Fiscal Year Ending December 2017 – Full Year Financial Results Announcement (February 9, 2018) - Main Q&A for Briefing Session

Q: While your semiconductor sales forecast in the first quarter of 2018 call for a 13.5% reduction quarter-on-quarter, what level of momentum are you expecting in each of the automotive, industrial, and broad-based businesses?
A: That most areas are seeing large drops in comparison to the excessively good results in the fourth quarter of last year. In particular, the automotive area appears to be experiencing an overall slowdown. Since we have a relatively high proportion of Japanese companies as our customers, this is partly a reactive reduction due to seasonal variations at certain of these customers, as well as the end of restocking efforts at certain companies, all centered on these Japanese companies. Thus we expect a reduction of sales to automotive companies quarter-on-quarter. Other markets appear to remain more solid, but our figures incorporate a certain amount of risk in areas centered on microcontrollers, and the anticipated completion of restocking efforts following the high demand plateau that continued through last year. Although the reductions are centered on automotive products, since our ratio of microcontroller products is greater than that of analog products, we are also expecting slowdowns in the industrial and other areas.

Q: What is your expected value for the SAM based market growth in CY2018?
A: While it is difficult to calculate specific numbers for SAM, Renesas' sales saw double-digit growth year-on-year. Our expectations for growth of high single-digit percentage on a CAGR basis are unchanged. However, to a certain extent, last year's demand did pre-consume this year's growth, so we are expecting just a tad over mid-single digit growth this year.
Regarding operating product stocks, as an aftereffect of the earthquake damage we suffered in 2016, our shipments last year exceeded our customer's run rates. Thus it is not the case that our reduced sales in the first quarter are due to reduced run rates at our customers, but rather that last year reflected increased safety stocking. Although there are some sectors, such as the North American market, that are weak, there are factors related to stocking and factors related to market trends.

Q: We were previously given guides to the effect that during normal times the ratio of borrowing to EBITDA would be 1.5 to 2.0 times, but that at the time of making an acquisition it would be 3.5 times. Have there been any changes to these numbers?
A: We have never issued any guidance indicating that this would be 3.5 times at the time of an acquisition, but we did say something to the effect, of "even if it were set to be 3.5." As a rule of thumb, even if one looks at our competition, a scale of 3.5 to 4.5 times EBITDA is probably a range that can be managed. We maintain our earlier view that leveraging can be taken advantage of within this range. However, what will be considered is not the EBITDA for Renesas alone, but the total when combined with the EBITDA of the target of any acquisition.

Q: Regarding the integration synergy with Intersil, you mentioned that there were

places where results were better than expected and that there were places where results were worse than expected. Can you be more specific and indicate numerical levels?
A: It's difficult to respond quantitatively. If we consider the pipeline where collaborations such as cross sales and joint development efforts result in increased sales and profits, we are looking at a scale of tens of billions of yen. Of those, products that for which business agreements can be attained and that result in sales correspond to the low end of the several billion yen range. From the standpoint of costs, while certain items are still behind expectation, there are opportunities to reduce costs on the order of over 2 billion yen. During this year, we expect to see the effects of 60 to 70 percent of those figures, and that somewhat over 2 billion yen will come into full play next year. Regarding the 170 million dollar profit synergy we announced in September the year before last, at the current point in time, we are expecting a slight upswing relative to that expectation.

Q: Regarding your forecast for the first quarter sales, I understand that you see the fourth quarter sales as being too good. However, even comparing to seasonal adjustments, the anticipated reduction seems large. While I do think that, looking at current statistics, stocks of microcontroller products are accumulating within the Japanese domestic market and those stocks are at a high level, I'd like to verify this including the current state of stocks with both customers and with Renesas. Do you expect there to be adjustments to the stocking levels?

A: Although stock adjustments within Renesas according to our situation will not affect sales, within Japan, stock levels within the distribution channels are continuing to increase. Although we do not think there is a need for concern, for Renesas, due to the earthquake damage we sustained, our production capacity is tight. Demand was advancing strongly up until a certain time and we think that double ordering may have been occurring. We understand that we are now entering an adjustment due more to customer and channel factors than to anything at Renesas. We expect that the large adjustment we are forecasting will resolve during the first quarter and that demand will return to normal in the second quarter.

Q: I understand that depreciation will be increasing. As opposed to the actual result for the year ended December 2017, how much of an increase is expected for the year ending December 2018?
A: We currently expect an increase of roughly 20 or 30%. This will have a significant impact.

Q: In your forecast for the first quarter, it appears that there is a factor that is causing profits to increase between your current ordinary income and net income?
A: We included deferred tax assets associated with the corporate integration of Intersil in the US. This is a one-time only inclusion.

Q: The sales of FA related companies concerned with smart factories increased

significantly in 2017. Are you expecting microcontroller demand to continue to grow in 2018 as well?
A: We are expecting comparatively strong growth in this area.

Q: Do you expect the growth rate of microcontrollers in the FA area to maintain last year's growth rate this year? Or will it slow down somewhat?
A: We think that there was also double ordering in the industrial area as well. While not as extreme as in the automotive area, we feel that there was pre-consumption of demand and stocking supplementation. Thus we expect demand to slow somewhat.

Q: Regarding M&A, within your policy of discontinuous growth in the analog area, what sort of M&A scale are you expecting to reach? Could it grow to a scale such that analog becomes your main business?
A: I certainly can't say what it will become, but there will not have been any point in an acquisition if we don't see strong synergistic effects. From that standpoint, the scale of the organization is more important than sales. While, on a consolidated basis, Renesas has over 20,000 employees, it would be premature to add 1/2, or even 1/3, that number to our employees at this stage. From a financial aspect, we will maintain a flexible approach to working with both large scale and not large scale leveraging. Also, depending on the mood of the stock market, we may be able to raise funds from the market. Also, right now, microcontrollers account for about one half of Renesas' sales, so rather than aiming for analog becoming the core of our business, I'd like to maintain a balance.

Q: If you exclude your customers stock supplementation from your 2017 growth rate, what do you see your 2017 growth was?
A: Although we don't have data that allows us to state specific values, we think that the influence was in the mid-single digits percentage range. Since our overall sales growth was 23% over the previous year, we think that about 20% of that was due to market factors and that demand was shifted forward.

Q: Regarding outsourcing of the semiconductor fabrication process, will the impact on gross profits change with the timing of awareness of sales and stocking situations? Will your stocking level adjustments mainly apply to your in-house manufacturing or to the outsourced products?
A: While there are a small number of factors that depend on whether product fabrication is outsourced or performed in-house, the focus of outsourced fabrication is on leading-edge products. Compared to the products fabricated in-house, outsourced products have complex mask layers and furthermore use larger wafer sizes, and thus have longer lead times. Therefore, for these products, there is a time lag, both when demand increases and when demand decreases. Regarding the timing of product stock accumulation, it is easier for stock of outsourced products to accumulate. The reverse also applies. For outsourced fabrication, since all of the fixed costs become variable costs, the ratio with which the margin rises or falls with fluctuations in manufacturing is smaller. This is in contrast to the case for in-house fabrication, where the product becomes much more profitable as the

number of units manufactured increases.

Q: While I understand that your in-house adjustments will be completed in the first quarter and return to normal in the second quarter, will your facilities utilization rate fall in the first quarter and then return to near full utilization in the second quarter?
A: Our operating curve is such that it will change in that manner. Last year we increased capacity as much as possible. If the question is, will utilization return to the full state in the situation where capacity is expanded as much as possible, then the answer is that it will not move that far, but rather will return to a slightly more relaxed situation. While it is difficult to get across the nuance of this view, we are expecting that part of the fall in the first quarter will be due to transient factors. Originally, from the point when we issued our medium-term plan in 2016, we expected that sales would increase in the upper half of the single digit range and that profits would be restored in the second half of the medium-term plan period in a tail-heavy form. That was what we thought. Our results last year were just too good. If you compare our performance this year with last year, you will be surprised at the large gap, but if you compare with the numbers from the year before last (2016), there will be nothing to be surprised about. Although there may be a drop in reaction to last year's performance, we are reliably moving towards the goals of our medium-term plans.

Q: Regarding Renesas' automotive business for the one year periods of last year and this year, if you divide your business into automotive control and automotive information, will the rates of growth differ?
A: If we look not at one year, but just at the first quarter, the automotive information will fall more. While there are a variety of factors causing this, it is the conventional navigation systems area that will fall the most conspicuously. While I discussed this up through the start of last year, what I have been saying since last year has been that this area has bottomed out. What seemed to have happened is that the bottoming out overshot, and then the area recovered too far. We expect that the first quarter will see a reaction to that and that it will then fall back to trend.

Q: This is a question for President Kure. I would like to hear once again President Kure's latest comments on the reporting of the acquisition of Maxim. What are your thoughts on Renesas' M&A strategy moving forward?
A: While my comments here do not differ from those we have released publicly, those reports do not consist of information issued by Renesas. To the extent of our knowledge, there are no facts that support those reports. Reorganizations occur within the semiconductor industry at a dizzying pace, and Renesas is always considering M&A actions as a possible choice. Currently, we are not engaged in any concrete exploration of potential acquisitions other than these ordinary course activities. As a business firm we do not see M&A as a money game in which we could make money by investing. Rather, we ask if a merger could create synergistic effects as a business, and whether we would be able to manage the company as management. We will continue to view M&A opportunities in this manner.

<FORWARD-LOOKING STATEMENTS>

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