulated in other components of equity to profit or loss on a systematic and rational basis over the period during which the hedge adjustment from the hedging instrument affects profit or loss.

The amount of hedging instruments that is recorded in other comprehensive income is reclassified to profit or loss at the time when the underlying hedged transactions affect profit or loss. If the hedged items give rise to the recognition of non-financial assets or non-financial liabilities, the amount that is recognized in other comprehensive income is reclassified as an adjustment to the initial carrying amount of non-financial assets or non-financial liabilities.

For cash flow hedges other than the above, the amount is reclassified from other comprehensive income to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if the accumulated amount is a loss and if all or part of the loss is not expected to be recovered in the future, the amount that is not expected to be recovered is immediately reclassified to profit or loss.

When hedge accounting is terminated, this accumulated amount remains in other comprehensive income until

the expected future cash flows occur, and if the forecast transaction is no longer expected to occur, this amount is immediately reclassified to profit or loss.

- (b) Derivatives that do not meet requirements for hedge accounting
Changes in fair value are recognized in profit or loss.

D. Difference between the fair value at initial recognition and the transaction price

In cases where the transaction price of a financial instrument differs from its fair value at the initial recognition, and the fair value is determined using unobservable inputs, the difference between the transaction price and fair value is deferred. This difference is recognized in profit or loss either when amortized over the term of the contract using the straight-line method or when the financial instrument is derecognized.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits that can be withdrawn at any time and short-term investments with a maturity of 3 months or less when purchased that can be easily converted to cash and are subject to an insignificant risk of changes in value.

(6) Inventories

The acquisition cost of inventories comprises all costs of purchase, costs of conversion and all other costs incurred in bringing the inventories to their present location and condition.

After the initial recognition, inventories are measured at the lower of cost and net realizable value, but if cost exceeds net realizable value, the inventories are written down to net realizable value. The net realizable value is calculated by deducting the estimated costs of completion and the estimated costs necessary to make the sale from the estimated selling price in the ordinary course of business.

The cost is also calculated using the following methods:

Merchandise and finished goods

Custom-made products: Specific identification method

Mass products: Average method

Work in progress

Custom-made products: Specific identification method

Mass products: Average method

Raw materials and supplies: Mainly average method

(7) Property, plant and equipment (other than leased assets)

The acquisition cost of property, plant and equipment includes costs directly related to the acquisition of assets, dismantling, disposal and restoration costs and borrowing costs that meet the requirements for capitalization.

The cost model is used in the measurement of property, plant and equipment, and they are presented at the carrying value obtained by deducting accumulated depreciation and accumulated impairment losses from the acquisition cost.

Except for land and construction in progress, the acquisition cost of each asset after deducting the residual value is depreciated over the estimated useful life using the straight-line method.

The estimated useful life, the residual value and the depreciation method are reviewed at the end of each fiscal year, and any changes are applied to the period when the estimated are changed and future periods prospectively as a change in the accounting estimate. The impact of the change of these estimates is recognized in the period when the estimates are changed and future periods.

The estimated useful lives of major assets are as follows.

Buildings and structures 10 to 45 years

Machinery, equipment and vehicles 2 to 8 years

Tools, furniture and fixtures 2 to 10 years

(8) Goodwill and intangible assets

A. Goodwill

The measurement of goodwill at the time of initial recognition is as stated in “(2) Business combinations.” After initial recognition, goodwill is not amortized and is measured at cost less any accumulated impairment losses.

Goodwill is allocated to each of the acquirer’s cash-generating units that are expected to benefit from the synergies of the business combination, and an impairment test is performed for the cash-generating units to which goodwill was allocated at a certain time each fiscal year and whenever there is an indication of impairment. Impairment losses on goodwill are recognized in profit or loss and are not reversed in a subsequent period.

B. Intangible assets

The cost model is used for intangible assets, and they are presented at cost less any accumulated amortization and accumulated impairment losses.

(a) Intangible assets acquired separately

Intangible assets acquired separately are measured at cost at the time of initial recognition.

(b) Intangible assets acquired in a business combination

For intangible assets acquired in a business combination, their acquisition cost is measured at fair value as of the date of acquisition. Intangible assets acquired in a business combination are comprised primarily of developed technology, customer relationships, and in-process research and development.

(Developed technology)

Intangible assets that represent future excess earnings power expected to arise from the technology and that have been already developed as of the date of acquisition with the acquiree are recognized as Developed technology.

(Customer relationships)

Intangible assets related to future excess earnings power expected to arise from the existing customers as of the date of acquisition with the acquiree are recognized as Customer relationships.

(In-process research and development)

Intangible assets in an intermediate stage of identifiable research and development assets meeting the asset requirements are recognized as in-process research and development.

The details for intangible assets acquired in a business combination, please refer to “Note 14. Goodwill and Intangible Assets.”

(c) Internally-generated intangible assets (Capitalized development cost)

For internally-generated intangible assets, the expenditure is recorded as an expense, except for development costs that meet the following requirements for capitalization:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention of an entity to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- A method for the intangible asset to generate probable future economic benefits;
- The availability of adequate technical, financial and other resources necessary for completing the development of the intangible asset and using or selling it; and
- The ability to measure the expenditure attributable to the intangible asset during its development reliably

These internally generated intangible assets are amortized using the straight-line method based on estimated useful life (5 years) for which they are expected to provide net cash inflows. Expenditure on research and development that does not meet the requirements for capitalization above is recognized in profit or loss at the time of occurrence.

Intangible assets with finite useful lives are amortized over their respective estimated useful life using the straight-line method, and an impairment test is performed if any indications of impairment exist. For intangible assets with finite useful lives, their useful lives and amortization method are reviewed at the end of each fiscal year. A change in the useful life or the amortization method is applied prospectively as a change in accounting estimate.

Commercial software products are mainly amortized using a method based on the expected sales volume over the expected sales period (3 years or less), and software for internal use is mainly amortized using the straight-line method based on the expected available period (10 years or less) for internal use. Technical assets are mainly amortized using the straight-line method based on the available period (14 years or less) in business activities. Customer relationships are mainly amortized using the straight-line method based on the estimated useful life (17 years or less).

Intangible assets with indefinite useful life and intangible assets that are not yet available for use are not amortized, and an impairment test is performed at a certain time each fiscal year or whenever any indication of impairment exists.

(9) Leases

A. Overall

(a) Identification of a lease

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group reviews the following to assess whether a contract conveys the right to control the use of an identified asset.

(i) The use of the identified asset in a contract is directed.

(ii) The lessee has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use.

(iii) The lessee has the right to direct the use of an asset. Also, in case that the determination of how and for what purpose the asset is used are predetermined, if applicable to any of the following, it is determined that the lessee has the right to direct the use of an asset.

- The lessee has the right to operate the asset.
- The lessee designed the asset in a way that predetermines how and for what purpose the asset will be used.

(b) Lease term

The lease term is defined as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

B. Leases as Lessee

(a) Separable components of a contract

The Group allocates the consideration in contract for a building lease to lease and non-lease components on the basis of the relative stand-alone price of each lease component. In addition, the Group elects not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component for the lease other than a building lease.

(b) Right-of-use assets

The Group recognizes the right-of-use assets and the lease liabilities at the date of initial application. The right-of-use assets are measured initially at cost. This cost is calculated by deducting any lease incentives received from the sum of the amounts of the initial measurement of the lease liabilities, any lease payments made at or before the commencement date, any initial direct costs and an estimate of costs to be incurred in dismantling and removing the underlying assets, restoring the underlying asset or restoring the site on which it is located. After the commencement date, the right-of-use asset is measured using a cost model by deducting any accumulated depreciation and any accumulated impairment losses from the cost.

The right-of-use assets are depreciated using the straight-line method over the period which is the earlier of the useful life of the underlying asset or the lease term. If it is reasonably certain that the Group will exercise a purchase option, depreciation is based on the useful life of the underlying asset.

(c) Lease liabilities

Lease liabilities are measured initially at the present value of unpaid lease payments discounted using the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be readily determined, the Group's incremental borrowing rate is used. The Group typically uses our incremental borrowing rate as the discount rate.

The lease payments in the measurement of lease liabilities includes the fixed payments, the amount of payments for the lease in any optional period if it is considered to be reasonably certain to exercise an extension option, and the payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

If there is a change in future lease payments resulting from a change in an index or rate, there is a change in the amounts expected to be payable under a residual value guarantee, or there is a change in determining whether purchase, extension and termination option is reasonably certain to exercise, lease liabilities are remeasured.

When lease liabilities are remeasured, the carrying amount of the right-of-use assets is adjusted or the remaining remeasurement is recognized in profit or loss if the carrying amount of the right-of-use assets is reduced to zero.

(d) Short-term leases within 12 months and leases of low-value assets

The Group elects not to recognize right-of-use assets and lease liabilities for short-term leases within 12 months and leases of low-value assets including IT equipment and recognizes these lease payments as expenses over the lease term using the straight-line method.

(10) Impairment of non-financial assets

The Group determines whether there is any indication that an asset (except for inventories, deferred tax assets and retirement benefit assets) may be impaired each fiscal year, and if such indication exists, an impairment test is performed. However, for goodwill or intangible assets with indefinite useful life or that are not yet available for use, an impairment test is performed at a certain time each fiscal year and whenever an indication of impairment is identified.

In the impairment test, a recoverable amount is estimated, and the carrying amount and the recoverable amount are compared. The recoverable amount of assets or cash-generating units is calculated at the higher of the value in use and the fair value less costs of disposal. The value in use is calculated by discounting the estimated future cash flows to the present value, using the pre-tax discount rate that reflects the time value of money and risks specific to the asset.

If the recoverable amount of assets or cash-generating units is lower than the carrying amount as a result of the impairment test, an impairment loss is recognized. When the impairment loss of a cash-generating unit including goodwill is recognized, an allocation is made first to reduce the carrying amount of goodwill that is allocated to the cash-generating unit, and then an allocation is made to proportionally reduce the carrying amount of other assets in the cash-generating unit.

The impairment loss is reversed if there is any indication that the impairment loss recognized in a prior period may no longer exist or may have decreased and if the estimated recoverable amount exceeds the carrying amount. The upper limit of the reversal shall not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years, net of normal depreciation or amortization. The impairment loss on goodwill is not reversed.

(11) Provisions

The Group recognizes a provision if the Group has assumed a legal or constructive obligation as a result of a past event, if it is probable that an outflow of economic benefits will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation.

If the time value of the money of the provision is significant, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects the time value of the money and risks specific to the liability. The unwinding of the discount amount due to the passage of time is recognized as a finance cost.

(12) Levies

For levies that are an outflow of resources embodying economic benefits required by the government to the Group in accordance with laws and regulations, an expected payment is recognized as a liability when the obligation event that triggers the payment of levies prescribed by laws and regulations occurs.

(13) Employee benefits

A. Short-term employee benefits

A short-term employee benefit is an employee benefit that will be settled within 12 months from the end of the fiscal year in which the employee renders the related service to the Group, and the Group recognizes an amount expected to be paid in exchange for the services rendered during a certain accounting period. Short-term employee benefits in the Group include bonuses and benefits related to paid leave.

The expected costs of employee benefits related to accumulating paid leave are recognized when an employee renders the service that will increase the entitlement to future paid leave. In addition, the Group measures the expected cost of accumulating paid leave as an additional amount that the Group is expected to pay as a result of the unused entitlement that has accumulated as of the end of the fiscal year.

Bonuses are recognized as a liability if the Group has a legal or constructive obligation to pay as a result of the provision of service by the employee in the past and if the obligation can be estimated reliably.

B. Post-employment benefits

For post-employment benefit plans, the Group has adopted defined benefit plans and defined contribution plans.

(a) Defined contribution plans

Contributions to defined contribution plans are recognized as an expense when they are incurred unless they are included in inventories or property, plant and equipment. If contributions already paid exceed contributions due for services provided before the end of the fiscal year, the Group recognizes the excess as an asset to the extent to which the prepayment becomes the reduction of future payments or a future refund.

(b) Defined benefit plans

The net amount of assets or liabilities of the defined benefit plan is the amount obtained by deducting the fair value of the plan assets (including the upper limit of the assets and adjustments to minimum funding requirements, if necessary) from the present value of defined benefit obligations, and it is recognized in the consolidated financial statements as an asset or a liability. The defined benefit obligations are calculated using the projected unit credit method, and the present value of defined benefit obligations is calculated by applying a discount rate to the expected payment amount in the future. The discount rate is calculated based on market yields at the end of the reporting period on high quality corporate bonds corresponding to the discount period which is determined based on the period until the future expected benefit payment date in each reporting period.

Service costs and net interest expense for the net amount of assets or liabilities related to the defined benefit plans are recognized in profit or loss.

Actuarial gains or losses and fluctuations in the return on the plan assets excluding the portion included in the net interest expense and change in the impact of the asset ceiling are recognized in other comprehensive income as "Remeasurements of defined benefit plans" in the corresponding period and are immediately transferred from other components of equity to retained earnings. Past service costs are recognized in profit or loss when the plan is revised or curtailed, or when related restructuring costs or termination benefits are recognized, whichever is earlier.

C. Other long-term employee benefits

As long-term employee benefit plans other than post-employment benefits, the Group has a special leave and a reward plan based on the number of service years. The obligations regarding other long-term employee benefits are measured at the amount obtained by discounting the estimated amount of future benefits that the employees have earned as consideration for services rendered in the previous and current fiscal years to the present value.

(14) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group complies with the required conditions and that the grants will be received. Grants related to revenue are recognized in profit or loss. Grants recognized as profit or loss are deducted from the corresponding expenses when they are directly based on the incurred expenses. Grants received based on other conditions are shown in other income. For grants related to assets, the grant amount is directly deducted from the acquisition cost.

(15) Treasury shares

When treasury shares are acquired, the amount of the consideration paid, including directly attributable transaction costs, is recognized at cost and deducted from equity. Including disposals of treasury shares based on the exercise of stock options and the vesting of Restricted Stock Unit (RSU) and Performance Share Unit (PSU), when treasury shares are sold, the gains or losses on the disposal are recognized as capital surplus.

(16) Share-based payments

The Group has adopted share-based payment plans as incentive plans for directors, senior vice presidents and employees.

Restricted Stock Unit (RSU) and Performance Share Unit (PSU) are share-based payment plans with share issuance in the future. RSU is vested subject to continued employment with a Group Company and PSU is vested in response to the extent of the growth rate of total shareholder return. The payments are measured with reference to the fair value of the Company's stock, recognized as an expense in profit or loss, and the same amount is recognized as an increase in equity.

Stock options are estimated at fair value on the grant date and recognized as an expense over the vesting period, taking into account the number of stock options that are expected to eventually vest, and the same amount is recognized as an increase in equity. The fair value of granted options is calculated by taking the terms and conditions of the options into account. If it is determined that the number of stock options that will be vested will differ from the prior estimate due to subsequent information, the estimate of the number of stock options that will be vested is revised as necessary. In cases where rights expire or not exercised after vesting, the reversal amount of the share-based payment is directly transferred to retained earnings.

(17) Revenue recognition

The Group recognizes revenue based on the following five-step model.

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group engages in research, development, design, manufacturing, sales and services related to various kinds of semiconductors as a manufacturer specializing in semiconductors. Revenue is mainly recognized when the goods are delivered as the ownership of these goods has been transferred to the customer and the performance obligations are identified at the time of delivery.

Also, revenue is measured at the amount of the consideration received after deducting discounts, rebates and returns.

Sales to specific distributors may be subject to the following various sales promotion programs.

Ship and debit is a program designed to assist specific distributors on their sales to end customers through pricing adjustments. Under this program, the selling prices will be adjusted when the specific distributors sell the products to the end customers. At the time we record sales to the specific distributors, we accrue for refund liabilities and deduct the same amounts from revenue based on the estimate of the variable consideration resulting from the possible application of the ship and debit program upon the future sales by the distributors. In addition, the related balance of accounts receivable-trade is transferred to long-term accounts receivable in order to reduce specific distributors' financial burden caused by a time lag, and will be reversed in the future based on the contract.

Stock rotation is a program whereby on a semiannual basis, specific distributors are allowed to return, for credit, inventories equal to a certain percentage of their purchases for the previous six months. We accrue for refund liabilities related to the stock rotation program at every closing date and deduct the same amount from revenue.

(18) Finance income and Finance costs

Finance income consists of dividend income, interest income, foreign exchange gain, gains on sales of financial assets, gains on fair value evaluation recognized in profit or loss, gains on hedging financial instruments that are recognized in profit or loss, the transfer of amounts previously recognized in other comprehensive income, and others. Interest income is recognized at the time of occurrence using the effective interest method. Dividend income is recognized on the date when the Group's right to receive payment is established.

Finance costs consist of interest expenses for corporate bonds, borrowings and interest expenses for lease liabilities, foreign exchange loss, losses on sales of financial assets, losses on fair value evaluation recognized in profit or loss, losses on hedging financial instruments that are recognized in profit or loss, the transfer of amounts previously recognized in other comprehensive income and others. Acquisitions or construction of qualifying assets, or borrowing costs not directly attributable to the production, are recognized at the time of occurrence using the effective interest method. Lease payments are allocated to finance costs and the repayment portion of the liability balance, and finance costs are allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(19) Income taxes

Current taxes and deferred taxes are presented as income tax expense in the consolidated statements of profit or loss, except for those related to business combinations and items that are recognized in other comprehensive income or that are directly recognized in equity.

Current taxes and deferred taxes related to items that are recognized in other comprehensive income are recognized in other comprehensive income.

A. Current taxes

Current taxes are measured at the amount paid to tax authorities or the amount expected to be refunded from tax authorities. The tax rates and the tax law used for the calculation of the tax amount are those established or substantively established by the closing date.

B. Deferred taxes

Deferred taxes are calculated based on temporary differences between the tax base amount and the carrying amount for accounting purposes of assets and liabilities at the end of the fiscal year. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses are expected to arise to the extent to which it is probable that taxable profits will be available against which they can be utilized, and deferred tax liabilities are recognized for taxable temporary differences, in principle.

Neither a deferred tax asset nor a deferred tax liability is recognized for the following temporary differences:

- Temporary difference arising from the initial recognition of goodwill
- Temporary differences arising from the initial recognition of an asset or liability in a transactions (excluding business combination) that do not impact accounting profits and taxable profits or losses, and that do not give rise to taxable temporary difference and deductible temporary difference in the same amount.
- A case where the timing for eliminating a taxable temporary difference for an investment in a subsidiary or an associate and an interest in the arrangement of joint control can be controlled and where it is probable that the difference will not be eliminated in the foreseeable future
- A case where it is improbable that a deductible temporary difference for an investment in a subsidiary or an associate and an interest in the arrangement of joint control will be eliminated in the foreseeable future, or a case where it is improbable that a taxable profit that will be available for the temporary difference will be earned

Deferred tax assets and deferred tax liabilities are measured at a tax rate (and based on tax law) that is expected to be applied in the period when assets are realized or liabilities are settled based on the statutory tax rate (and based on tax law) that is established or substantively established by the closing date.

Deferred tax assets and deferred tax liabilities are offset if the Group has the legally enforceable right to offset current tax assets and current tax liabilities, and if any of the following cases applies:

- Income tax expense is imposed on the same taxable entity by the same tax authority
- Although income tax expense is imposed on different taxable entities, these taxable entities intend to settle current tax assets and current tax liabilities on a net basis or intend to settle current tax liabilities at the same time as realizing current tax assets.

The carrying amount of deferred tax assets is reviewed at the end of each fiscal year. If it becomes improbable that taxable profits sufficient to realize part or all of the benefits of deferred tax assets will be earned, the carrying amount of deferred tax assets is reduced to that extent. In addition, the amount of the write-down is reversed to the extent to which it becomes probable that sufficient taxable profits will be earned.

The Group recognizes tax assets and liabilities at a reasonably estimated amount where there is an uncertain tax position.

(20) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to owners (ordinary shareholders) of the parent by the weighted average number of ordinary shares outstanding, net of treasury shares, during each fiscal year.

Diluted basic earnings per share are calculated, adjusted for the effects of all dilutive potential ordinary shares.

(21) Non-current assets held for sale and discontinued operations

A. Non-current assets held for sale

For assets or asset groups that are not in continuing use and for which recovery through sale is expected, that are highly likely to be sold within one year, and that the execution of sales plan is confirmed by management and can be sold in their current condition, assets held for sale and liabilities directly related to assets held for sale are classified into disposal groups separately from other assets and liabilities and recorded in the consolidated statements of financial position.

Non-current assets classified as assets held for sale are measured at the lower of the carrying amount and the fair value after deducting the costs for sale. Assets classified as assets held for sale are not depreciated or amortized.

B. Discontinued operations

A component of an entity that has either been disposed of or is classified as held for sale is recognized as a discontinued operation if any of the following applies:

- A separate major line of business or geographical area of operations;
- Part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- A subsidiary acquired exclusively with a view to resale.

If an operation is classified as a discontinued operation, the consolidated statements of profit or loss and the consolidated statements of comprehensive income for a comparative period are restated on the assumption that the operation was discontinued on the commencement date of the comparative period.

4. Significant Accounting Estimates and Judgments

In preparing the consolidated financial statements, management of the Group makes judgements, accounting estimates and assumptions that could have an impact on the application of accounting policies and the reporting amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are based on the best judgment of management, taking into account various factors that are deemed reasonable on the closing date in light of past experience and available information. However, figures based on these estimates and assumptions may differ from the actual results due to their nature.

Estimates and underlying assumptions are reviewed continuously. The results of the review of these estimates are reflected in the period when the estimates are revised and for the future periods.

Estimates and assumptions that have a significant impact on the amounts recognized in the consolidated financial statements are as follows:

(1) Impairment of non-financial assets

The Group performs an impairment test for non-financial assets (excluding inventories, deferred tax assets and retirement benefit asset) if there is any indication that the recoverable amount will be less than the carrying amount.

However, for goodwill or intangible assets with indefinite useful life or that are not yet available for use, an impairment test is performed at a certain time each fiscal year and when any signs of impairment exist.

The impairment test is performed by comparing the carrying amount and the recoverable amount of the assets, and if the recoverable amount falls below the carrying amount, an impairment loss is recorded. The recoverable amount is calculated mainly using the discounted cash flow model, where certain assumptions, including, but not limited to, the useful life of the asset, future cash flows, sales revenue, gross margin, discount rate, and long-term growth rate, are made. These assumptions are determined based on the best estimates and judgments of management but could be influenced by fluctuations in uncertain future economic conditions. If a revision becomes necessary, it could have a significant impact on the amounts that will be recognized in the consolidated financial statements of subsequent periods.

The calculation method of the recoverable amount is stated in "Note 16. Impairment of Non-financial Assets."

(2) Post-employment benefits

The Group has a variety of post-employment benefit plans, including a defined benefit plan.

The present value of the defined benefit obligation of each plan and related service costs are calculated based on actuarial assumptions. For the actuarial assumptions, estimates and judgments on a range of variables such as the discount rate are required.

The actuarial assumptions are determined based on the best estimates and judgments of management but could be affected by fluctuations in uncertain future economic conditions. If a revision becomes necessary, it could have a significant impact on the amounts that will be recognized in the consolidated financial statements of subsequent periods.

These actuarial assumptions and related sensitivities are stated in "Note 23. Employee Benefits."

(3) Provisions

The Group records multiple provisions in the consolidated statements of financial position, including the provision for product warranties and asset retirement obligations, among others.

These provisions are recorded based on the best estimate of expenditure required for the settlement of the obligations, considering risks and uncertainties related to the obligations on the closing date.

The amount of expenditure required for the settlement of the obligations is calculated by comprehensively considering results that could arise in the future, but it could be affected by the occurrence of unforeseeable events and changes in the situation. If the actual amount of expenditure differs from the estimate, it could have a significant impact on amounts recognized in the consolidated financial statements of subsequent periods.

The nature and amounts of provisions are stated in "Note 22. Provisions."

(4) Recoverability of deferred tax assets

When deferred tax assets are recognized, the time and amount of taxable profits that will be earned in the future based on a business plan are estimated and calculated based on judgment of the possibility that taxable profits will arise.

Because the timing and amount of taxable profits are affected by the future business performance of the Group, if the actual timing and amount differ from the estimate, it could have a significant impact on the amounts recognized in the consolidated financial statements of subsequent periods.

Details and amounts of deferred tax assets are stated in "Note 18. Income Tax."

(5) Inventories

Inventories are measured at cost, but if the net realizable value at the end of the fiscal year falls below the acquisition cost, inventories are measured at the net realizable value, and the difference from the acquisition cost is recognized in the cost of sales, in principle. For slow moving inventory that is outside of the operating cycle process, the net realizable value is calculated reflecting the future demand and market trends. If the net realizable value declines significantly due to the greater-than-expected deterioration of the market environment, it could have a significant impact on the amounts recognized in the consolidated financial statements of subsequent periods.

(6) Measurement method of the fair value of financial instruments

When the Group evaluates the fair value of certain financial instruments, the Group uses valuation techniques that use inputs that are not observable in the market. These unobservable inputs could be affected by fluctuations in uncertain future economic conditions, and if a revision becomes necessary, it could have a significant impact on the consolidated financial statements in subsequent periods.

The details and amounts of the fair value of financial instruments are stated in “Note 3. Material Accounting Policies, (4) Financial instruments” and “Note 35. Financial Instruments.”

(7) Income taxes

The Group recognizes tax assets and liabilities at a reasonably estimated amount based on the interpretation of tax laws where there is an uncertain tax position. Deferred taxes of the Group include liabilities related to an uncertain tax position. Tax effects of assets and liabilities explained above are calculated using the expected value method.

Estimates are based on the best estimate at the moment. However, differences from the estimates could have a significant impact on the consolidated financial statements in subsequent periods depending on the actual results. For details, please refer to “Note 18. Income Taxes.”

5. Changes in Accounting Estimates

(Change in the useful life of property, plant and equipment)

For the year ended December 31, 2025, the Group revised the useful lives of certain machinery and equipment to better reflect actual usage conditions, taking into account changes in the product lifecycle and other factors. This change is applied prospectively.

As a result, compared to the previous method, operating profit increased by 14,669 million yen and loss before tax decreased by 14,669 million yen for the year ended December 31, 2025.

6. Standards and Interpretations Not Yet Adopted

Of the new standards and interpretations that were newly issued or revised as of the approval of the consolidated financial statements, the major standards and interpretations that the Group has not yet adopted as of December 31, 2025, are as follows.

Standards	Title	Date on or after which the application is required for new reporting periods	The Group's applicable reporting period	Summaries of new Standards/amendments	Impact of the application of the standards on the Group's consolidated financial statements
IFRS 9 IFRS 7	Financial Instruments Financial Instruments: Disclosures	January 1, 2026	Period starting January 2026	Amendments to the requirements for classification of financial assets and derecognition of financial liabilities in IFRS 9 "Financial Instruments" and standards related to IFRS 7 "Financial Instruments: Disclosures"	None
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027	Period starting January 2027	New standard replacing IAS 1, the current accounting standard for presentation and disclosure in financial statements	Under review

7. Business Segments

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available that is evaluated regularly by the Board of Directors to determine the allocation of management resources and assess performance.

The Group mainly consists of "Automotive Business" and "Industrial/Infrastructure/IoT Business" and those are the Group's reportable segments. The Automotive Business includes the product categories "Automotive control," comprising semiconductor devices for controlling automobile engines and bodies, and "Automotive information," comprising of semiconductor devices used in sensing systems for detecting environments inside and outside the vehicle as well as automotive information devices such as IVI and instrument panels used to give various information to the driver of the vehicle. The Group mainly supplies MCUs, SoCs, analog semiconductor devices and power semiconductor devices in each of these categories. The Industrial/Infrastructure/IoT Business includes the product categories "Industrial," "Infrastructure" and "IoT" which support the smart society. The Group mainly supplies MCUs and SoCs, analog semiconductors devices, and power semiconductors devices in each of these categories. Additionally, commissioned development and manufacturing from the Group's design and manufacturing subsidiaries are categorized as "Other."

(2) Information on reportable segments

The accounting treatment for the reportable segments is same as described in "Note 3. Material Accounting Policies." The Group discloses revenue from external customers, segment gross profit, and segment operating profit (which is the segment profit).

Segment gross profit and segment operating profit are internal key performance indicators which are used by management when making decisions and are calculated by excluding the following items from IFRS revenue, gross profit and operating profit (Adjustments 2): amortization of certain tangible and intangible assets related to business combinations; certain share-based payment expenses; and other non-recurring items. Other non-recurring items include costs related to acquisitions and gains and losses the Group believes to be appropriate for deduction. However, certain other non-recurring items the Group believes to be covered by each reportable segment are included in segment gross profit and segment operating profit of each reportable segment (Adjustments 1). The Group's Executive Officers assess the performance after eliminating intragroup transactions, and therefore, there are no transfers between reportable segments included within the segment results.

Information on reportable segments is as follows.

(The year ended December 31, 2024)

(In millions of yen)

	Reportable Segments		Other	Adjustments 1	Total	Adjustments 2	Consolidation basis
	Automotive	Industrial/ Infrastructure/ IoT					
Revenue from external customers	702,812	636,760	8,907	—	1,348,479	—	1,348,479
Segment gross profit	367,771	385,823	2,675	—	756,269	(6,473)	749,796
Segment operating profit	222,486	173,379	1,417	630	397,912	(174,935)	222,977
Finance income							52,100
Finance costs							(10,972)
Share of loss of investments accounted for using equity method							(272)
Profit before tax							263,833
(Other items)							
Depreciation and amortization	50,677	37,525	109	—	88,311	122,417	210,728

(The year ended December 31, 2025)

(In millions of yen)

	Reportable Segments		Other	Adjustments 1	Total	Adjustments 2	Consolidation basis
	Automotive	Industrial/ Infrastructure/ IoT					
Revenue from external customers	639,690	671,760	7,032	—	1,318,482	2,730	1,321,212
Segment gross profit	346,336	410,915	1,906	785	759,942	(6,150)	753,792
Segment operating profit	196,576	169,404	603	20,289	386,872	(185,706)	201,166
Finance income							14,652
Finance costs							(245,641)
Share of loss of investments accounted for using equity method							(452)
Loss before tax							(30,275)
(Other items) Depreciation and amortization	43,577	33,522	89	—	77,188	111,409	188,597

(3) Information on products and services

Information on products and services is the same with information on the reportable segments and therefore, omitted from this section.

(4) Information on regions and countries

The components of revenue and non-current assets from external customers by region and country are as follows.

a. Revenue from external customers

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
China	375,214	409,471
Asia (Excluding Japan and China)	300,786	301,865
Japan	283,663	269,104
Europe	230,627	202,781
North America	155,628	135,731
Others	2,561	2,260
Total	1,348,479	1,321,212

(Note) Revenues are categorized into the country or region based on the location of the customers.

b. Non-current assets

Non-current assets include property, plant and equipment, goodwill and intangible assets.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Japan	1,991,797	1,934,428
The United States of America	1,077,190	1,048,038
Asia (Excluding Japan)	200,593	162,874
Europe	48,860	39,570
Others	3,944	3,586
Total	3,322,384	3,188,496

(5) Major customers

Revenue from a single external customer accounting for 10% or more of revenue is as follows.

(In millions of yen)

	Name of related reportable segment	The year ended December 31, 2024	The year ended December 31, 2025
WT Microelectronics Co.,Ltd.	Automotive, Industrial/Infrastructure /IoT	170,954	225,419
HAGIWARA ELECTRONICS CO., LTD.	Automotive, Industrial/Infrastructure /IoT	171,375	—

(Note) For the year ended December 31, 2025, revenue from Hagiwara Electronics Co., Ltd. was less than 10% of total revenue; therefore, the related amount has been omitted.

8. Business Combinations

Business combinations that occurred during the year ended December 31, 2024 and the year ended December 31, 2025 are as follows. Immaterial business combinations are not included in this disclosure.

The year ended December 31, 2024

(Steradian Semiconductors Private Limited)

Contingent consideration includes at most 11 million USD which will be paid based on the contract when several certain conditions (milestones) are met such as future product development and mass production progress of Steradian Semiconductors Private Limited (hereinafter "Steradian").

The fair value of the contingent consideration is calculated as the present value of the amount that may be paid to Steradian, with consideration of the probability of occurrence.

The level of the fair value hierarchy for the contingent consideration is Level 3. The reconciliation table of the change for the contingent consideration classified in Level 3 from the beginning balance to the ending balance is as described below.

	(In millions of yen)
	The year ended December 31, 2024
Beginning balance	586
Changes in fair value	(606)
Exchange differences	20
Ending balance	—

Of the amount of change in fair value related to contingent consideration, the fluctuated amount due to the time value of money is recorded in "Finance costs," and the fluctuated amount due to factors other than the time value of money is recorded in "Other income" or "Other expenses." For the year ended December 31, 2024, "Other income" of 606 million yen was recorded for the change of fair value.

Steradian changed its company name from Steradian Semiconductors Private Limited to Renesas Design India Private Limited on March 26, 2024.

(Transphorm, Inc.)

a. Overview of business combination

The Company completed the acquisition of all shares of Transphorm, Inc. (hereinafter “Transphorm”) a semiconductor company headquartered in Goleta, California, USA, on June 20, 2024, through a wholly-owned subsidiary, making Transphorm a wholly-owned subsidiary.

1) Name and overview of the acquiree

Name of the acquiree: Transphorm, Inc.

Business overview: Development and sales of gallium nitride (“GaN”) power semiconductors

2) Date of the acquisition

June 20, 2024

3) Purpose of the acquisition

The Company now aims to further expand its wide bandgap portfolio with Transphorm’s expertise in GaN, an emerging material that enables higher switching frequency, lower power losses, and smaller form factors. These benefits empower customers’ systems with greater efficiency, smaller and lighter composition, and lower overall cost. As such, demand for GaN is predicted to grow by more than 50 percent annually, according to an industry study. The Company will implement Transphorm’s auto-qualified GaN technology to develop new enhanced power solution offerings, such as X-in-1 powertrain solutions for EVs, along with computing, energy, industrial and consumer applications.

4) Acquisition Method

Acquisition of shares for cash consideration through the wholly-owned subsidiary of the Company.

b. Consideration for the acquisition and its breakdown

Consideration	(In millions of yen)	
		Amount
Cash		53,533
Acquisition consideration from Restricted Stock Unit		386
Total	A	53,919

Expenses related to the acquisition were 916 million yen, which were recorded in “Selling, general and administrative expenses” for the year ended December 31, 2024.

c. Fair value of assets acquired, liabilities assumed and goodwill

		(In millions of yen)
		Date of acquisition
		(June 20, 2024)
Current assets		
Cash and cash equivalents		836
Trade and other receivables (Note 2)		478
Inventories		1,555
Other		63
Total current assets		<u>2,932</u>
Non-current assets		
Property, plant and equipment		1,543
Intangible assets		6,730
Investments accounted for using the equity method		49
Other financial assets		25
Deferred tax assets		6,762
Other		56
Total non-current assets		<u>15,165</u>
Total assets		<u>18,097</u>
Current liabilities		
Trade and other payables		1,909
Bonds and borrowings		332
Other financial liabilities		59
Other		1,018
Total current liabilities		<u>3,318</u>
Non-current liabilities		
Bonds and borrowings		2,423
Other		288
Total non-current liabilities		<u>2,711</u>
Total liabilities		<u>6,029</u>
Net assets	B	<u>12,068</u>
Goodwill (Note 3)	A-B	<u>41,851</u>

(Note) 1. For the year ended December 31, 2024, the allocation of acquisition costs to intangible assets has been completed upon the finalization of the fair value assessment, and the amount of goodwill has been determined.

2. There are no significant receivables from acquired debts that are estimated to be uncollectible.

3. Goodwill reflects expected synergies with existing business and future excess earning power arising from the acquisition of Transphorm. No amount of goodwill is expected to be deductible for tax purposes.

d. Payments for acquisition of subsidiaries

(In millions of yen)

Item	Amount
Consideration for acquisition in cash	53,533
Cash and cash equivalents held by the acquiree at the time of obtaining control	(836)
Amount of cash paid for the acquisition of subsidiaries (net amount)	52,697

e. Impact on revenue and profit as though the date of the acquisition had been as of the beginning of the fiscal year (unaudited information)

Assuming that the date of the acquisition of Transphorm was at the beginning of the fiscal year, the pro forma information is not stated since the impact on the consolidated revenue and profit for the year ended December 31, 2024 would not be material.

f. Revenue and profit / loss of the acquired company

For the year ended December 31, 2024, the revenue and profit of Transform from the acquisition date to December 31, 2024 had no significant impact on the consolidated financial statements.

(Altium Limited)

a. Overview of business combination

On August 1, 2024, the Company completed the acquisition of Altium Limited (hereinafter "Altium"), a global leader in electronics design systems headquartered in San Diego, California, USA, through a wholly-owned subsidiary, thereby making Altium a wholly-owned subsidiary.

Additionally, on December 12, 2024, Altium changed its company name to Altium Pty Ltd.

1) Name and overview of the acquiree

Name of the acquiree: Altium Limited

Business overview: Development and sales of software tools for PCB design, etc.

2) Date of the acquisition

August 1, 2024

3) Purpose of the acquisition

Under its Purpose, "To Make Our Lives Easier", the Company has been expanding its product portfolio of embedded processors, analog, power, and connectivity with an aim to becoming a global leader in embedded semiconductor solutions. Furthermore, the Company has been advancing its digitalization strategy that enables enhanced user experience (UX) through cloud-based development.

Altium's history began in 1985 from Australia as the world's first printed-circuit board (PCB) design tool provider. The company has grown into a global market leader with the most well-known PCB software tools in use today.

The acquisition enables two industry leaders to join forces and establish an integrated and open "electronics system design and lifecycle management platform" that allows for collaboration across component, subsystem, and system-level design. The transaction strongly aligns with the Company's digitalization strategy and represents the Company's first material step in bringing enhanced user experience and innovation at the system level for electronics system designers.

As technology advances, the design and integration of electronic systems become increasingly complex. The current electronics system design flow is a complicated and iterative process that involves multiple stakeholders and design steps, from component selection and evaluation to simulation and PCB physical design. Engineers must be able to design systems that are not only functional but also efficient and cost-effective under shortened development cycles.

Together, the Company and Altium, under a shared vision, aim to build an integrated and open electronics system design and lifecycle management platform that unifies these steps at a system level. The acquisition brings together Altium's sophisticated cloud platform capabilities with Renesas' strong portfolio of embedded solutions, combining high-performance processors, analog, power and connectivity. The combination will also enable integration with third-party vendors across the ecosystem to execute all electronic design steps seamlessly on the cloud. The electronics system design and lifecycle management platform will deliver integration and standardization of various electronic design data and functions and enhanced component lifecycle management, while enabling seamless digital iteration of design processes to increase overall productivity. This brings significantly faster innovation and lowers barriers to entry for system designers by reducing development resources and inefficiencies.

4) Acquisition Method

Acquisition of shares for cash consideration through the wholly-owned subsidiary of the Company.

b. Consideration for the acquisition and its breakdown

	Consideration	(In millions of yen) Amount
Cash		917,399
Acquisition consideration from Restricted Stock Unit and Performance Share Unit		1,110
Other assets recognized prior to the acquisition date		355
Total	A	918,864

Expenses related to the acquisition were 2,277 million yen, which were recorded in "Selling, general and administrative expenses" for the year ended December 31, 2024.

c. Fair value of assets acquired, liabilities assumed and goodwill

		(In millions of yen)
		Date of acquisition (August 1, 2024)
Current assets		
Cash and cash equivalents		26,746
Trade and other receivables (Note 2)		11,976
Other		1,617
Total current assets		40,339
Non-current assets		
Property, plant and equipment		2,418
Intangible assets (Note 3)		312,855
Other financial assets		607
Deferred tax assets		657
Other		31
Total non-current assets		316,568
Total assets		356,907
Current liabilities		
Trade and other payables		654
Other current financial liabilities		579
Income taxes payable		7,326
Other		21,005
Total current liabilities		29,564
Non-current liabilities		
Trade and other payables		285
Other non-current financial liabilities		2,190
Income taxes payable		3,469
Retirement benefit liability		134
Deferred tax liabilities		66,041
Other		8
Total non-current liabilities		72,127
Total liabilities		101,691
Net assets	B	255,216
Basis adjustment (Note 4)	C	19,475
Goodwill (Note 5)	A-B+C	683,123

- (Note) 1. For the year ended December 31, 2024, the allocation of acquisition costs to intangible assets has been completed upon the finalization of the fair value assessment, and the amount of goodwill has been determined.
2. There are no significant receivables from acquired debts that are estimated to be uncollectible.
3. The amount allocated to intangible assets is mainly composed of developed technology, and the fair value of such intangible assets (284,278 million yen) is measured using the excess earnings method based on assumptions such as future business plans, growth rates beyond the business plan period, and discount rates.
4. The Company enters into currency options and forward exchange contracts to hedge against exchange rate risks associated with the payment of acquisition consideration denominated in Australian dollars, and applies hedge accounting. These hedging instruments are settled in cash at fair value on the acquisition date. The basis adjustment represents the change in fair value of the hedging instruments recognized in other comprehensive income on the acquisition date, and is added to the carrying amount of goodwill.
5. Goodwill reflects expected synergies with existing business and future excess earning power arising from the acquisition of Altium. No amount of goodwill is expected to be deductible for tax purposes.

d. Payments for acquisition of subsidiaries

(In millions of yen)	
Item	Amount
Consideration for acquisition in cash	917,399
Cash and cash equivalents held by the acquiree at the time of obtaining control	(26,746)
Amount of cash paid for the acquisition of subsidiaries	890,653
Basis adjustment	19,475
Amount of cash paid for the acquisition of subsidiaries (net amount)	910,128

e. Impact on revenue and profit as though the date of the acquisition had been as of the beginning of the fiscal year (unaudited information)

Assuming that the date of the acquisition of Altium was at the beginning of the fiscal year, the pro forma information is not stated since the impact on the consolidated revenue and profit for the year ended December 31, 2024 would not be material.

f. Revenue and profit / loss of the acquired company

For the year ended December 31, 2024, the revenue and profit of Altium from the acquisition date to December 31, 2024 had no significant impact on the consolidated financial statements.

The year ended December 31, 2025

(Pantronics AG)

Contingent consideration includes at most 61 million USD which will be paid based on the contract when several certain conditions (milestones) are met such as future product development and mass production progress of Pantronics AG (hereinafter "Pantronics").

The fair value of the contingent consideration is calculated as the present value of the amount that may be paid to Pantronics, with consideration of the probability of occurrence.

The level of the fair value hierarchy for the contingent consideration is Level 3. The reconciliation table of the change for the contingent consideration classified in Level 3 from the beginning balance to the ending balance is as described below.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Beginning balance	2,711	1,582
Changes in fair value	(1,278)	—
Exchange differences	149	(16)
Ending balance	1,582	1,566

Pantronics changed its company name from Pantronics AG to Renesas Design Austria GmbH on October 12, 2023.

9. Cash and Cash Equivalents

The components of cash and cash equivalents are described below. The balance of “Cash and cash equivalents” in the consolidated statements of financial position and the balance of “Cash and cash equivalents” in the consolidated statements of cash flows as of December 31, 2024 and December 31, 2025 are the same.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Cash and deposits	217,171	277,920
Short-term investments	12,078	17,977
Total	<u>229,249</u>	<u>295,897</u>

(Note) Cash and cash equivalents are classified as financial assets measured at amortized cost.

10. Trade and Other Receivables

The components of trade and other receivables are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Notes and trade receivables	152,381	156,172
Other receivables	16,311	13,752
Loss allowance	(1,579)	(800)
Total	<u>167,113</u>	<u>169,124</u>

(Note) Trade and other receivables are classified as financial assets measured at amortized cost.

11. Inventories

The components of inventories are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Merchandise and finished goods	47,619	44,538
Work in progress	106,737	121,437
Raw materials and supplies	22,188	19,928
Total	<u>176,544</u>	<u>185,903</u>

(Note) The amount of inventories recognized as expenses approximates "Cost of sales." For write-downs of inventories previously recognized as an expense as a result of declining profitability, using the reversal method 3,708 million yen and 1,598 million yen were included in "Cost of sales" for the year ended December 31, 2024, and the year ended December 31, 2025, respectively.

12. Other Assets and Other Liabilities

The components of other current assets and other non-current assets are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Prepaid expenses	64,563	57,586
Consumption taxes receivable	4,424	4,297
Other	6,332	5,900
Total	<u>75,319</u>	<u>67,783</u>
Current assets	<u>22,730</u>	<u>23,277</u>
Non-current assets	<u>52,589</u>	<u>44,506</u>

The components of other current liabilities and other non-current liabilities are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Accrued expenses	51,768	62,868
Contract liabilities (Note 1)	10,426	20,926
Paid leave payables	14,548	13,995
Other (Note 1, 2)	159,803	31,629
Total	<u>236,545</u>	<u>129,418</u>
Current liabilities	<u>90,998</u>	<u>116,782</u>
Non-current liabilities	<u>145,547</u>	<u>12,636</u>

(Note) 1. Contract liabilities, which were included in other in the year ended December 31, 2024, have become material in amount and are therefore presented separately from the year ended December 31, 2025. The comparative figures as of December 31, 2024 have been reclassified accordingly.

2. Other as of December 31, 2024 reflects the change in presentation method. For details, please refer to "2. Basis for Preparation (4) Change in presentation."

13. Property, Plant and Equipment

(1) Movement during the fiscal year

The changes in acquisition cost, accumulated depreciation and impairment losses, and the carrying amounts of property, plant and equipment are as follows.

A. Acquisition Cost

(In millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
Balances as of January 1, 2024	205,218	674,029	161,281	28,258	23,974	62,440	1,155,200
Acquisition	307	922	4,382	8,732	—	113,218	127,561
Acquisition due to business combination	20	704	395	2,358	—	484	3,961
Sales or disposal	(1,306)	(11,740)	(4,233)	(3,206)	(182)	(508)	(21,175)
Transfer from construction in progress	2,719	44,394	11,939	—	—	(59,052)	—
Exchange differences	4,540	27,913	5,888	3,951	389	1,292	43,973
Other	(176)	(533)	(544)	(482)	—	80	(1,655)
Balances as of December 31, 2024	211,322	735,689	179,108	39,611	24,181	117,954	1,307,865
Acquisition	1,728	2,233	3,708	5,271	11	61,038	73,989
Sales or disposal	(1,206)	(19,636)	(8,124)	(6,450)	(907)	(664)	(36,987)
Transfer from construction in progress	11,654	19,568	13,126	—	—	(44,348)	—
Exchange differences	1,202	10,105	1,085	215	(38)	278	12,847
Other	(49)	(479)	(1,185)	387	—	497	(829)
Balances as of December 31, 2025	224,651	747,480	187,718	39,034	23,247	134,755	1,356,885

B. Accumulated depreciation and impairment losses

(In millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
Balances as of January 1, 2024	(147,020)	(591,993)	(134,149)	(14,286)	(1,613)	—	(889,061)
Depreciation	(6,167)	(34,485)	(16,057)	(5,698)	—	—	(62,407)
Impairment losses	512	—	(1,412)	(780)	327	—	(1,353)
Sales or disposal	1,271	11,516	3,905	2,828	—	—	19,520
Exchange differences	(2,496)	(23,740)	(4,334)	(1,607)	—	—	(32,177)
Other	51	288	(314)	(965)	—	—	(940)
Balances as of December 31, 2024	(153,849)	(638,414)	(152,361)	(20,508)	(1,286)	—	(966,418)
Depreciation	(6,337)	(19,695)	(14,943)	(6,181)	—	—	(47,156)
Impairment losses	(8)	(4,653)	(261)	(91)	—	(3,801)	(8,814)
Sales or disposal	751	17,722	7,610	5,655	—	—	31,738
Exchange differences	(762)	(9,488)	(896)	(129)	—	—	(11,275)
Other	(88)	(37)	1,105	(105)	—	—	875
Balances as of December 31, 2025	(160,293)	(654,565)	(159,746)	(21,359)	(1,286)	(3,801)	(1,001,050)

C. Carrying amount

(In millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Right-of-use assets	Land	Construction in progress	Total
Balances as of January 1, 2024	58,198	82,036	27,132	13,972	22,361	62,440	266,139
Balances as of December 31, 2024	57,473	97,275	26,747	19,103	22,895	117,954	341,447
Balances as of December 31, 2025	64,358	92,915	27,972	17,675	21,961	130,954	355,835

- (Note) 1. The amount of the government grant received for the acquisition of property, plant and equipment is 4,872 million yen for the year ended December 31, 2024, and 2,050 million yen for the year ended December 31, 2025. The grant amount is directly deducted from the acquisition cost. There are no unfulfilled conditions or other contingent liabilities associated with the government grants.
2. The amount of property, plant and equipment under construction is presented as construction in progress.
3. For property, plant and equipment on which a mortgage is placed as collateral for liabilities, please refer to "Note 20. Bonds and Borrowings."
4. For commitments to the acquisition of property, plant and equipment, please refer to "Note 38. Commitments and Contingent Liabilities."
5. Depreciation is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of profit or loss.
6. Impairment losses are included in "Other expenses" in the consolidated statements of profit or loss. For details on impairment losses, please refer to "Note 16. Impairment of Non-financial Assets." Additionally, the reversal of impairment recognized for buildings, structures, and land (1,077 million yen) during the year ended December 31, 2024, is included in "Other Income" in the consolidated statement of profit or loss.
7. For details on right-of-use assets, please refer to "Note 15. Leases."

(2) Borrowing costs

For the year ended December 31, 2024, no borrowing costs were capitalized as part of the cost of qualifying assets.

For the year ended December 31, 2025, borrowing costs of 432 million yen were capitalized as part of the cost of qualifying assets. The capitalization rate applied to the borrowing costs on qualifying assets was 1.12%.

14. Goodwill and Intangible Assets

(1) Movement during the fiscal year

The changes in acquisition cost, accumulated amortization and impairment losses, and the carrying amounts of goodwill and intangible assets are as follows.

A. Acquisition cost

(In millions of yen)

	Goodwill	Intangible assets					
		Software	Capitalized development costs	Developed technology	Customer relationships	Other	Total
Balances as of January 1, 2024	1,362,131	85,937	5,337	681,556	174,022	129,436	1,076,289
Internally developed	—	8,313	200	—	—	—	8,513
Acquisitions	—	14,039	—	—	—	50,062	64,101
Acquisition due to business combination	724,974	—	—	289,161	30,424	—	319,585
Sales or disposal	—	(919)	(1,527)	1,032	—	(36,663)	(38,077)
Exchange differences	169,064	797	—	94,987	20,481	2,467	118,732
Other	—	991	—	—	—	338	1,329
Balances as of December 31, 2024	2,256,169	109,158	4,010	1,066,736	224,927	145,640	1,550,471
Internally developed	—	2,479	2,280	—	—	—	4,759
Acquisitions	—	4,121	—	—	—	21,390	25,511
Acquisition due to business combination	6,858	—	—	152	—	—	152
Sales or disposal	—	(493)	(1,647)	(1)	—	(23,465)	(25,606)
Exchange differences	(21,894)	89	—	(18,264)	(2,315)	6,300	(14,190)
Impairment losses	(1,796)	—	—	—	—	—	—
Other	—	451	—	1,032	—	285	1,768
Balances as of December 31, 2025	2,239,337	115,805	4,643	1,049,655	222,612	150,150	1,542,865

B. Accumulated amortization and impairment losses

(In millions of yen)

	Goodwill	Intangible assets					
		Software	Capitalized development costs	Developed technology	Customer relationships	Other	Total
Balances as of January 1, 2024	—	(73,789)	(3,133)	(414,490)	(71,897)	(91,133)	(654,442)
Amortization	—	(3,378)	(977)	(101,763)	(18,264)	(21,927)	(146,309)
Impairment losses	—	—	—	—	—	(585)	(585)
Sales or disposal	—	892	1,527	(1,032)	—	37,908	39,295
Exchange differences	—	(711)	—	(50,863)	(7,971)	(4,173)	(63,718)
Other	—	13	—	—	—	43	56
Balances as of December 31, 2024	—	(76,973)	(2,583)	(568,148)	(98,132)	(79,867)	(825,703)
Amortization	—	(3,064)	(677)	(94,991)	(19,091)	(21,138)	(138,961)
Impairment losses	—	(22)	—	—	—	(7,798)	(7,820)
Sales or disposal	—	468	1,647	—	—	20,086	22,201
Exchange differences	—	(80)	—	7,329	398	(5,012)	2,635
Other	—	(601)	—	(1,032)	—	(260)	(1,893)
Balances as of December 31, 2025	—	(80,272)	(1,613)	(656,842)	(116,825)	(93,989)	(949,541)

C. Carrying amount

(In millions of yen)

	Goodwill	Intangible assets					
		Software	Capitalized development costs	Developed technology	Customer relationships	Other	Total
Balances as of January 1, 2024	1,362,131	12,148	2,204	267,066	102,126	38,304	421,847
Balances as of December 31, 2024	2,256,169	32,185	1,427	498,588	126,795	65,773	724,768
Balances as of December 31, 2025	2,239,337	35,533	3,030	392,813	105,787	56,161	593,324

- (Note) 1. For software in intangible assets, the carrying amount classified as internally generated assets was 417 million yen as of December 31, 2024, and 409 million yen as of December 31, 2025.
2. Construction in progress related to software is included in "Software" under intangible assets.
3. For other in intangible assets, the carrying amount of intangible assets acquired through software license contracts (as license fees) was 51,860 million yen as of December 31, 2024, and 40,725 million yen as of December 31, 2025. In addition, the balances are mainly amortized using the straight-line method based on the available license period (5 years or less).
4. There are no intangible assets with restrictions on ownership or intangible assets on which a mortgage is placed as collateral for liabilities.
5. For commitments related to the acquisition of intangible assets, please refer to "Note 38. Commitments and Contingent Liabilities."
6. Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of profit or loss.
7. Impairment losses are included in "Other expenses" in the consolidated statements of profit or loss. For details on impairment losses, please refer to "Note 16. Impairment of Non-financial Assets."

(2) Significant intangible assets

Major intangible assets are developed technology and customer relationships acquired in the business combination with former Intersil in February 2017, former IDT in March 2019, Dialog in August 2021, former Celeno in December 2021, and Altium in August 2024. The carrying amount of developed technology acquired in the business combination was 498,588 million yen as of December 31, 2024 and 392,813 million yen as of December 31, 2025 and the remaining amortization period as of December 31, 2025 is within 14 years. The carrying amount of customer relationships was 126,795 million yen as of December 31, 2024 and 105,787 million yen as of December 31, 2025, and the remaining amortization period as of December 31, 2025 is 1 to 17 years.

(3) Intangible assets not yet available for use

The carrying amount of intangible assets not yet available for use is included in "Other" and was 2,515 million yen as of December 31, 2024 and 783 million yen as of December 31, 2025 and represents in-process research and development. In-process research and development is reclassified as "Developed technology" and starts to be amortized when the development has been completed. The amount of reclassification for the year ended December 31, 2024 was 2,183 million yen and for the year ended December 31, 2025 was 1,719 million yen.

15. Leases

(1) Leases as lessee

A. Lease expenses, income and cash flows

Lease expenses, income and cash flows are as follows.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Depreciation charge for right-of-use assets by class of underlying asset		
Land	32	29
Buildings	4,412	4,686
Machinery, equipment and vehicles	819	792
Tools, furniture and fixtures	435	674
Total	5,698	6,181
Interest expense on lease liabilities	560	706
Expense relating to short-term leases	2,692	2,464
Expense relating to leases of low-value assets (excluding short-term leases)	538	622
Income from subleasing right-of-use assets	46	22
Total cash outflows for leases	9,763	10,784

(Note) For details on the maturity analysis for lease liabilities, please refer to "Note 35. Financial Instruments."

B. Right-of-use assets which are included in the carrying amount of property, plant and equipment

The carrying amount and the increase/decrease in carrying amount of right-of-use assets which are included in the carrying amount of property, plant and equipment are as follows.

(In millions of yen)

	Balance as of December 31, 2024	Balance as of December 31, 2025
Land	301	279
Buildings	15,028	13,382
Machinery, equipment and vehicles	2,056	2,960
Tools, furniture and fixtures	1,718	1,054
Total	19,103	17,675
The increased amount of right-of-use asset	8,732	5,570

C. Nature of the leasing activities

The Group leases land, building, machinery, equipment, vehicles, and others.

The terms of lease contracts are negotiated individually and include a wide variety of the terms of contracts.

D. Options of extension and termination

The options of extension and termination are included in many lease contracts for buildings, machinery and equipment. The lease term for office buildings is mainly from 3 to 10 years and for machinery and equipment, its term is from 3 to 5 years. Some contracts include an option to extend the lease for a period of one year or the same lease years for the current lease contract after the termination date. In addition, some contracts include an option for early termination when the lessee notifies the lessor between six months to one year before the termination date.

These options will be utilized to maximize operational flexibility from the point of asset management used in the Group's businesses.

16. Impairment of Non-financial Assets

The Group recorded impairment losses for the assets below. Impairment losses are included in "Other expenses" in the consolidated statements of profit or loss.

The components of assets for which the impairment losses are recorded are as follows.

The year ended December 31, 2024

(In millions of yen)

	Reportable segments		Total
	Automotive	Industrial/ Infrastructure/IoT	
Property, plant and equipment	1,384	1,046	2,430
Intangible assets	249	336	585
Total	1,633	1,382	3,015

The year ended December 31, 2025

(In millions of yen)

	Reportable segments		Total
	Automotive	Industrial/ Infrastructure/IoT	
Property, plant and equipment	4,910	3,904	8,814
Intangible assets	2,666	6,950	9,616
Total	7,576	10,854	18,430

(Note) 1. Impairment losses recognized as for right-of-use assets are included in the impairment losses of property, plant and equipment. The amount included in the impairment losses of property, plant and equipment was 780 million yen for the year ended December 31, 2024 and 91 million yen for the year ended December 31, 2025.

2. Impairment losses on intangible assets include 317 million yen related to in-process research and development assets due to project discontinuation for the year ended December 31, 2024, and 4,007 million yen related to a business transfer and 1,796 million yen related to goodwill for the year ended December 31, 2025.

(1) Impairment losses

The Group assesses impairment at the grouping level of the smallest identifiable group that generates cash inflows that are largely independent, based on the categories used for business management. The Group assesses impairment by each individual asset for significant assets to be disposed of, idle assets and business assets.

For the year ended December 31, 2024

(Assets to be disposed of)

For the Automotive and Industrial/Infrastructure/IoT business, the Group performs impairment tests as independent cash-generating units for the assets that have been decided to be disposed and reduces the carrying amount of assets to their recoverable amount. As a result, the Group has recorded impairment losses of 1,650 million yen.

The recoverable amount is measured at the fair value after deducting disposal costs. The fair value after deducting disposal costs is set at zero for assets difficult to sell or the selling amount is estimated and the hierarchy level of the fair value is Level 3.

(Idle assets)

For the Automotive and Industrial/Infrastructure/IoT business, the Group performs impairment tests as independent cash-generating units, reduces the carrying amount of idle assets that are unlikely to be used to their recoverable amount, and has recorded impairment losses of 1,048 million yen.

The recoverable amount is measured at the fair value after deducting disposal costs. The fair value after deducting disposal costs is set at zero because it is difficult to sell these assets, and the hierarchy level of the fair value is Level 3.

For the year ended December 31, 2025

(Assets to be disposed of)

For the Automotive and Industrial/Infrastructure/IoT business, the Group performs impairment tests as independent cash-generating units for the assets that have been decided to be disposed and reduces the carrying amount of assets to their recoverable amount. As a result, the Group has recorded impairment losses of 13,356 million yen.

The recoverable amount is measured at the fair value after deducting disposal costs. The fair value after deducting disposal costs is set at zero for assets difficult to sell or the selling amount is estimated and the hierarchy level of the fair value is Level 3.

(Idle assets)

For the Automotive and Industrial/Infrastructure/IoT business, the Group performs impairment tests as independent cash-generating units, reduces the carrying amount of idle assets that are unlikely to be used to their recoverable amount, and has recorded impairment losses of 5,074 million yen.

The recoverable amount is measured at the fair value after deducting disposal costs. The fair value after deducting disposal costs is set at zero because it is difficult to sell these assets, and the hierarchy level of the fair value is Level 3.

(2) Impairment test of goodwill and intangible assets not yet available for use

The Group performs impairment tests for cash-generating units to which goodwill and intangible assets not yet available for use are allocated at a certain time each fiscal year and whenever there is any indication of impairment.

Goodwill recorded in the consolidated statements of financial position was recognized mainly when the Company merged with former Intersil for the year ended December 31, 2017, former IDT for the year ended December 31, 2019, Dialog for the year ended December 31, 2021, and Altium for the year ended December 2024, and it is allocated to the cash-generating units of the Group expected to provide future earning power arising from synergies of these business combinations.

In the impairment test, goodwill and intangible assets not yet available for use that were allocated to the cash-generating units of the Group are as follows.

		(In millions of yen)	
Reportable segments	Cash-generating units	As of December 31, 2024	As of December 31, 2025
Goodwill	Automotive	398,446	394,379
	Industrial/ Infrastructure/IoT	1,857,723	1,844,958
In-process research and development	Automotive	2,373	783
	Industrial/ Infrastructure/IoT	142	—

(Note) The goodwill recognized due to the acquisition of Altium in the year ended December 31, 2024, reflects a revision of the allocation of the acquisition cost. For details, please refer to “Note 8. Business Combinations.”

The recoverable amount of the cash-generating units is measured at the value in use. The value in use is calculated by discounting the cash flows, which is estimated based on the five-year business plan approved by management and the permanent growth rate for the period thereafter, to the present value using the pre-tax discount rate. Significant assumptions which have an impact to the calculation of the value in use include gross margin in the business plan, permanent growth rate, pre-tax discount rate and others. These assumptions are determined in the consideration of past experiences and external information.

For cash flows in a period beyond the target period of the future business plan approved by management, the value in use was calculated using a permanent growth rate of 2.1% for the year ended December 31, 2025 (2.1% for the year ended December 31, 2024). The approved permanent growth rate is determined based on the estimated inflation rate of the market to which the cash-generating units belong.

The pre-tax discount rates are the weighted average capital cost. The pre-tax discount rates used for the calculation of the value in use were 12.6% in the Automotive Business for the year ended December 31, 2025 (11.0% for the year ended December 31, 2024) and 15.0% in the Industrial/Infrastructure/IoT Business for the year ended December 31, 2025 (14.7% for the year ended December 31, 2024).

Because the recoverable amount of cash-generating units exceeds the carrying amount for the year ended December 31, 2025, management believes that it is unlikely that the recoverable amount of the cash-generating units will be lower than the carrying amount even if the major assumptions (Gross margin/ Permanent growth rate/ Pre-tax discount rate) used in the impairment test are changed in a reasonable range.

The following table shows the range of reasonably expected fluctuation of the major assumptions (Gross margin/ Permanent growth rate/ Pre-tax discount rate) used in the impairment test.

Major assumptions	Cash-generating units	The year ended December 31, 2024	The year ended December 31, 2025
Gross margin	Automotive	35.0~45.0%	38.4~48.4%
	Industrial/ Infrastructure/IoT	50.0~60.0%	54.6~64.6%
Permanent growth rate	Automotive	1.6~2.6%	1.6~2.6%
	Industrial/ Infrastructure/IoT		
Discount rate before tax	Automotive	9.0~13.0%	10.6~14.6%
	Industrial/ Infrastructure/IoT	11.7~17.7%	12.0~18.0%

The Group recognized no impairment losses during the year ended December 31, 2024 and the year ended December 31, 2025 since the value in use of the cash generating units exceeded the carrying amount as a result of the impairment test.

17. Other Financial Assets

(1) Components of other financial assets

The components of other financial assets are as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Derivative assets (Note 1)	43,493	39,854
Long-term accounts receivable (Note 2)	51,768	36,294
Stocks (Note 3)	13,356	14,221
Investment trust (Note 1)	11,069	13,108
Loans receivable (Note 1, 4)	327,973	—
Other (Note 5)	12,279	103,487
Total	459,938	206,964
Current assets	9,236	38,601
Non-current assets	450,702	168,363

(Note) 1. Derivative assets, investment trust, and loans receivable are mainly classified as financial assets measured at fair value through profit or loss. For details, please refer to “Note 35. Financial Instruments.”

2. Long-term accounts receivable mainly includes financial assets measured at amortized cost which are recorded in accordance with the ship and debit programs. For details on the ship and debit programs, please refer to “Note 3. Material Accounting Policies, (17) Revenue recognition.”

3. Stocks are classified either as equity instruments measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss. For details, please refer to “Note 35. Financial Instruments.”

4. The decrease in loans receivable for the year ended December 31, 2025 was mainly due to the recognition of a valuation loss on loans receivable to Wolfspeed following its filing for protection under the U.S. Bankruptcy Code and its restructuring plan, as well as the conversion of the loans receivable into other financial assets upon the restructuring plan becoming effective. For details, please refer to “39. Additional Information.”

5. Term deposits with a deposit term of more than three months and security deposits are included in Other. These assets are classified as financial assets measured at amortized cost. For the year ended December 31, 2025, Other includes convertible notes subject to restrictions on conversion, as well as rights that are expected to be converted into common stock and warrants in the future. These are classified as financial assets measured at fair value through profit or loss. For details, please refer to “39. Additional Information.”

(2) Equity instruments measured at fair value through other comprehensive income

Name of major equity instruments and their fair value measured at fair value through other comprehensive income are as follows.

(In millions of yen)

Company name	As of December 31, 2024	As of December 31, 2025
Sifive, Inc.	3,437	3,402

(3) Derecognized equity instruments measured at fair value through other comprehensive income

The fair value at the date of cessation of recognition, as well as the cumulative loss (before tax) of the capital financial assets measured at fair value through other comprehensive income, which were discontinued during the period, are as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Fair value	50	1,155
Cumulative loss (before tax)	(1,142)	—

(Note) When capital financial assets measured at fair value through other comprehensive income are derecognized, the cumulative loss (after tax) previously recognized in other comprehensive income is reclassified to retained earnings.

18. Income Taxes

(1) Components of and changes in deferred tax assets and deferred tax liabilities

The components of and changes in deferred tax assets and deferred tax liabilities by major causes of their occurrence are as follows.

The year ended December 31, 2024

(In millions of yen)

	As of January 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Business combination	As of December 31, 2024
Deferred tax assets					
Inventories	5,262	3,052	—	—	8,314
Property, plant and equipment and other	6,557	1,062	—	—	7,619
Research and development expense	8,955	10,719	—	—	19,674
Accrued expenses	16,229	(4,471)	—	—	11,758
Retirement benefit liability	3,261	(1,398)	—	—	1,863
Carryforward of unused tax losses	3,470	1,843	—	6,762	12,075
Carryforward of unused tax credits	2,190	317	—	—	2,507
Other	31,056	(8,496)	—	657	23,217
Subtotal	76,980	2,628	—	7,419	87,027
Deferred tax liabilities					
Intangible assets and other	(68,846)	(127)	—	(66,042)	(135,015)
Tax on undistributed earnings	(11,198)	(1,425)	—	—	(12,623)
Total income from specified foreign subsidiaries and others	(961)	(1,536)	—	—	(2,497)
Other	(6,118)	4,670	(5,488)	—	(6,936)
Subtotal	(87,123)	1,582	(5,488)	(66,042)	(157,071)
Net deferred tax assets (liabilities)	(10,143)	4,210	(5,488)	(58,623)	(70,044)

The year ended December 31, 2025

(In millions of yen)

	As of January 1, 2025	Recognized in profit or loss	Recognized in other comprehensive income	Business combination	As of December 31, 2025
Deferred tax assets					
Inventories	8,314	123	—	—	8,437
Property, plant and equipment and other	7,619	(1,088)	—	—	6,531
Research and development expense	19,674	149	—	—	19,823
Accrued expenses	11,758	879	—	—	12,637
Retirement benefit liability	1,863	(687)	—	—	1,176
Carryforward of unused tax losses	12,075	7,128	—	—	19,203
Carryforward of unused tax credits	2,507	3,107	—	—	5,614
Other	23,217	4,032	—	—	27,249
Subtotal	87,027	13,643	—	—	100,670
Deferred tax liabilities					
Intangible assets and other	(135,015)	23,978	—	—	(111,037)
Tax on undistributed earnings	(12,623)	(1,019)	—	—	(13,642)
Total income from specified foreign subsidiaries and others	(2,497)	2,497	—	—	—
Other	(6,936)	(111)	(1,009)	—	(8,056)
Subtotal	(157,071)	25,345	(1,009)	—	(132,735)
Net deferred tax assets (liabilities)	(70,044)	38,988	(1,009)	—	(32,065)

(Note) The Group considers the possibility that a portion of, or all of, the deductible temporary differences or carryforward of unused tax losses can be utilized against future taxable profits in the recognition of deferred tax assets.

Deferred tax liabilities related to intangible assets and other include those that are related to uncertain tax positions at overseas subsidiaries are calculated using the expected value method.

The differences between the total amount recognized in profit or loss and the total amount of the deferred tax expenses are due to changes in the foreign exchange rate.

The Organization for Economic Cooperation and Development has published Global Anti-Base Erosion Model Rules which include a minimum 15% tax rate by jurisdiction (referred to as the “Pillar Two” rules). These rules were enacted into law in Japan for all fiscal years beginning on or after April 1, 2024. The Global Inclusion Return (GIR) for the Group will therefore be filed by the Company, in Japan, for the year ended December 31, 2025.

Several countries in which the Company has subsidiaries have enacted the Pillar Two rules with effect for fiscal years beginning on or after January 1, 2024. As such, the Pillar Two rules applied to the Group for the fiscal year ended December 31, 2024. For this period, the GIR for the Group will be filed by the Company’s subsidiary in the UK.

An assessment of the income tax impact has been undertaken based on the financial information available for each constituent entity of the Group as of December 31, 2024 and December 31, 2025. A summary of the income tax impact is set out below:

	(In millions of yen)			
	The year ended December 31, 2024		The year ended December 31, 2025	
Total Tax Charge / (Credit)	44,411	100.0%	21,383	100.0%
Of which:				
Income tax excluding Pillar Two Income Tax	43,842	98.7%	21,365	99.9%
Income tax related to Pillar Two	569	1.3%	18	0.1%

The Pillar Two tax charge identified for the year ended December 31, 2025 arises in relation to Vietnam, as the effective tax rate in Vietnam is below 15% and none of the transitional safe harbor exemptions apply. The Pillar Two tax in relation to Vietnam is payable in Vietnam as the country has implemented the Qualifying Domestic Minimum Top-Up Tax (“QDMTT”) rules.

For all other countries in which the Company operates, they are either not in scope of the rules in 2025, one of the transitional safe harbor exemptions applies, or there is no additional tax arising under the full GloBE Pillar Two calculations.

The Pillar Two tax charge identified for the year ended December 31, 2024, arises in relation to the United States and Vietnam. The exposure arises as the effective tax rate in these two countries falls below 15% and none of the transitional safe harbor exemptions apply. As the United States had not implemented the Pillar Two rules, and Japan had not implemented the rules for this period, the Pillar Two tax arising in respect of the United States was payable in the country of the reporting intermediate parent company which would file an IIR return; for the Group this was the UK and Australia.

With respect to the impact of the Pillar Two rules on the Company’s deferred tax assets and deferred tax liabilities for the fiscal years ended December 31, 2024 and December 31, 2025, the Company has applied the exception to recognizing and disclosing information about deferred tax assets and deferred tax liabilities related to Pillar Two Income Taxes. This treatment is in accordance with the IASB’s amendment to IAS 12 ‘Income Taxes’.

(2) Deductible temporary differences and others for which no deferred tax assets are recognized

The amounts of deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credits for which no deferred tax assets are recognized are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Deductible temporary differences (Note 2)	722	58,046
Carryforward of unused tax losses	28,251	31,389
Carryforward of unused tax credits	31,668	31,754
Total	60,641	121,188

(Note) 1. Deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credits are measured on a tax amount basis.

2. The increase in deductible temporary differences in the year ended December 31, 2025 is mainly due to the recognition of a valuation loss on other financial assets by the Company's subsidiary in the United States related to Wolfspeed following its filing for protection under the U.S. Bankruptcy Code and its restructuring plan. Under the tax system in the United States, capital losses are allowed to be recognized as deferred tax assets only to the extent that they are expected to be offset against capital gains. Accordingly, no deferred tax assets have been recognized for the capital loss.

The expiration schedule of the carryforward of unused tax losses for which no deferred tax assets are recognized is as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
First year	—	—
Second year	—	73
Third year	62	35
Fourth year	30	187
Fifth year or thereafter	28,159	31,094
Total	28,251	31,389

The expiration schedule of the carryforward of unused tax credits for which no deferred tax assets are recognized is as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
First year	56	—
Second year	—	—
Third year	—	—
Fourth year	—	—
Fifth year or thereafter	31,612	31,754
Total	31,668	31,754

The Group does not recognize deferred tax assets for unused tax losses carried forward relating to local taxes (residential tax and business tax) of companies that are not subject to the consolidated taxation system or the group tax sharing system in Japan. The amount of unused tax losses carried forward for such local taxes was 1,662 million yen for residential tax and 4,042 million yen for business tax for the year ended December 31, 2024, and 1,498 million yen for residential tax and 1,675 million yen for business tax for the year ended December 31, 2025.

(3) Components of income tax expense

The components of income tax expense are as follows.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Current tax expense		
Current tax expense	65,562	45,900
Tax expense from previous periods	(9,472)	(2,310)
Total current tax expense	56,090	43,590
Deferred tax expense		
Origination and reversal of temporary differences	(5,561)	(14,258)
Effects from tax regulation changes	3	(1)
Revaluation of deferred tax assets	(3,741)	(7,985)
Other	(2,380)	37
Total deferred tax expense	(11,679)	(22,207)
Total income tax expense	44,411	21,383

(Note) 1. Current tax expense for the year ended December 31, 2024 and the year ended December 31, 2025 does not include the amount of previously unrecognized tax loss, tax credits or benefits arising from temporary differences in past periods.

2. Deferred tax expense for the year ended December 31, 2024 and the year ended December 31, 2025 does not include the amount of previously unrecognized tax loss, tax credits or benefits arising from temporary differences in past periods.

3. Deferred tax expense for the year ended December 31, 2024 and the year ended December 31, 2025 does not include the deferred tax expenses arising from the write-down of deferred tax assets or the reversal of previously recorded write-downs.

(4) Reconciliation of the statutory effective tax rate and the average effective tax rate

The reconciliation of the statutory effective tax rate and the average effective tax rate is as follows.

	(%)	
	The year ended December 31, 2024	The year ended December 31, 2025
Statutory effective tax rate (Note)	31.5	31.5
Changes in unrecognized deferred tax assets	(1.2)	(125.7)
Permanent differences	(8.4)	85.3
Foreign tax rate differences	3.3	(85.5)
Tax credits	(5.8)	36.6
Tax on undistributed earnings	0.5	(3.4)
Other	(3.2)	(9.4)
Average effective tax rate	16.8	(70.6)

(Note) The applicable statutory effective tax rate is the sum of 24.4% for national taxes and 7.1% for local taxes.

Major taxes imposed on the Company and its subsidiaries in Japan are income tax, residential tax and business tax.

The applicable statutory effective tax rate in Japan is 31.5% in the prior fiscal year and current fiscal year. Income taxes for overseas subsidiaries are calculated based on local tax rates applicable in their jurisdictions.

(5) Adjustment of deferred tax assets and deferred tax liabilities due to a change in the corporate income tax rate

Following the enactment of the Act Partially Amending the Income Tax Act and Related Laws by the National Diet in Japan on March 31, 2025, a Defense Special Corporate Tax will be imposed on fiscal years beginning on or after April 1, 2026.

Accordingly, deferred tax assets and deferred tax liabilities related to temporary differences expected to reverse in fiscal years beginning on or after January 1, 2027 have been measured using a revised statutory effective tax rate of 32.3%, instead of the previous rate of 31.5%.

The impact of this change in tax rate is immaterial.

19. Trade and Other Payables

The components of trade and other payables are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Trade payables	82,942	98,999
Other payables	86,697	61,509
Electronically recorded obligations	15,092	9,620
Refund liabilities	69,236	56,109
Total	<u>253,967</u>	<u>226,237</u>
Current liabilities	<u>231,029</u>	<u>219,167</u>
Non-current liabilities	<u>22,938</u>	<u>7,070</u>

(Note) Trade and other payables are classified as financial liabilities measured at amortized cost.

20. Bonds and Borrowings

(1) The components of bonds are as follows.

	Issuance date	Maturity date	Interest rate	(In millions of yen)	
				As of December 31, 2024	As of December 31, 2025
USD-denominated Senior Notes due 2026 (Note 3)	November 26, 2021	November 25, 2026	2.170%	134,453	133,076
Total				134,453	133,076
Reclassification to bond issuance costs				(199)	(94)
Current liabilities				—	132,982
Non-current liabilities				134,254	—

(Note) 1. Bonds are classified as financial liabilities measured at amortized cost.

2. For the balance of bonds by maturity, please refer to “Note 35. Financial Instruments.”

3. On November 19, 2021, the Company has decided to issue senior notes denominated in USD in multiple tranches (One of the tranches of the notes will be green bonds, proceeds from which will be used solely for projects that are expected to contribute to the global environment). The Company issued USD-denominated Senior Notes due 2024 (Green Bonds, Principal amount: USD 500million, Interest rate: 1.543%, Maturity Date: November 26, 2024) and USD-denominated Senior Notes due 2026 (Principal amount: USD 850 million, Interest rate: 2.170%, Maturity Date: November 25, 2026) on November 26, 2021, raising a total of USD 1,350 million. Additionally, in November 2024, the Company redeemed the U.S. dollar-denominated senior notes, maturing in 2024, which were issued on November 26, 2021.

To reduce the risk of foreign exchanges in the USD-denominated Senior Notes, the Group uses currency swaps and the currency swaps are designated as a hedge. For details on hedge accounting, please refer to “Note 35. Financial Instruments.”

(2) The breakdown of borrowings is as follows.

	(In millions of yen)			
	As of December 31, 2024	As of December 31, 2025	Average interest rate (Note 5)	Maturity
Current portion of long-term borrowings	144,137	109,496	1.298%	—
Long-term borrowings (Excluding current portion)	1,128,236	968,592	1.441%	From Jun.2027 to Jul.2029
Total	1,272,373	1,078,088		
Less: Arrangement fee	(5,955)	(4,503)		
Current liabilities	144,137	109,496		
Non-current liabilities	1,122,281	964,089		

The components of borrowings are as follows.

		(In millions of yen)	
	Term of borrowing	As of December 31, 2024	As of December 31, 2025
Loan contract on December 23, 2021 (Note 6)	From Dec.2021 to Dec.2025	27,633	—
JBIC loan contract on December 23, 2021 (Note 6)	From Dec.2021 to Dec.2025	41,451	—
Loan contract on June 28, 2022 (Note 7)	From Jun.2022 to Jun.2027	24,328	14,435
Loan contract on June 30, 2022 (Note 7)	From Jun.2022 to Jun.2027	15,386	9,234
Loan contract on June 25, 2024 (Note 8)	From Jun.2024 to Jun.2029	250,000	250,000
Loan contract A on May 30, 2024 (Note 9)	From Jul.2024 to Jul.2029	384,150	338,251
Loan contract B on May 30, 2024 (Note 9)	From Jul.2024 to Jul.2029	384,150	338,251
JBIC loan contract on September 30, 2024 (Note 10)	From Sep.2024 to Jul.2029	145,275	127,917
Total		1,272,373	1,078,088

- (Note) 1. Borrowings are classified as financial liabilities measured at amortized cost.
2. For the balance of borrowings by maturity, please refer to "Note 35. Financial Instruments."
3. The following financial covenants apply to 102,046 million yen of the current portion of long-term borrowings and 964,864 million yen of long-term borrowings (excluding current portion) as of December 31, 2025.
- (1) Maintain the ratio of interest-bearing debt (excluding lease liabilities) to EBITDA (leverage ratio: α) as follows:
- For the six months ended June 30, 2024: $\alpha \leq 3.05$
 - For the year ended December 31, 2024 and beyond: $\alpha \leq 2.90$
- (2) Maintain the total equity in the consolidated statements of financial position for each interim period and fiscal year end at no less than 75% of the previous period's equity.
- (3) Ensure that operating profit (loss) in the consolidated statements of profit or loss for each interim period and fiscal year end is not loss for two consecutive periods.
- (4) Ensure that net profit (loss) in the consolidated statements of profit or loss for each interim period and fiscal year end is not loss for two consecutive periods.
4. The Company has breached certain financial covenants related to loan agreements for the six months ended June 30, 2025. However, the Company has obtained consent from the financial institutions not to exercise their right to demand immediate repayment due to this breach. For the six months ended December 31, 2025, no events occurred that would constitute a breach of financial covenants.
5. The average interest rate represents the weighted-average interest rate calculated based on the balance of borrowings as of December 31, 2025.
6. Based on the loan agreement entered into to finance the acquisition of Dialog, on August 31, 2021, the Company had borrowed 270,000 million yen from MUFG Bank, Ltd. and Mizuho Bank, Ltd. with the last repayment date of February 7, 2022.
- With the purpose of refinancing 240,000 million yen of the above loans (after the repayment of 30,000 million yen) to mid- to long-term funds, on December 23, 2021, the Company has entered into the syndicate loan agreement (Loan amount: 96,000 million yen, Execution date of agreement: December 23, 2021, Borrowing date: December 30, 2021, Repayment date: End of December, 2026, Participating financial institutions: MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited., Resona Bank, Limited., Aozora Bank, Ltd., Shinkin Central Bank, The Norinchukin Bank, Bank of America NA Tokyo Branch) and a JBIC loan agreement (Loan amount: 144,000 million yen, Execution date of agreement: December 23, 2021, Borrowing date: December 30, 2021, Repayment date: End of December, 2026, Participating financial institutions: Japan Bank of International Cooperation). On December 30, 2021, the Company borrowed a total of 240,000 million yen under these agreements and fully repaid the remaining amount of the loans dated August 31, 2021.
- In addition, the Company made an early repayment on December 30, 2025, of the borrowings totaling 240,000 million yen.
7. In June 2022, the Company entered into a term loan agreement dated June 28, 2022 (Loan amount: USD 200 million, Borrowing date: June 30, 2022, Repayment date: June 30, 2027, Participating financial institutions: Bank of America NA Tokyo Branch) and a term loan agreement dated June 30, 2022 (Loan amount: 20,000 million yen, Borrowing date: June 30, 2022, Repayment date: June 30, 2027, Participating financial institutions: MUFG Bank, Ltd.). The Company has borrowed a total of 47,096 million yen under these agreements dated June 30, 2022.
8. The Company entered into a term loan agreement on June 25, 2024 (total loan amount: 250,000 million yen, loan execution date: June 28, 2024, final repayment date: June 29, 2029, lenders: MUFG Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Trust Bank, Ltd.) and executed a loan of 250,000 million yen.

9. Under the loan agreement signed on May 30, 2024, for financing the acquisition of Altium, the Company executed a term loan of 788,000 million yen on July 24, 2024 (loan execution date: July 24, 2024, final repayment date: July 24, 2029, lenders: MUFG Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Trust Bank, Ltd., and five other financial institutions).
10. The Company entered into a JBIC loan agreement on September 30, 2024 (total loan amount: 149,000 million yen, loan execution date: September 30, 2024, final repayment date: July 24, 2029, lender: Japan Bank of International Cooperation) and executed a loan of 149,000 million yen.
11. In April 2025, the Company executed a short-term borrowing of 38,000 million yen from MUFG Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Trust Bank, Limited. under a commitment line agreement dated June 25, 2024. The Company repaid 28,000 million yen of the borrowed amount in June 2025, and the entire amount was fully repaid by July 2025.

(3) Assets pledged as collateral and corresponding liabilities as of each fiscal year end are as follows.

A. Assets pledged as collateral

Stock of subsidiary (638,841 million yen for December 31, 2024 and 920,544 million yen for December 31, 2025) which are eliminated in the consolidated statements of financial position, are collateralized.

B. Liabilities corresponding to assets pledged as collateral

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Current portion of long-term borrowings	34,541	46,850
Long-term borrowings (Excluding current portion)	34,062	353,683
Total	68,603	400,533

21. Other Financial Liabilities

The components of other financial liabilities are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Lease liabilities	22,105	20,221
Contingent consideration (Note 1, 2)	1,582	2,576
Derivative liabilities (Note 1)	—	1,278
Total	<u>23,687</u>	<u>24,075</u>
Current liabilities	<u>8,071</u>	<u>9,477</u>
Non-current liabilities	<u>15,616</u>	<u>14,598</u>

(Note) 1 Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss. For details, please refer to “Note 35. Financial Instruments.”

2 For details, please refer to “Note 8. Business Combinations.”

22. Provisions

The components of provisions and their changes are as follows.

(In millions of yen)

	Asset retirement obligations	Provision for business restructuring	Provision for loss on litigation	Other provisions	Total
Balances as of December 31, 2024	3,170	5,065	5,534	570	14,339
Current liabilities	138	5,031	5,534	570	11,273
Non-current liabilities	3,032	34	—	—	3,066
Increase during the period	195	4,276	1,074	1,302	6,847
Decrease during the period (payment)	(79)	(6,530)	(5,232)	(1,112)	(12,953)
Decrease during the period (reversal)	(7)	(538)	—	(55)	(600)
Period interest expense in discount calculation	78	—	—	—	78
Other	104	97	(258)	(4)	(61)
Balances as of December 31, 2025	3,461	2,370	1,118	701	7,650
Current liabilities	96	2,184	1,118	701	4,099
Non-current liabilities	3,365	186	—	—	3,551

A. Asset retirement obligations

The expected amount related to performing obligations necessary to restore assets to their original state under the real estate lease agreements of offices and plants used by the Group and legal obligations to remove hazardous substances related to non-current assets is recorded as a provision. The amount of asset retirement obligations was computed using an estimated useful life of 1 to 47 years as well as a discount rate of 0.1% to 10.5%, although the timing of payments will be affected by future business plans, and other factors.

B. Provision for business restructuring

Provision for business restructuring is recorded for expected future losses in connection with business structure reform and consolidation. The timing of payments will be affected by future business plans, and other factors.

C. Provision for loss on litigation

The Group records the estimated amount of reasonably calculated losses, considering individual risks, for losses on litigation which could be incurred in the future from lawsuits and disputed cases. For details, please refer to "Note 38. Commitments and Contingent Liabilities, (5) Others."

D. Other provisions

Other provisions include a provision for product warranties and a provision for an onerous contract.

23. Employee Benefits

The Group adopts post-employment benefit plans such as a defined benefit plan and a defined contribution plan, except for some overseas consolidated subsidiaries.

(1) Defined benefit plans

A. Characteristics of defined benefit plans and related risks

The characteristics of defined benefit plans and related risks are as follows.

(a) Characteristics of defined benefit plans

The defined benefit plans of the Company and its subsidiaries in the Group include (i) a severance indemnity plan and (ii) a defined benefit corporate pension plan. The Group may also provide extra retirement payments upon the retirement of employees.

(i) The severance indemnity plan is an unfunded plan to make a lump-sum payment only with an internal reserve without making an external reserve for the obligations of the retirement benefit plans. As the lump-sum payment is paid in an amount based on salaries and number of service years in accordance with the retirement allowance regulations including the rules of employment of each company.

(ii) The defined benefit corporate pension plan is a defined benefit pension and a funded plan established under the Defined Benefit Corporate Pension Act (enforced in April 2002). It is a fund-type corporate pension, and a lump-sum payment or an annuity is paid from the fund based on salaries and number of service years. In the defined benefit corporate pension plan, administrators of the corporate pension, such as the executive directors of the employer and the fund, abide by laws, regulations and asset management and investment contracts and others and their standards of practice such as the prohibition of acts involving conflicts of interest against the participants in the plan have been clearly defined.

In the defined benefit corporate pension plan, the amount of benefits is calculated based on the cumulative number of points granted to employees according to their job classification. The Company and its subsidiaries in Japan adopt a cash balance pension plan for the defined benefit corporate pension plan. Some of the Company's overseas subsidiaries adopt externally funded pension plans such as trust funds for the defined benefit corporate pension plan. Under those pension plans, each participant has an account in which a certain amount calculated by the revaluation rate that is determined based on the current base salary, the job classification and the market interest rate is accumulated.

(b) Risks to which an entity is exposed by the plan.

The Group is exposed to actuarial risks such as price fluctuation risk by plan assets and interest rate risk by present value of obligations of the defined benefit plans.

B. Amounts recognized in the consolidated statements of financial position

The amounts recognized in the consolidated statements of financial position are as follows.

	(In millions of yen)	
	As of December 31, 2024	As of December 31, 2025
Present value of obligations of the funded defined benefit plans (with plan assets)	96,423	88,421
Fair value of plan assets	(144,388)	(146,253)
Funded status	(47,965)	(57,832)
Impact of asset ceiling	49,068	59,027
Present value of obligations of the unfunded defined benefit plans (without plan assets)	22,461	21,321
Net amount of liabilities (assets) pertaining to defined benefits recognized in the consolidated statements of financial position	23,564	22,516
Retirement benefit liability	23,564	22,516
Retirement benefit asset	—	—

As of December 31, 2024, the present value of obligations of the funded defined benefit plans (with and without plan assets) was 93,532 million yen for domestic plans and 25,352 million yen for overseas plans. The fair value of plan assets was (127,952) million yen for domestic plans and (16,436) million yen for overseas plans.

As of December 31, 2025, the present value of obligations of the funded defined benefit plans (with and without plan assets) was 82,058 million yen for domestic plans and 27,684 million yen for overseas plans. The fair value of plan assets was (128,717) million yen for domestic plans and (17,536) million yen for overseas plans.

C. Changes in the present value of defined benefit obligation

The changes in the present value of defined benefit obligation are as follows.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Present value of defined benefit obligation (beginning)	124,270	118,884
Service cost	2,333	2,816
Interest expenses	2,328	2,520
Benefits paid	(9,631)	(11,755)
Remeasurements of defined benefit plans		
(i) Actuarial differences arising from changes in demographic assumptions	82	(182)
(ii) Actuarial differences arising from changes in financial assumptions	(2,423)	(5,805)
(iii) Revisions to other results	(177)	1,409
Exchange differences	2,013	2,006
Other	89	(151)
Present value of defined benefit obligation (ending)	118,884	109,742

The weighted average duration of the defined benefit obligation in each fiscal year is as follows.

	The year ended December 31, 2024	The year ended December 31, 2025
Weighted average duration	10.5 years	10.5 years

D. Changes in the fair value of plan assets

Changes in the fair value of plan assets are as follows.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Fair value of plan assets (beginning)	141,995	144,388
Interest income	2,484	2,997
Remeasurement – Return on plan assets	3,582	5,322
Contributions by employer (Note 1)	2,078	2,007
Benefits paid	(7,370)	(9,317)
Exchange differences	1,573	1,069
Other	46	(213)
Fair value of plan assets (ending)	144,388	146,253

(Note) 1. Contributions to the defined benefit plans in the Group are made in consideration of factors such as the financial position of the Group, the funding situation of plan assets and actuarial factors based on laws and regulations.

In the fiscal year ending December 31, 2026, 1,882 million yen is planned to be contributed to the defined benefit pension plans.

2. The purpose of the investment of plan assets of the Group is to secure necessary revenue in the long term within the acceptable range of risks in order to provide benefits to beneficiaries reliably in the future.

The target rate of return aims to exceed the assumed interest rate required for the financial position of the pension scheme on a stable basis for the long term.

The Group has set a “policy asset mix” to achieve the investment target and attempts to make an investment to maintain the asset mix based on the policy asset mix. The asset mix is reviewed as necessary and tailored to changes in the situation of the Group and the institution and the environment surrounding the Group.

3. Some consolidated subsidiaries participate in a multi-employer defined benefit pension plan.

E. Changes in the impact of the asset ceiling

The changes in the impact of the asset ceiling are as follows.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Impact of asset ceiling (beginning)	42,323	49,068
Interest income	627	893
Remeasurement – Changes in the impact of the asset ceiling	5,945	8,966
Exchange differences	173	100
Impact of the asset ceiling (ending)	49,068	59,027

(Note) The Group sets the asset ceiling and calculates liabilities in some of its pension plans because economic benefits could not be enjoyed as a result of contributions that will not be reduced or returned in the future.

F. Components of fair value of plan assets by type

The components of the fair value of plan assets by type are as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Equity instruments		
Domestic equity securities	10,536	12,914
Foreign equity securities	22,700	26,816
Debt instruments		
Domestic bonds	20,198	21,234
Foreign bonds	11,492	12,433
General accounts of life insurance company	32,787	34,072
Cash and cash equivalents	11,267	1,406
Other	35,408	37,378
Total	144,388	146,253

(Note) Most of plan assets are operated through commingled funds and classified as those with no public market price in active markets. These commingled funds are appropriately diversified into stocks and debts that generally listed in active market based on corporate pension fund code. "General accounts of life insurance company" are the accounts that the life insurance company jointly manages the funds with several contracts and includes a guaranteed interest rate and return of capital. The major components of "Other" represent alternative instruments that are invested using long/short positions and securitized products.

G. Major actuarial assumptions

Major actuarial assumptions (weighted average) are as follows.

	As of December 31, 2024	As of December 31, 2025
Discount rate	2.3%	3.1%

H. Sensitivity analysis

In the calculation of the defined benefit obligation in the sensitivity analysis, the same method as the calculation method for the defined benefit obligation recognized in the consolidated statements of financial position is used.

The sensitivity analysis is made based on changes in assumptions that can be reasonably presumed at the end of the reporting period. In addition, although the sensitivity analysis assumes that all actuarial assumptions other than those that are subject to the sensitivity analysis remain constant, changes in those other actuarial assumptions could have an impact in reality.

The impact of a 0.5% change in actuarial assumptions on the defined benefit obligation is as follows.

(In millions of yen)

		As of December 31, 2024	As of December 31, 2025
Discount rate	0.5% increase	(5,406)	(4,899)
	0.5% decrease	5,614	4,148

(2) Defined contribution plans

The Group has adopted defined contribution pension plans. The amount recognized as an expense in relation to the defined contribution plans, including employee pension premiums paid by the employer under the Employees' Pension Insurance Act, is as follows.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Contributions	8,556	9,162

(Note) This amount is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of profit or loss.

(3) Employee benefit expenses

The components of the employee benefit expenses are as follows.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Personnel expenses	271,249	289,210
Retirement benefit expenses	11,361	12,394
Extra retirement payments and others	6,612	6,248
Other	5,491	5,736
Total	294,713	313,588

(Note) This amount is included in "Cost of sales," "Selling, general and administrative expenses" and "Other expenses" in the consolidated statements of profit or loss.

24. Share Capital and Other Equity Items

(1) Share capital and treasury shares

Ordinary shares

	Total number of authorized shares (shares)	Total number of issued shares (shares)	Treasury shares (shares)
As of December 31, 2024	3,400,000,000	1,870,614,885	75,848,895
Changes	—	—	(18,568,722)
As of December 31, 2025	3,400,000,000	1,870,614,885	57,280,173

- (Note) 1. All the shares issued by the Company are non-par value ordinary shares with no restrictions on rights.
2. The number of treasury shares decreased by 18,568,722 shares, due to disposals of treasury shares and so on based on the exercise of stock options, the vesting of Restricted Stock Unit (RSU) and of Performance Share Unit (PSU) for the year ended December 31, 2025. As a consequence, treasury shares decreased by 22,108 million yen for the year ended December 31, 2025. As a result, the amount of treasury shares held was 70,012 million yen as of December 31, 2025. For details on stock options, RSU and PSU, please refer to "Note 34. Share-based Payments."
3. Total number of issued shares has been already paid-up.

(2) Surplus

A. Capital surplus

The Companies Act of Japan stipulates that one half or more of the paid-in amount from the issue of shares shall be accounted for as share capital, and the remainder shall be accounted for as capital reserve included in capital surplus. Under the Companies Act, the amount of such capital reserve may be transferred to shared capital by the resolution of a shareholders meeting.

B. Retained earnings

The Companies Act of Japan stipulates that one tenth of the amount of the distributions of surplus shall be accumulated as capital reserve or legal reserve until the sum of the capital reserve and legal reserve reaches one fourth of the share capital. The accumulated retained earnings reserve may be appropriated to cover a loss. The Companies Act also states that the retained earnings reserve may be used by the resolution of a shareholders meeting.

25. Dividends

(1) Dividend payment amounts

The year ended December 31, 2024

Resolution	Class of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date	Source of dividend
March 26, 2024 Annual general meeting of shareholders	Ordinary shares	49,758	28	December 31, 2023	March 29, 2024	Retained earnings

The year ended December 31, 2025

Resolution	Class of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date	Source of dividend
March 26, 2025 Annual general meeting of shareholders	Ordinary shares	50,320	28	December 31, 2024	March 31, 2025	Retained earnings

(2) Dividends with a record date within the year ended December 31, 2024, but an effective date is after December 31, 2024, and dividends with a record date within the year ended December 31, 2025, but an effective date is after December 31, 2025

The year ended December 31, 2024

Resolution	Class of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date	Source of dividend
March 26, 2025 Annual general meeting of shareholders	Ordinary shares	50,320	28	December 31, 2024	March 31, 2025	Retained earnings

The year ended December 31, 2025

Resolution	Class of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date	Source of dividend
March 25, 2026 Annual general meeting of shareholders	Ordinary shares	50,814	28	December 31, 2025	March 30, 2026	Retained earnings

(Note) The matters described above are scheduled to be submitted as agenda items at the Group's Annual general meeting of shareholders to be held on March 25, 2026.

26. Revenue

(1) Disaggregation of revenue

Disaggregation of revenue recognized from contracts with customers are stated in “Note 7. Business Segments, (2) Information on reportable segments and (4) Information on regions and countries.” Also, all of the revenue arises from contracts with customers.

The Group engages in research, development, design, manufacturing, sales and services related to various kinds of semiconductors as a manufacturer specializing in semiconductors, and the revenue is mainly due to sales of semiconductor products.

Regarding the sales of these products, the Group recognizes revenue when the customer obtains control over the product which is at the time of delivery of a product because legal title of the product, physical possession of the asset, the significant risks and rewards of ownership are transferred to the customer, and the customer has an obligation to pay for the products at the time of delivery of the product.

Revenue is measured at the amount of promised consideration in contracts with customers.

With regard to sales contract including variable consideration such as rebate and discounts, the transaction price is estimated and determined using the most-likely-amount method based largely on historical data, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Consideration under sales contracts is recovered mainly within one year from satisfaction of a performance obligation and includes no significant financing components.

(2) Accounts arising from contracts

(In millions of yen)

	As of December 31, 2024		As of December 31, 2025	
	At beginning of the period	At end of the period	At beginning of the period	At end of the period
Trade receivables (Note 1)	210,964	204,149	204,149	192,466
Contract assets (Note 2)	167	8,973	8,973	5,583
Contract liabilities (Note 3, 4, 6)	97	10,452	10,452	20,917

(Note) 1. Trade receivables are included in “Trade and other receivables” and “Other financial assets” in the consolidated statements of financial position.

2. Contract assets are company's rights to the consideration received in exchange for goods or services transferred to the customer by the company, on condition of something other than the passage of time (for example, future performance of the company). Contract assets are transferred to receivables when the right to consideration becomes unconditional. Contract assets are included in “Trade and other receivables” in the consolidated statements of financial position.

3. Contract liabilities relate to the payment received in advance of performance under the contract. The contract liabilities are reclassified to revenue when the Group satisfies a performance obligation based on the contract. Contract liabilities are included in “Other current liabilities” and “Other non-current liabilities” in the consolidated statements of financial position.

4. The increase in contract liabilities for the year ended December 31, 2025 was due to the recognition of unearned revenue based on contracts with customers.

5. The amounts of revenues recognized during the prior fiscal year and the current fiscal year from the performance obligations satisfied in the past periods were immaterial.

6. Of the revenues recognized in the prior fiscal year, 82 million yen was included in the balance of contract liabilities as of January 1, 2024. Of the revenues recognized in the current fiscal year, 372 million yen was included in the balance of contract liabilities as of January 1, 2025.

(3) Transaction price allocated to the remaining performance obligation

The Group uses the practical expedient of omitting the disclosure of information on the remaining performance obligations because it has no significant transactions with individual expected contractual terms exceeding one year. In addition, there are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

(4) Assets recognized from the cost to obtain or fulfill contracts with customers

There are no assets recognized from the cost to obtain or fulfill contracts with customers.

27. Selling, General and Administrative Expenses

The components of selling, general and administrative expenses are as follows.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Research and development expenses (Note)	249,649	238,056
Depreciation and amortization	128,886	117,572
Personnel expenses	97,106	109,392
Retirement benefit expenses	4,439	4,941
Other	47,395	51,288
Total	527,475	521,249

(Note) Research and development expenses are included in selling, general and administrative expenses. Related expenses such as outsourcing costs, personnel expenses, depreciation costs and material costs are mainly included in research and development expenses.

28. Other Income

The components of other income are as follows.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Gain on sale of fixed assets	339	2,940
Compensation income (Note 1)	7,840	719
Reversal of allowance for doubtful accounts	—	713
Government grant income (Note 2)	6,007	655
Fair value remeasurements on contingent considerations (Note 3)	1,884	—
Other	3,891	1,217
Total	19,961	6,244

- (Note) 1. Compensation income for the year ended December 31, 2024 is compensation for the damages resulting from the discontinuation of development.
 2. Government grant income consists of government subsidies received for the acquisition of property, plant and equipment for the year ended December 31, 2024.
 3. For details, please refer to “8. Business Combinations.”

29. Other Expenses

The components of other expenses are as follows.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Impairment losses (Note 1)	3,015	18,430
Business restructuring expenses (Note 2)	7,852	7,401
Loss on disposal of fixed assets	1,665	4,127
Provision for loss on litigation	—	2,510
Loss on reduction of fixed assets	4,879	—
Other	1,894	5,153
Total	19,305	37,621

(Note) 1. For details on impairment losses, please refer to "Note 16. Impairment of Non-financial Assets."

2. Business restructuring expenses consist of personnel-related expenses, such as premium retirement payments and other related costs.

30. Finance Income and Finance Costs

The components of finance income and finance costs are as follows.

(1) Finance income

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Interest income		
Financial assets measured at amortized cost	20,708	10,336
Foreign exchange gain (Note 1)	15,075	—
Dividend income		
Financial assets measured at fair value through profit or loss	866	372
Financial assets measured at fair value through comprehensive income	—	1,172
Gain on fair value evaluation		
Financial assets measured at fair value through profit or loss	14,795	2,323
Other	656	449
Total	52,100	14,652

(2) Finance costs

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Interest expenses		
Financial liabilities measured at amortized cost	10,918	19,010
Foreign exchange loss (Note 1)	—	10
Loss on fair value evaluation (Note 2)		
Financial assets measured at fair value through profit or loss	—	226,579
Other	54	42
Total	10,972	245,641

(Note) 1. Foreign exchange gain and loss include gain or loss on valuation of currency derivatives.

2. Loss on fair value evaluation for the year ended December 31, 2025 mainly includes the recognition of valuation loss of 236,600 million yen on other financial assets related to Wolfspeed, following its filing for protection under the U. S. Bankruptcy Code and its restructuring plan.

31. Other Comprehensive Income

Reclassification adjustments and tax effects of other comprehensive income by component are as follows.

(In millions of yen)

	The year ended December 31, 2024	The year ended December 31, 2025
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit plans		
Amount incurred during the period	43	799
Tax effect	(124)	(265)
After tax effect	(81)	534
Equity financial assets measured at fair value through other comprehensive income		
Amount incurred during the period	(3,020)	68
Tax effect	48	37
After tax effect	(2,972)	105
Total of items that will not be reclassified to profit or loss	(3,053)	639
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations		
Amount incurred during the period	320,341	(31,349)
Reclassification	—	—
Before tax effect	320,341	(31,349)
Tax effect	—	—
After tax effect	320,341	(31,349)
Cash flow hedges		
Amount incurred during the period	(31,064)	(647)
Reclassification	34,377	4,084
Before tax effect	3,313	3,437
Tax effect	(7,061)	(1,053)
After tax effect	(3,748)	2,384
Cost of hedges		
Amount incurred during the period	(5,424)	(916)
Reclassification	22	30
Before tax effect	(5,402)	(886)
Tax effect	1,649	272
After tax effect	(3,753)	(614)
Total of items that may be reclassified subsequently to profit or loss	312,840	(29,579)
Total other comprehensive income	309,787	(28,940)

32. Earnings Per Share

Basic earnings (losses) per share attributable to owners of parent and diluted earnings (losses) per share are as follows.

(1) Basic earnings (losses) per share

	The year ended December 31, 2024	The year ended December 31, 2025
Profit (loss) attributable to owners of parent used for the calculation of basic earnings (losses) per share (million yen)	219,084	(51,763)
Weighted average number of ordinary shares during the year (thousands of shares)	1,788,230	1,806,796
Basic earnings (losses) per share (yen)	122.51	(28.65)

(2) Diluted earnings (losses) per share

	The year ended December 31, 2024	The year ended December 31, 2025
Profit (loss) attributable to owners of parent used for the calculation of basic earnings (losses) per share (million yen)	219,084	(51,763)
Adjustments on earnings (million yen)	—	—
Profit (loss) used for the calculation of diluted earnings (losses) per share (million yen)	219,084	(51,763)
Weighted average number of ordinary shares during the year before dilution (thousands of shares)	1,788,230	1,806,796
Increase in common stock		
Share acquisition rights (thousands of shares)	2,943	514
Restricted Stock Unit (thousands of shares)	21,649	26,022
Weighted average number of ordinary shares during the year after dilution (thousands of shares)	1,812,822	1,833,332
Diluted earnings (losses) per share (yen)	120.85	(28.65)

(Note) 1. Diluted losses per share are the same as basic losses per share as there were no dilutive potential common shares outstanding for the year ended December 31, 2025

2. For the year ended December 31, 2025, the share acquisition rights and restricted stock unit issued by the Company were not dilutive and were thus excluded from the calculation of diluted losses per share.

3. For the year ended December 31, 2025, the Company had 26,536 thousand potentially dilutive ordinary shares. Since these shares were not dilutive, they were excluded from the calculation of diluted losses per share.

33. Consolidated Statements of Cash Flows

(1) Changes in liabilities in financing activities

The components of liabilities in financing activities and their changes during the fiscal year are as follows.

(For the year ended December 31, 2024)

(In millions of yen)

	As of December 31, 2023	Cash flows	Non-cash transactions					As of December 31, 2024
			Acquisitions	Increase due to business combinatio n	Effect of foreign exchange rate changes	Changes in fair value	Other (Note 2)	
Long-term borrowings (Note 1)	459,851	809,471	—	—	2,221	—	(5,125)	1,266,418
Short-term borrowings	—	(316)	—	316	—	—	—	—
Bonds (Note 3)	191,097	(57,170)	—	—	152	—	175	134,254
Derivative liabilities (assets) (Note 4)	(14,460)	—	—	—	—	(29,033)	—	(43,493)
Lease liabilities	16,712	(9,931)	8,732	1,886	—	—	4,706	22,105
Total	653,200	742,054	8,732	2,202	2,373	(29,033)	(244)	1,379,284

(For the year ended December 31, 2025)

(In millions of yen)

	As of December 31, 2024	Cash flows	Non-cash transactions					As of December 31, 2025
			Acquisitions	Increase due to business combinatio n	Effect of foreign exchange rate changes	Changes in fair value	Other (Note 2)	
Long-term borrowings (Note 1)	1,266,418	(192,738)	—	—	(1,547)	—	1,452	1,073,585
Short-term borrowings	—	—	—	—	—	—	—	—
Bonds (Note 3)	134,254	—	—	—	(1,377)	—	105	132,982
Derivative liabilities (assets) (Note 4)	(43,493)	—	—	—	—	4,917	—	(38,576)
Lease liabilities	22,105	(10,784)	5,570	—	—	—	3,330	20,221
Total	1,379,284	(203,522)	5,570	—	(2,924)	4,917	4,887	1,188,212

(Note) 1. Current portion of long-term borrowings are included in long-term borrowings.

2. Non-cash transactions for long-term borrowings includes the arrangement fees.

3. To reduce the risk of foreign exchanges in the USD-denominated Senior Notes, the Group uses currency swaps. The currency swap is designated as a hedge. For details on hedge accounting, please refer to "Note 35. Financial Instruments."

4. Derivatives are held for the purpose of hedging bonds, borrowings and plan on purchasing.

(2) Non-cash transactions

Significant non-cash transactions are as follows.

(In millions of yen)

Type	The year ended December 31, 2024	The year ended December 31, 2025
Recognition of intangibles from installment contracts	49,303	7,171

(3) Principal assets and liabilities of a company that became a consolidated subsidiary due to acquisition of stock
(For the year ended December 31, 2024)

For details of assets and liabilities for Transphorm and Altium at time of its consolidation resulting from the acquisition of stock as well as the relationship between the acquisition price of stock and expenditures (net) for its acquisition, please refer to "Note 8. Business Combinations."

(For the year ended December 31, 2025)

Not applicable.

34. Share-based Payments

The Group has adopted share-based payment plans as an incentive plan for directors, senior vice presidents, employees, and others.

Share-based payment expenses included in the consolidated statements of profit or loss totaled 2,848 million yen in “Cost of sales” and 33,451 million yen in “Selling, general and administrative expenses” for the year ended December 31, 2024, and 2,697 million yen in “Cost of sales” and 34,388 million yen in “Selling, general and administrative expenses” for the year ended December 31, 2025.

(1) Restricted Stock Unit (RSU) and Performance Share Unit (PSU)

A. Overview of RSU and PSU

(a) RSU

RSU is a share-based payment plan in which the Company provides recipients with the number of units that corresponds to the number of years (basically three years, except one year for the Outside Directors) determined by the Granting Determination Body ((i) the compensation committee of the Company (the “Compensation Committee”), when the Units are granted to directors or executive officers of the Company, or (ii) the representative executive officer of the Company (the “Representative Executive Officer”), when the Units are granted to other persons) and annually delivers to the recipients common stock for the number of units that vested (the units vest by one third of total units provided every year after the grant date, except that the units vest after one year for the outside directors), subject to continued employment with the Group.

(b) PSU

PSU is a share-based payment plan in which the Company provides the recipients (excluding outside directors) with the number of units determined by the Granting Determination Body ((i) the compensation committee of the Company (the “Compensation Committee”), when the Units are granted to directors or executive officers of the Company, or (ii) the representative executive officer of the Company (the “Representative Executive Officer”), when the Units are granted to other persons) and delivers to the recipients common stock for the number of the units that vested in response to the extent of the growth rate of total shareholder return during the performance evaluation period when the PSUs are granted.

B. Details for RSU and PSU

The details of RSU and PSU granted for the year ended December 31, 2024 and December 31, 2025 are as follows.

Date of grant	Category and number of grantees	Number of units		Fair value (Yen)	
		RSU	PSU	RSU	PSU
January 15, 2024	Employees of the Company and subsidiaries 144	652,500	—	2,461.5	—
April 8, 2024	Directors 2	4,399,200	1,547,500	2,761.7	2,702.0
	Corporate officers 10	4,364,500		2,731.7	
	Employees of the Company and subsidiaries 9,143	3,498,300		2,702.0	
June 20, 2024 (Note 5, 6)	Directors of subsidiaries 2	309,100	—	3,128.0	—
	Corporate officers of subsidiaries 5				
	Employees of subsidiaries 88				
July 9, 2024	Employees of the Company and subsidiaries 464	803,600	—	3,256.7	—
		802,300		3,221.1	
		757,200		3,185.9	
August 1, 2024 (Note 7, 8)	Directors of subsidiaries 2 Employees of subsidiaries 53	1,432,500	23,000	2,368.8	2,392.8
		1,327,700	23,000	2,342.9	2,366.7
		1,326,900	22,700	2,317.3	2,340.8
August 29, 2024	Director of subsidiary 1 Employees of subsidiaries 50	116,600	—	2,421.0	—
		156,600		2,394.6	
		150,900		2,368.4	
October 11, 2024	Corporate officer 1 Employees of the Company and subsidiaries 289	476,400	—	2,076.7	—
		474,700		2,054.0	
		408,300		2,031.6	
January 10, 2025	Corporate officer 1 Employees of the Company and subsidiaries 235	385,500	—	1,997.6	—
		385,500		1,975.7	
		361,200		1,954.1	
April 7, 2025	Directors 6 Corporate officers 9 Employees of the Company and subsidiaries 11,256	6,213,500	2,834,700	1,360.2	1,323.8
		6,122,600		1,341.9	
		5,055,000		1,323.8	
July 4, 2025	Employees of the Company and subsidiaries 613	380,700	—	1,866.2	—
		379,700		1,840.2	
		322,200		1,814.6	
August 7, 2025	Employees of subsidiaries 43	142,200	—	1,694.5	—
		142,200		1,670.9	
		138,300		1,647.7	
October 10, 2025	Corporate officer 1 Employees of the Company and subsidiaries 219	295,400	—	1,770.0	—
		294,900		1,745.4	
		274,100		1,721.1	

- (Note) 1. At the time of rights confirmation, the company will issue common shares (one share per unit) corresponding to the confirmed number of units. No payment will be required from the recipients at the time of the stock issuance.
2. PSUs will determine the number of units based on the granted number of units, in accordance with a certain coefficient set according to the growth rate of the company's total shareholder return during the performance evaluation period.
 3. The fair value of RSUs is calculated by considering the market value of the company's stock, as well as anticipated dividends based on past dividend performance.
 4. The fair value of PSU is calculated based on the results of comparing the fluctuation rate of the Company's stock with that of stock indexes over a certain period.
 5. Based on the memorandum and agreements related to the acquisition of Transphorm, the outstanding portion of stock-based compensation already granted to directors, corporate officers, and employees of subsidiaries has been replaced with our company's LTI plan (RSUs), considering the current conditions of Transphorm's LTI plan, and the grants were made on the acquisition completion date.
 6. The vesting conditions continue to follow the previous conditions of Transphorm.
 7. Based on the memorandum and agreements related to the acquisition of Altium, the outstanding portion of stock-based compensation already granted to directors and employees of subsidiaries has been replaced with our company's LTI plan (RSUs and PSUs), considering the current conditions of Altium's LTI plan, and the grants were made on the acquisition completion date.
 8. The vesting conditions continue to follow the previous conditions of Altium.

C. Changes of the number of RSU and PSU

Changes of the number of RSU and PSU in the prior fiscal year and the current fiscal year are as follows (1 right = 1 share).

Grant date	The year ended December 31, 2024		The year ended December 31, 2025	
	RSU	PSU	RSU	PSU
Beginning balance	25,928,893	3,691,187	32,333,577	3,989,254
Granted	21,457,300	2,304,745	20,893,000	3,518,893
Forfeited	(2,242,266)	(317,691)	(3,935,396)	(674,353)
Vested	(12,810,350)	(1,688,987)	(14,893,188)	(2,034,111)
Ending balance	32,333,577	3,989,254	34,397,993	4,799,683

(2) Stock option

A. Overview of the stock option plan

Under the stock option plan, warrants have been granted to eligible persons in accordance with the resolution of the Board of Directors of the Company based on the arrangement approved at the shareholders meeting of the Company. The exercise period of the stock options is set by an allotment contract, and if they are not exercised during the exercise period, the stock options will lapse. In addition, if an eligible person has left the Company before the vesting date, the options will also lapse. However, this does not apply to certain cases addressed in the warrants allotment contract, such as resignation due to the expiration of the term of office, etc.

The stock option plan of the Company is accounted for as equity-settled share-based payments.

B. Details for the stock option plan

The stock option plan in effect during the current fiscal year is as follows.

	Category and number of grantees	Type of stock and number of shares	Grant date	Vesting conditions	Vesting period	Exercise period
Fiscal year 2017 Stock options No.1 – 1 No.2 – 1	Directors of the Company 2 Corporate officers and executive officers of the Company 11 Employees of the Company 342 Directors of subsidiaries 20 Employees of subsidiaries 890	Common stock 3,549,500 shares	April 3, 2017	The rights vest in stages as follows One third vests on April 4, 2018 One third vests on April 4, 2019 The remaining vests on April 4, 2020	From April 3, 2017 to April 4, 2020	From April 4, 2017 to April 3, 2027
Fiscal year 2018 Stock options No.1 – 1 No.2 – 1	Directors of the Company 3 Corporate officers and executive officers of the Company 10 Employees of the Company 472 Directors of subsidiaries 18 Employees of subsidiaries 743	Common stock 3,607,200 shares	April 2, 2018	The rights vest in stages as follows One third vests on April 3, 2019 One third vests on April 3, 2020 The remaining vests on April 3, 2021	From April 2, 2018 to April 3, 2021	From April 3, 2018 to April 2, 2028
Fiscal year 2018 Stock options No.3 No.4	Employees of the Company 257 Directors of subsidiaries 1 Employees of subsidiaries 181	Common stock 534,600 shares	July 31, 2018	The rights vest in stages as follows One third vests on April 3, 2019 One third vests on April 3, 2020 The remaining vests on April 3, 2021	From July 31, 2018 to April 3, 2021	From August 1, 2018 to July 31, 2028
Fiscal year 2019 Stock options No.6 – 1 No.7 – 1	Employees of the Company 486 Directors of subsidiaries 15 Employees of subsidiaries	Common stock 16,222,700 shares	July 25, 2019	The rights vest in stages as follows One third vests on April 1, 2020 One third vests on April 1, 2021 The remaining vests on April 1, 2022	From July 25, 2019 to April 1, 2022	From July 26, 2019 to July 25, 2029

	1,875					
Fiscal year 2019 Stock options No.11 – 1 No.12 – 1	Corporate officers and executive officers of the Company 1 Employees of the Company 122 Employees of subsidiaries 123	Common stock 887,700 shares	October 31, 2019	The rights vest in stages as follows Certain amount vests on April 1, 2020 Certain amount vests on April 1, 2021 Certain amount vests on April 1, 2022 The remaining vests on April 1, 2023	From October 31, 2019 to April 1, 2023	From November 1, 2019 to October 31, 2029
Fiscal year 2020 Stock options No.1 – 1 No.2 – 1	Directors of the Company 4 Corporate officers and executive officers of the Company 10 Employees of the Company 467 Directors of subsidiaries 14 Employees of subsidiaries 1,888	Common stock 17,068,000 Shares	June 30, 2020	The rights vest in stages as follows One third vests on July 1, 2021 One third vests on July 1, 2022 The remaining vests on July 1, 2023	From June 30, 2020 to July 1, 2023	From July 1, 2020 to June 30, 2030
Fiscal year 2020 Stock options No.1 – 2 No.2 – 2	Directors of the Company 1 Corporate officers and executive officers of the Company 10 Employees of the Company 88 Directors of subsidiaries 9 Employees of subsidiaries 41	Common stock 5,211,600 Shares	June 30, 2020	The Company sets the upper limit number of shares expected to vest by multiplying the number of allocated stock subscription rights with the rate calculated by comparing total shareholder return fluctuation rate of the Company and companies that are the components of PHLX Semiconductor Sector Index and Tokyo Stock Price Index.	From June 30, 2020 to June 30, 2023	From July 1, 2020 to June 30, 2030
Fiscal year 2020 Stock options No.3 No.4	Directors of the Company 1 Corporate officers and executive officers of the Company 8 Employees of the Company 916	Common stock 4,725,300 Shares	August 31, 2020	The rights vest in stages as follows One third vests on August 31, 2020 One third vests on September 1, 2020 The remaining vests on October 1, 2020	From August 31, 2020 to October 1, 2020	From August 31, 2020 to August 30, 2030

	Directors of subsidiaries 6 Employees of subsidiaries 1,614					
Fiscal year 2020 Stock options No.5 No.6	Employees of the Company 219 Employees of subsidiaries 161	Common stock 665,800 Shares	August 31, 2020	The rights vest in stages as follows One third vests on September 1, 2021 One third vests on September 1, 2022 The remaining vests on September 1, 2023	From August 31, 2020 to September 1, 2023	From September 1, 2020 to August 31, 2030
Fiscal year 2020 Stock options No.7 – 1 No.8 – 1	Employees of the Company 3 Employees of subsidiaries 94	Common stock 910,100 Shares	November 30, 2020	The rights vest in stages as follows Certain amount vests on July 1, 2021 Certain amount vests on July 1, 2022 Certain amount vests on July 1, 2023 The remaining vests on July 1, 2024	From November 30, 2020 to July 1, 2023	From December 1, 2020 to November 30, 2030
Fiscal year 2021 Stock options No.1 No.2	Employees of the Company 6 Employees of subsidiaries 52	Common stock 320,400 Shares	February 26, 2021	The rights vest in stages as follows Certain amount vests on July 1, 2021 Certain amount vests on July 1, 2022 Certain amount vests on July 1, 2023 The remaining vests on July 1, 2024	From February 26, 2021 to July 1, 2024	From February 27, 2021 to February 26, 2031

(Note) 1. Vesting conditions include a requirement for award beneficiaries to provide services to the Company until the stock vesting date. However, this does not apply to certain cases such as mandatory retirement, resignation due to the expiration of the term of office or the other justifiable reasons.

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

C. Number and weighted average exercise price of stock options

Changes of the number and the weighted average exercise price of stock options granted in the prior fiscal year and the current fiscal year are as follows. The number of stock options is stated by converting them to the number of shares.

	The year ended December 31, 2024		The year ended December 31, 2025	
	Number of options (shares)	Weighted average exercise price (yen)	Number of options (shares)	Weighted average exercise price (yen)
Beginning balance of unexercised options	5,189,300	1	1,820,700	1
Granted	—	—	—	—
Exercised	3,182,600	1	1,651,400	1
Forfeited	2,600	1	—	—
Expired	183,400	1	144,800	1
Ending balance of unexercised options	1,820,700	1	24,500	1
Ending balance of exercisable options	1,820,700	1	24,500	1

(Note) 1. For the stock options exercised during the period, the weight average share price as of the exercise date was 2,569 yen for the year ended December 31, 2024 and 2,032 yen for the year ended December 31, 2025.

2. Remaining average contractual life outstanding as of December 31, 2024 and 2025 was 1 year for each.

D. Fair value of stock options granted and estimation method of fair value

There were no stock options granted during the year ended December 31, 2024 and 2025.

35. Financial Instruments

(1) Capital management

The Group aims to achieve sustainable growth and maximize its corporate value. Investments of surplus funds are limited to short-term deposits and financial assets with a high level of safety. Regarding financing sources, the Group mainly uses borrowings from banks and bonds. The Group mainly uses derivative financial instruments to manage fluctuations in foreign currency exchange rates, and the Group's policies prohibit holding or issuing derivative financial instruments for speculative transactions. Items subject to management are net interest-bearing liabilities obtained by deducting cash and cash equivalents from interest-bearing liabilities and equity. Their balances and the major indicators that the Group uses for its capital management are as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Interest-bearing liabilities	1,422,777	1,226,788
Less: Cash and cash equivalents	(229,249)	(295,897)
Net interest-bearing liabilities	1,193,528	930,891
Total equity attributable to owners of parent	2,537,382	2,443,034
Total liabilities and equity	4,490,436	4,177,163
Equity ratio attributable to owners of parent (%)	56.5	58.5

Equity ratio attributable to owners of parent: Total equity attributable to owners of parent / Total liabilities and equity.

(2) Basic policies for financial risk management

The Group is exposed to financial risks (credit risk, liquidity risk and market risk) in the process of executing its business activities. Accordingly, the Group regularly monitors the financial risks based on internal management regulations and takes measures to avoid or reduce the risks as required.

The Group does not engage in derivative transactions for speculative purposes.

A. Credit risk

(a) Credit risk management

Notes and trade receivables are exposed to the credit risk of customers. Conforming to the internal rules for the management of receivables, the Group regularly monitors major customers' credit and manages the due dates of collection and the balance for each customer. Other receivables are exposed to the credit risk of customers, but most of them are settled in the short term. Short-term investments are financial assets invested on a short-time basis, and the Group transacts with highly creditworthy financial institutions. Trade receivables are regarded as non-performing if all or part of them cannot be collected or if collection is deemed extremely difficult. The Group does not have any exposure to the significant credit risk of certain customers, and there is no excessive concentration of credit risk that requires special management.

The largest exposure to credit risk at the end of the reporting period is the carrying amount of financial assets after impairment, but there is no historical experience of recognizing a significant credit loss in previous years.

Regarding debt guarantees, the balance of debt guarantees presented in "Note 38. Commitments and Contingent Liabilities" is the largest exposure of the Group to credit risk.

(b) Analysis of changes in loss allowance
The changes in the loss allowance are as follows.

The year ended December 31, 2024

(In millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		
	Loss allowance for financial assets other than trade receivables	Loss allowance for trade receivables	Loss allowance for financial assets whose credit risk has increased significantly	Loss allowance for credit-impaired financial assets
Beginning balance	—	437	—	—
Increases	—	1,118	—	—
Decreases due to use for the intended purpose	—	—	—	—
Decreases due to reversal	—	(78)	—	—
Other	—	102	—	—
Ending balance	—	1,579	—	—

The year ended December 31, 2025

(In millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		
	Loss allowance for financial assets other than trade receivables	Loss allowance for trade receivables	Loss allowance for financial assets whose credit risk has increased significantly	Loss allowance for credit-impaired financial assets
Beginning balance	—	1,579	—	—
Increases	—	17	—	—
Decreases due to use for the intended purpose	—	(674)	—	—
Decreases due to reversal	—	(72)	—	—
Other	—	(50)	—	—
Ending balance	—	800	—	—

(c) Carrying amount of financial assets for the loss allowance

The carrying amount (before the loss allowance) of financial assets for the loss allowance as of each fiscal year end is as follows.

(In millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		
	Loss allowance for financial assets other than trade receivables	Loss allowance for trade receivables	Loss allowance for financial assets whose credit risk has increased significantly	Loss allowance for credit-impaired financial assets
As of December 31, 2024	16,311	204,149	—	—
As of December 31, 2025	13,752	192,371	—	95

(d) Analysis of credit risk

The aging analysis of trade receivables as of each fiscal year end is as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Before due date	186,908	175,963
Up to 30 days past due	12,462	12,297
Over 30 days past due and up to 90 days past due	3,118	2,242
Over 90 days past due	1,661	1,964
Total	204,149	192,466

For trade receivables, the Group's major counterparties consist of specific distributors with high credit ratings and there is no material balance of loss allowance based on expected loss rate. For financial assets other than trade receivables, there is no credit risk that is concentrated around credit ratings.

B. Liquidity risk

The Group is exposed to liquidity risk whereby the performance of payment obligations could become difficult. To limit its exposure to liquidity risk, however, the Group works to maintain fund management through the optimization of capital efficiency through the efficient management of working capital and the central management of funds by the Company. The Group also manages the liquidity risk by appropriately maintaining liquidity on hand through the timely preparation and updating of the financing plan and taking the external financial environment into account.

The balance of financial liabilities by due date is as follows.

As of December 31, 2024

(In millions of yen)

	Carrying amount	Contractual cash flows	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	253,967	256,936	231,029	16,593	9,314	—	—	—
Bonds and borrowings	1,400,672	1,454,932	157,991	291,152	124,341	149,101	732,347	—
Lease liabilities	22,105	25,996	6,943	5,222	3,769	2,797	2,159	5,106
Contingent consideration (Note)	1,582	1,582	1,582	—	—	—	—	—
Derivative financial liabilities	—	—	—	—	—	—	—	—
Total	1,678,326	1,739,446	397,545	312,967	137,424	151,898	734,506	5,106

As of December 31, 2025

(In millions of yen)

	Carrying amount	Contractual cash flows	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	226,237	226,779	219,167	7,376	223	13	—	—
Bonds and borrowings	1,206,567	1,256,890	258,716	137,739	152,068	708,367	—	—
Lease liabilities	20,221	23,299	6,250	4,771	3,294	2,551	1,548	4,885
Contingent consideration (Note)	2,576	2,576	2,358	218	—	—	—	—
Derivative financial liabilities	1,278	1,278	1,278	—	—	—	—	—
Total	1,456,879	1,510,822	487,769	150,104	155,585	710,931	1,548	4,885

(Note) For details, please refer to "Note 8. Business Combinations."

C. Market risk

(a) Foreign currency exchange risk

(i) Foreign currency exchange risk management

Foreign currency receivables and obligations arising from the global business development of the Group are exposed to the risk of foreign exchange rate fluctuations. To reduce the risk of foreign exchange rate fluctuations, the Group uses forward exchange contracts, currency options and currency swaps.

(ii) Net foreign exchange risk exposure

The Group's exposure to the risk of foreign exchange rate fluctuations (net amount) is as follows. This excludes derivative transactions and the amount entered into to hedge foreign exchange rate fluctuation risk using foreign currency deposits.

(In millions of yen)

Currency	The year ended December 31, 2024	The year ended December 31, 2025
US dollar	(5,119)	(28,837)
Euro	33,740	10,277

(iii) Sensitivity analysis of foreign exchange rates

Based on the assumption that all other variables are constant for foreign currency financial instruments held by the Group in the previous fiscal year and the current fiscal year, the amount of the impact of the 1.0% appreciation of the yen against the US dollar and the euro on profit before tax in the consolidated statements of profit or loss is as follows.

(In millions of yen)

Currency	The year ended December 31, 2024	The year ended December 31, 2025
US dollar	51	288
Euro	(337)	(103)

(b) Interest rate risk

The Group raises funds mainly through borrowings and bonds for the purpose of securing funds for long-term working capital and the promotion of growth strategies. The Group is exposed to the risk of interest rate fluctuations because some borrowings are made mainly at floating interest rates. To reduce the risk of changes in the interest paid on borrowings, the Group uses interest rate swaps as required. Additionally, bonds are issued with fixed interest rates. Accordingly, the Group has decided that the impact of the risk of interest rate fluctuations on the Company is limited and insignificant and does not conduct a sensitivity analysis for interest rate risk.

(c) Stock price risk

The Group has adopted an incentive plan for its employees for the purpose of securing excellent human resources, particularly at subsidiaries. To operate the incentive plan, the Group holds shares and other financial instruments for the long term and is exposed to the risk of changes in their market prices. Please note that, following the introduction of a stock option plan, the incentive plan was abolished and there was no new issuance.

The Group does not conduct a sensitivity analysis for the risk of changes in share prices since the impact of changes in share prices are immaterial.

(3) Fair value of financial instruments

A. Calculation method of fair value

The calculation method of the fair value of financial instruments is as follows.

(a) Cash and cash equivalents, and trade and other receivables

The fair value of these instruments approximates their carrying amount due to short term maturities.

(b) Trade and other payables

For trade and other payables that will mature within a short amount of time, the fair value approximates the carrying amount. The fair value of trade and other payables that will not mature in a short amount of time is calculated by the present value that is discounted by an interest rate assumed for the case where a similar borrowing is newly made and classified as Level 2.

(c) Securities

If the market price of a security is available in an active market, the securities are measured using this market price and classified as Level 1. If the market price is not available, the fair value is measured mainly by a method based on net assets (method of calculating by making adjustments to the market value as required based on the net assets of the entity that issues shares) and others, and classified as Level 3.

(d) Loans

The fair value of loans is calculated based on the present value discounted at an interest rate that takes into account credit risk and classified as Level 3.

(e) Long-term borrowings

The fair value of long-term borrowings is calculated at the present value that is discounted using an interest rate assumed for the case where a similar borrowing is newly made and classified as Level 2.

(f) Derivative transactions

Forward exchange contracts, currency options and currency swaps are calculated based on the price presented by the customers' financial institution and classified as Level 2. In addition, the fair value calculated using unobservable inputs is classified as Level 3.

(g) Bonds

The fair value of bonds is calculated by referring to a market price and classified as Level 2.

(h) Contingent consideration

The fair value of the contingent consideration is calculated as the present value of the payments in the future using appropriate valuation methods with consideration of the probability of occurrence and is classified as Level 3.

(i) Other financial assets and liabilities

The fair value of convertible notes and rights that are expected to be converted into warrants is calculated using the Black-Scholes model, while the fair value of rights that are expected to be converted into common stock is determined based on shareholder value. All of these are classified as Level 3.

Time deposits with maturities of more than three months, long-term accounts receivable, security deposits and guarantee deposits received that are measured at amortized cost are classified as Level 2. Because their fair value approximates their carrying amount, they are omitted from the following table.

B. Classification of financial instruments measured at fair value by levels

In the fair value hierarchy, financial instruments are classified from Level 1 to Level 3 as follows.

Level 1: Fair value measured using unadjusted quoted prices in the active markets

Level 2: Fair value calculated using observable inputs, either directly or indirectly, other than those classified as Level 1

Level 3: Fair value calculated by using a valuation technique including inputs that are not based on observable market data

Transfers between the levels in the fair value hierarchy are recognized on the assumption that the transfers occur at the end of each reporting period.

(a) Financial instruments measured at amortized cost

The carrying amount and the fair value of financial instruments measured at amortized cost are as follows. Financial instruments measured at fair value and financial instruments whose carrying amount closely approximates fair value and lease liabilities are not included in the table below.

As of December 31, 2024

(In millions of yen)

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities					
Borrowings	1,266,418	—	1,261,146	—	1,261,146
Bonds	134,254	—	134,254	—	134,254
Other payables	86,697	—	87,404	—	87,404
Total	1,487,369	—	1,482,804	—	1,482,804

As of December 31, 2025

(In millions of yen)

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities					
Borrowings	1,073,585	—	1,065,829	—	1,065,829
Bonds	132,982	—	132,982	—	132,982
Other payables	61,509	—	61,548	—	61,548
Total	1,268,076	—	1,260,359	—	1,260,359

(b) Financial instruments measured at fair value

The components of financial assets and financial liabilities measured at fair value on a recurring basis that are classified as each level of the fair value hierarchy are as follows.

As of December 31, 2024

	(In millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	43,493	—	43,493
Investment trust	11,069	—	—	11,069
Unlisted securities	—	—	3,838	3,838
Loans	—	—	327,973	327,973
Equity instruments measured at fair value through other comprehensive income				
Listed securities	458	—	—	458
Unlisted securities	—	—	9,060	9,060
Total	11,527	43,493	340,871	395,891
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	—	—	—
Contingent consideration (Note 1)	—	—	1,582	1,582
Total	—	—	1,582	1,582

As of December 31, 2025

	(In millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	39,854	—	39,854
Investment trust	13,108	—	—	13,108
Unlisted securities	—	—	5,520	5,520
Others (Note 2)	—	—	87,384	87,384
Equity instruments measured at fair value through other comprehensive income				
Listed securities	65	—	—	65
Unlisted securities	—	—	8,636	8,636
Total	13,173	39,854	101,540	154,567
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	1,278	—	1,278
Contingent consideration (Note 1)	—	—	2,576	2,576
Total	—	1,278	2,576	3,854

(Note) 1. For details, please refer to "Note 8. Business Combinations."

2. Others include convertible notes subject to restrictions on conversion, as well as rights that are expected to be converted into common stock and warrants in the future.

C. Changes in financial assets that are classified as Level 3 are as follows.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Beginning balance	158,023	340,871
Total gains or losses in the period	33,184	(240,260)
Profit or loss (Note 1, 2)	14,146	(227,733)
Other comprehensive income (Note 3)	19,038	(12,527)
Purchases	155,845	929
Sale	(50)	—
Settlement	(6,131)	—
Others	—	—
Ending balance	340,871	101,540
Changes in unrealized gains or losses recorded in profit or loss for the balance held at the end of the reporting period (Note1)	14,146	(227,733)

Changes in financial liabilities that are classified as Level 3 are as follows.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Beginning balance	3,298	1,582
Total gains or losses in the period	(1,716)	798
Profit or loss (Note 4)	(1,960)	777
Other comprehensive income (Note 3)	244	21
Settlement	—	—
Acquisition due to business combination	—	196
Ending balance	1,582	2,576
Changes in unrealized gains or losses recorded in profit or loss for the balance held at the end of the reporting period (Note 4)	(1,374)	777

(Note) 1. Amounts relate to financial assets measured at fair value through profit or loss and included in “Finance income” and “Finance costs” in the consolidated statements of profit or loss.

2. The decrease in financial assets is mainly due to the recognition of valuation loss of 236,600 million yen on other financial assets related to Wolfspeed, following the company’s filing for protection under the U.S. Federal Bankruptcy Code and its restructuring plan.

3. Amounts relate to equity instruments measured at fair value through other comprehensive income and presented in “Exchange differences on translation of foreign operations” or “Equity instruments measured at fair value through other comprehensive income” in the consolidated statements of comprehensive income.

4. Amounts relate to financial liabilities measured at fair value through profit or loss and included in “Finance costs”, “Other expenses” and “Other income” in the consolidated statements of profit or loss.

5. Financial instruments that are classified as Level 3 consist of unlisted securities, convertible notes under “Others”, rights that are expected to be converted into common stock (also classified under “Others”) and warrants (also classified under “Others”) in the future and contingent consideration for acquisitions. The fair value measurement results are reviewed and approved by the appropriate authorized persons.

Unlisted securities are mainly investments in funds, and the fair value of the unlisted securities is measured based on the value of net asset as a valuation technique.

The fair value of convertible notes and rights that are expected to be converted into warrants in the future is calculated using the Black-Scholes model, while the fair value of rights that are expected to be converted into common stock in the future is determined based on shareholder value. As these estimates involve uncertainty, changes in significant unobservable inputs may lead to fluctuations in fair value.

In addition, the fair value of contingent consideration is measured in consideration of the possibility of achieving for developmental milestones and the time value of money. Since these estimates are uncertain, fair value may increase if significant non-observable development milestones become more likely to be achieved.

D. The total amount of differences not recognized in profit or loss at the beginning and end of the fiscal year and the changes in these differences are as follows.

	(In millions of yen)	
	The year ended December 31, 2024	The year ended December 31, 2025
Financial assets measured at fair value through profit or loss		
Loans		
Beginning balance	42,043	83,728
Increase		
Increase due to new transactions	44,833	—
Decrease		
Other amounts recognized in profit or loss	—	(74,494)
Decrease due to amortization	(7,770)	(4,656)
Others	4,622	(4,578)
Ending balance	83,728	—

(Note) In cases where the transaction price of a financial instrument differs from its fair value at the initial recognition, and the fair value is determined using unobservable inputs, the difference between the transaction price and fair value is deferred. This difference is recognized in profit or loss either when amortized over the term of the contract using the straight-line method or when the financial instrument is derecognized.

(4) Derivative transactions and hedging activities

A. Overview of hedges

The Group uses forward exchange contracts, currency options and currency swaps for the purpose of hedging transactions against the risk of foreign exchange rate fluctuations in foreign currency cash flows. Hedge accounting is applied to those transactions that meet the requirements for hedge accounting. Even if the requirements for hedge accounting are not met, the Group uses derivative transactions if they are economically reasonable. Changes in the fair value of the derivative transactions are recognized in profit or loss. The Group has also set a policy of not engaging in derivative transactions for speculative purposes.

Cash flow hedges

Cash flow hedges are hedging transactions to avoid the risk of changes in future cash flows, and changes in the fair value of derivative transactions that are designated as cash flow hedges are recognized in other comprehensive income. The amount that is recognized in accumulated other comprehensive income is reclassified to profit or loss at the time when the hedged transactions affect profit or loss. If the hedged items give rise to the recognition of non-financial assets or non-financial liabilities, the amount that is recognized in other comprehensive income is reclassified as an adjustment to the initial carrying amount of non-financial assets or non-financial liabilities. Derivatives that are designated as cash flow hedges include forward exchange contracts, currency options and currency swaps to hedge the risk of changes in cash flows due to changes in the foreign exchange rates for foreign currency transactions.

In the previous fiscal year and the current fiscal year, the amount recognized in profit or loss for the ineffective portion of the hedge was not material.

B. Information on items that are designated as hedging instruments

The impact of hedging instruments that are designated as hedges on the consolidated statements of financial position is as follows. Derivative assets and liabilities are included in "Other financial assets" and "Other financial liabilities," respectively, in the consolidated statements of financial position.

As of December 31, 2024

(In millions of yen)

	Contract amount	Book value of hedging instruments (Fair value)		Changes in fair value used as the basis for recognizing the ineffective portion of hedges
		Assets	Liabilities	
Cash flow hedges				
Foreign currency exchange risk				
Currency swaps	118,026	34,998	—	36,528

As of December 31, 2025

(In millions of yen)

	Contract amount	Book value of hedging instruments (Fair value)		Changes in fair value used as the basis for recognizing the ineffective portion of hedges
		Assets	Liabilities	
Cash flow hedges				
Foreign currency exchange risk				
Forward exchange contracts	31,461	42	1,278	—
Currency swaps	109,680	36,502	—	37,514

C. Information on items designated as hedged items

The amount of the impact of hedged items that are designated as hedges on the consolidated statements of financial position is as follows.

As of December 31, 2024

(In millions of yen)

	Changes in fair value used as the basis for recognizing the ineffective portion of hedges	Surplus for cash flow hedges related to ongoing hedging	Surplus for cash flow hedges related to the suspension of hedge accounting
Cash flow hedges			
Foreign currency exchange risk			
Bonds and borrowings	(35,487)	(3,807)	—

As of December 31, 2025

(In millions of yen)

	Changes in fair value used as the basis for recognizing the ineffective portion of hedges	Surplus for cash flow hedges related to ongoing hedging	Surplus for cash flow hedges related to the suspension of hedge accounting
Cash flow hedges			
Foreign currency exchange risk			
Plan on purchasing	—	1	—
Bonds and borrowings	(36,435)	(1,424)	—

D. Impact of the application of hedge accounting on the consolidated statements of profit and loss and the consolidated statements of comprehensive income

The impact of hedging instruments that is designated as cash flow hedges on the consolidated statement of profit and loss and the consolidated statements of comprehensive income are as follows.

As of December 31, 2024

(In millions of yen)

	Changes in the value of hedging instruments recognized in other comprehensive income (Note)	Ineffective portion recognized in profit or loss
Cash flow hedges		
Foreign currency exchange risk		
Currency swaps	(5,487)	(1,041)
(Note) Amount before tax effect.		

As of December 31, 2025

(In millions of yen)

	Changes in the value of hedging instruments recognized in other comprehensive income (Note)	Ineffective portion recognized in profit or loss
Cash flow hedges		
Foreign currency exchange risk		
Forward exchange contracts	2	—
Currency swaps	(2,052)	(1,079)
(Note) Amount before tax effect.		

E. Fair value of derivatives to which hedge accounting is not applied

The fair value and contract amount of derivatives to which hedge accounting is not applied are as follows.

As of December 31, 2024

(In millions of yen)

	Contract amount	Book value of hedging instruments (Fair value)	
		Assets	Liabilities
Forward exchange contracts	244,268	8,495	—

As of December 31, 2025

(In millions of yen)

	Contract amount	Book value of hedging instruments (Fair value)	
		Assets	Liabilities
Forward exchange contracts	278,199	3,309	—

(5) Transfer of financial assets

Accelerating from restructuring to growth stage, the Group provides diversified financing to achieve these growth strategies and liquidates certain trade receivables by transferring receivables.

The expenses arising from transfer of trade receivables derecognized in their entirety were 31 million yen for the year ended December 31, 2024, and 47 million yen for the year ended December 31, 2025.

36. Related Parties

(1) Transactions with related parties

The year ended December 31, 2024
Not applicable.

The year ended December 31, 2025
Not applicable.

(2) Compensation to key management

Compensation paid to key management personnel is as follows.

(In millions of yen)

Category	The year ended December 31, 2024	The year ended December 31, 2025
Remuneration and bonuses	332	342
Share-based payments	918	1,229
Total	1,250	1,571

(Note) The exercise price and other key terms of share-based payment arrangements are as stated in "Note 34. Share-based Payments."

37. Major Subsidiaries

All subsidiaries are included in the scope of consolidation for our consolidated financial statements.

Major subsidiaries as of December 31, 2025 are as follows.

Company	Location	Descriptions of Principal Businesses	Percentage Ownership and Voting Interest (%)	
			The year ended December 31, 2024	The year ended December 31, 2025
Renesas Semiconductor Manufacturing Co., Ltd.	Hitachinaka, Ibaraki	Manufacturing and Engineering Service Companies	100.0	100.0
Renesas Electronics Hong Kong Limited	Hong Kong, China	Sales Companies	100.0	100.0
Renesas Electronics America Inc.	California, U.S.A.	Design, Applications, Manufacturing and Sales Companies	100.0	100.0
Renesas Electronics Europe GmbH (Germany)	Dusseldorf, Germany	Design, Applications and Sales Companies	100.0	100.0
Renesas International Operations Sdn. Bhd.	Selangor, Malaysia	Management of parts of consignment business of our Group companies	100.0 (100.0) (Note)	100.0 (100.0) (Note)
Renesas Electronics (Penang) Sdn. Bhd.	Penang, Malaysia	Engineering, Manufacturing and Sales Companies	100.0 (100.0) (Note)	100.0 (100.0) (Note)
Renesas Electronics Germany GmbH	Dresden, Germany	Engineering, Manufacturing and Sales Companies	100.0 (100.0) (Note)	100.0 (100.0) (Note)
IDT Bermuda Ltd.	Bermuda	Business Corporations and Others	100.0 (100.0) (Note)	100.0 (100.0) (Note)
GigPeak, Inc.	Delaware, U.S.A.	Business Corporations and Others	100.0 (100.0) (Note)	100.0 (100.0) (Note)
Renesas Electronics Australia Pty Ltd	New South Wales, Australia	Business Corporations and Others	100.0	100.0
Renesas Electronics NSW Pty Ltd	New South Wales, Australia	Business Corporations and Others	100.0 (100.0) (Note)	100.0 (100.0) (Note)
Altium Pty Ltd	New South Wales, Australia	Development and Sales of software tools for PCB design and Others	100.0 (100.0) (Note)	100.0 (100.0) (Note)
Altium IP Hold Co. Pty Limited	New South Wales, Australia	Business Corporations and Others	100.0 (100.0) (Note)	100.0 (100.0) (Note)
Altium IP Co. Pty Limited	New South Wales, Australia	Business Corporations and Others	100.0 (100.0) (Note)	100.0 (100.0) (Note)
Altium LLC	California, U.S.A.	Software development, Sales, and Services Companies	100.0 (100.0) (Note)	100.0 (100.0) (Note)

(Note) Numbers in parentheses represent indirect voting rights.

There are no subsidiaries with significant non-controlling interests.

38. Commitments and Contingent Liabilities

(1) Commitments for the acquisition of assets

The Group's commitments for the acquisition of assets are as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Property, plant and equipment	39,606	22,125
Intangible assets	998	861
Total	40,604	22,986

(2) Loan commitments (lender)

The Group has entered into a deposit provision agreement. The balance of unused loans is as follows. For details of deposits for the year ended December 31, 2025, please refer to "Note 39. Additional Information."

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Total amount of loan commitments	316,360	—
Balance of used loans	316,360	—
Balance of unused loans	—	—

(3) Loan commitments (borrower)

The Group has entered into a contract for setting commitment lines with its main banks for the purpose of securing long-term working capital, and the balance of unused loans is as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Total amount of commitment lines	150,000	150,000
Balance of used loans	—	—
Balance of unused loans	150,000	150,000

(Note) On February 27, 2026, the Company entered into an agreement to increase the borrowing limit under the commitment line agreement originally concluded on June 25, 2024 from 150,000 million yen to 200,000 million yen.

(4) Debt guarantees

The Group provides debt guarantees against bank loans of its employees as follows.

(In millions of yen)

	As of December 31, 2024	As of December 31, 2025
Guarantees of employees' obligations	2	0
Total	2	0

(Guarantees of employees' obligations)

The Group provides guarantees for the housing loans of employees as part of its welfare program. If an employee cannot repay a housing loan covered by a debt guarantee, the Group must assume the obligation. These debt guarantees are secured by the houses of the employees.

(5) Others

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

Though it is difficult to predict the outcome of the legal proceedings to which the Group is presently a party or to which it may become a party in future, the resolution of such proceedings may require considerable time and expense. There is a possibility that the Group's business, performance, financial condition, cash flow, reputation and creditability to have significant adverse effects by the outcome. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" Article 92, the Group does not disclose detailed information of the legal proceedings since it is likely to lead the Group to an unfavorable position.

The Group recognizes a provision for litigation losses to cover payments related to lawsuits and damage claims involving other companies, to the extent that such amounts can be reasonably estimated.

(Civil lawsuit related to the alleged patent infringement and trade secret violation)

The Group's subsidiary in the U.S has been named as a defendant in a lawsuit filed in November 2008 in the United States of America District Court for the Eastern District of Texas (hereinafter "the Court of First Instance") related to the alleged patent infringement and trade secret violation. The Group's subsidiary filed a notice of appeal at the Court of Appeals for the Federal Circuit (hereinafter "the Court of Second Instance") against the Court of First Instance judgment of June 2016, and in July 2018, the Court of Second Instance rejected the judgement of the Court of First Instance for payment of compensation and conducted the retrial order at the Court of First Instance. After the retrial, in March 2022, the Court of First Instance issued judgement ordering compensation of 48.3 million US dollars. Subsequently, in August 2022, the Group's subsidiary in the U.S had filed an appeal with the Court of Second Instance. Based on the Court's ruling in April 2025, the parties reached a settlement through negotiation, and the matter has been concluded.

(Indemnification claim related to environmental pollution)

The Group's subsidiary in Taiwan has been subjected to requests for restitution for environmental pollution associated with a factory in Taiwan owned by the subsidiary's predecessor company.

Since June 2004, the Group's subsidiary has been notified that a company reserved its right to seek indemnification from us for all costs associated with the remediation of the contamination related to environmental pollution found at a factory in Taiwan owned by the subsidiary's predecessor company, and the costs associated with the lawsuit as well as the costs relating to those retained environmental liabilities in a toxic tort class action lawsuit filed by ex-employees worked at the factory. Though the Group's subsidiary is not a defendant in the class action lawsuit, the claimant initiated arbitration proceedings against us related to all claims arising out of the contamination, including the remediation, the toxic tort claims, and attorneys' fees in December 2017, but afterward, the arbitration was ordered to stay by the arbitrator on a unilateral request by the claimant.

39. Additional Information

(Loss resulting from signing Restructuring Support Agreement with Wolfspeed)

On June 23, 2025, the Company entered into a Restructuring Support Agreement with Wolfspeed and its principal creditors outlining the terms of Wolfspeed's financial restructuring.

Under the Restructuring Support Agreement, the Company agreed to convert its deposit with Wolfspeed (hereinafter "the Deposit") into Wolfspeed's convertible notes, common stock, and warrants. Wolfspeed filed a reorganization plan (hereinafter "the Plan") with a U.S. court on June 30, 2025, under Chapter 11 of the U.S. Bankruptcy Code. The Plan was approved by the court on September 18, 2025, and successfully completed its financial restructuring process and emergence from Chapter 11 protection on September 29, 2025. Following this, the Deposit was converted into other financial assets. The other financial assets include convertible notes subject to restrictions on conversion, as well as rights that are expected to be converted into common stock and warrants in the future.

Additionally, in connection with this Restructuring Support Agreement, the Company recorded a loss of 236,600 million yen, including the impact of foreign exchange fluctuations for the year ended December 31, 2025. The loss is included under "Finance costs" in the Consolidated Statement of Profit or Loss.

40. Subsequent Events

(Acquisition of shares and other securities in the Company's U.S. subsidiaries in connection with CFIUS approval of the share issuance by Wolfspeed)

On January 29, 2026 (U.S. time), the issuance of shares by Wolfspeed to the Company's U.S. subsidiary was approved by the Committee on Foreign Investment in the United States (CFIUS). Following this approval, Wolfspeed issued 16,852,372 shares of common stock which were received by the Company's U.S. subsidiary.

In addition, the subsidiary now has the ability to exercise warrants for 4,943,555 additional shares of common stock. The subsidiary also received 2.5% Second Lien Senior Secured Notes due 2031, and now has the ability to exercise conversion rights.

The shares and other securities acquired by the Company's U.S. subsidiary are subject to holding limitations (exercise of warrants or conversion of convertible notes exceeding 39.9% is invalid) and voting rights limitations (limited to 9.9%). Accordingly, neither the Company nor its U.S. subsidiary has control over, or significant influence on, Wolfspeed. Therefore, Wolfspeed is not included in the scope of consolidation of the Group, nor does the equity method of accounting applies.

The financial impact of this transaction on the Group is immaterial.

(Business Transfer of Timing business)

The Company, a premier supplier of advanced semiconductor solutions, announced that the Company's U.S. subsidiary, and SiTime Corporation (hereinafter "SiTime") signed a definitive agreement to transfer the Company's timing business (hereinafter the "Transferred Business") (Note 1) to SiTime (hereinafter "the Transfer"). The Transfer was approved by the Company's Board of Directors on February 5, 2026, and is expected to be completed by the end of 2026, subject to satisfaction of customary closing conditions, including approval from relevant regulatory authorities.

(Note 1) The "Transferred Business" includes the Company's U.S. timing business and assets of other subsidiaries of the Company related to such timing business.

(1) Background and Purpose of the Transfer

This decision to transfer the business was made with a view to achieving sustainable mid- to long-term growth by refining our business priorities and directing maximum resources to strategic initiatives.

The timing products offered by the Transferred Business have long been highly regarded in the market. After a comprehensive review of future growth opportunities, the Company has determined that transferring the Transferred Business to a company with cutting-edge technology, high growth ambition, and investment capability is the best course of action.

SiTime, the transferee, is a leader in MEMS (Note 2) timing devices. The Transfer will ensure the Company customers have access to SiTime's cutting-edge MEMS timing technology. In addition to the Transfer, the Company and SiTime have also signed an MoU on February 5, 2026 to explore a partnership to integrate SiTime's MEMS resonator in the Company's MCUs and SoCs. SiTime's MEMS resonator technology enables bare-die co-packaging with MCUs or SoCs, eliminating the need for a discrete resonator on the board, which simplifies design and saves space. By combining the Company's core embedded compute technologies with SiTime's high-precision MEMS timing technologies at the silicon level, both companies will explore collaboration on the development of new solutions. Through this effort, the companies aim to deliver integrated solutions that power the next generation of intelligent devices that demand performance and efficiency.

(Note 2) MEMS stands for Micro Electro Mechanical Systems, a category of devices created through microfabrication technologies by forming miniature mechanical structures (such as resonators and sensors) on a silicon substrate.

(2) Overview of the Transfer

a. Description of the Transferred Business

The Company's timing business, which originated from the acquisition of Integrated Device Technology, Inc. in 2019, consists of the Company's timing product portfolio and the related technologies, assets, and personnel.

b. Transfer price and method of payment

- Transfer price: 3,000 million USD (approximately 468,000 million yen) (Note 3)

- Method of payment: 1,500 million USD in cash and 4.13 million SiTime common stock (Note 4)

(Note 3) The actual transfer price is subject to certain price adjustments defined in the definitive agreement, and may fluctuate depending on the price adjustment. For reference, the amount above is calculated using the exchange rate as of February 3, 2026: 156 yen per USD.

(Note 4) Under the terms of the acquisition agreement, SiTime will acquire the Transferred Business for 1,500 million USD in cash and 4.13 million shares of common stock, 0.0001 USD par value per share of SiTime, subject to a potential adjustment and a collar determined by the 10-day volume weighted average price ("VWAP") as of three trading days prior to the execution of the asset purchase agreement. The stock consideration will be paid in the form of newly issued SiTime common stock based on SiTime's 10-day VWAP as of three trading days prior to closing, subject to a floor price of 308.6686 USD and a ceiling price of 417.6104 USD.

(3) Overview of SiTime

(a) Company	SiTime Corporation
(b) Address	5451 Patrick Henry Drive Santa Clara, CA 95054, U.S.A.
(c) Title and name of the representative person	Chairman and CEO: Rajesh Vashist
(d) Business description	Precision timing solutions (MEMS technology, advanced analog circuitry, and systems expertise)
(e) Capital amount	881.7 million USD as of December 31, 2024
(f) Date of foundation / incorporation	December 2003

(4) Schedule

The Company is expected to be completed by the end of 2026, subject to satisfaction of customary closing conditions, including approval from relevant regulatory authorities.

(5) Future Outlook

With the Transfer, the Company expects to record a non-recurring gain in its consolidated financial statements. The timing and amount of recognition of the relevant gain are currently under review.

(2) Other

Semi-annual and annual information for the year ended December 31, 2025

(Cumulative period)	The six months ended June 30, 2025	The year ended December 31, 2025
Revenue (Million yen)	634,311	1,321,212
Loss before tax (Million yen)	(169,288)	(30,275)
Loss attributable to owners of parent (Million yen)	(175,342)	(51,763)
Basic Losses per share (Yen)	(97.34)	(28.65)



Independent Auditor's Report

To the Board of Directors of Renesas Electronics Corporation

THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Renesas Electronics Corporation (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2025, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to audits of the consolidated financial statements of public interest entities in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to 40. Subsequent Events (Business Transfer of Timing business) note to the consolidated financial statements, which describes that the Company has resolved at the Board of Directors dated February 5, 2026, to transfer the Company Group's timing business to SiTime Corporation (hereinafter referred to as the "SiTime"). On the same day, the Company's U.S. Subsidiary, and SiTime signed a definitive agreement.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment analysis of goodwill for the “Industrial/ Infrastructure/IoT Business” (Notes to Consolidated Financial Statements: 16. Impairment of Non-financial Assets)	
Key audit matter description	How our audit addressed the key audit matter
<p>The Company is a semiconductor manufacturing company, engaging in semiconductor-related research, development, design, manufacturing, sales and services.</p> <p>The Company recorded goodwill of 1,844,958 million yen as of December 31, 2025. The recorded amount of goodwill for the “Industrial/Infrastructure/IoT Business” comprised approximately 44% of the Company's total assets. (Refer to Note 16, “Impairment of Non-financial Assets” to the Consolidated Financial Statements).</p> <p>The Company has recently completed multiple acquisitions, including businesses based in the United States of America, Intersil Corporation in February 2017, Integrated Device Technology, Inc. in March 2019, and Altium Limited in August 2024, a business based in the United Kingdom, Dialog Semiconductor Plc in August 2021. The Company recorded goodwill, which is allocated to the respective cash-generating units that are expected to benefit from the synergies of the business combinations, as a result of these acquisitions in its consolidated financial statements.</p> <p>The Company tests goodwill for impairment annually and more often at an interim date if indicators of impairment exist. In testing goodwill for impairment, the Company measures the recoverable amount of the cash-generating units including goodwill at its value-in-use. The value-in-use is determined by discounting the estimated future cash flows to present value, which are estimated based on the five-year business plan approved by management, and the permanent growth rate for the period thereafter. Key assumptions in estimating the value-in-use include gross margins in the business plan, the permanent growth rate, and the pre-tax discount rate.</p> <p>The key assumptions applied in the business plans, namely the gross margins, the permanent growth rate, and the pre-tax discount rate, are subject to significant management judgment and a high degree of estimation uncertainty. Furthermore, given that the goodwill allocated to the "Industrial/Infrastructure/IoT Business" is material to the consolidated financial statements and the complexity of the goodwill impairment test, and in light of the revision of the company's business plans, we determined the impairment assessment of goodwill for this business to be a Key Audit Matter.</p>	<p>In auditing the impairment analysis of goodwill allocated to the “Industrial/Infrastructure/IoT Business” cash-generating units, we performed the following principal audit procedures:</p> <ul style="list-style-type: none"> ● We assessed the design and tested the operating effectiveness of internal controls over the goodwill impairment assessment process, including those related to the preparation and approval of the business plans. ● We compared the Company's current year performance with that of its industry peers to understand and assess the market environment. ● We primarily performed the following procedures over the business plan approved by management: <ul style="list-style-type: none"> • We examined the gross margins used by management in determining the business plan through procedures including comparing forecasted gross margins to the historical results. • We compared the gross margins in the business plan used in the impairment analysis in the previous fiscal year with the actual gross margins, examined the reasons for the discrepancy between the actual results and the plan, and confirmed that there was no situation which should be reflected additionally in the business plan for the current fiscal year. • Regarding the components of the gross profit margin, we inquired with management and conducted a comparative analysis with forecast data from multiple external research institutions. • We examined the consistency with the latest budget for the next fiscal year, which has been approved by management. ● In verifying the permanent growth rates and the pre-tax discount rates used to determine the recoverable amount, we primarily performed the following procedures with the assistance of our valuation specialists: <ul style="list-style-type: none"> • We assessed the appropriateness of the methods that management used to determine the permanent growth rates and the pre-tax discount rates. • We obtained relevant source documents that were used to determine the permanent growth rates and the pre-tax discount rates and verified them by agreeing to third-party information. ● We examined the reasonableness of the recoverable amount determined by management by comparing the concluded recoverable amount to the Company's market capitalization.

Other Information

The other information comprises the information included in FINANCIAL REPORT 2025, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. In addition, the Audit Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and The Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease its operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with International Financial Reporting Standards, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

FEE-RELATED INFORMATION

In connection with our audit of the consolidated financial statements for the year ended December 31, 2025, the amounts of fees for the audit and the other services charged to Renesas Electronics Corporation and its controlled entities by PricewaterhouseCoopers Japan LLC and other PwC Network firms are ¥844 million and ¥231 million, respectively.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

加藤 正英

Masahide Kato

Designated Engagement Partner
Certified Public Accountant

近藤 仁

Hitoshi Kondo

Designated Engagement Partner
Certified Public Accountant

新保 智巳

Satoshi Shimbo

Designated Engagement Partner
Certified Public Accountant

March 19, 2026