To Shareholders

The 15th Ordinary General Meeting of Shareholders
Matters for Internet Disclosure

The 15th Business Period from April 1, 2016 to December 31, 2016
■ Notes to Consolidated Financial Statements
■ Notes to Non-Consolidated Financial Statements

The abovementioned items are disclosed to shareholders on Renesas Electronics Corporation's Website (http://www.renesas.com) in accordance with laws and regulation as well as Article 16 of Renesas Electronics Corporation's Articles of Incorporation

Renesas Electronics Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes to Basis of Consolidated Financial Statements

1. Scope of Consolidation

All subsidiaries are consolidated.

The number of consolidated companies of Renesas Electronics Corporation Group ("the Group"): 30

The names of major subsidiaries:
Regarding major subsidiaries' names, please refer to "1-(7). Principal Subsidiaries (as of December 31, 2016)" in the Business Report.

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

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

2. Application of Equity Method

(1) The number of affiliates and the name of major affiliates, accounted for by the equity method.

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

The names of affiliates accounted for by the equity method:
Renesas Easton Co., Ltd.
Number of affiliates decreased by stock sales: 1

(2) Significant items to be noted in the procedure for applying the equity method:
Of the affiliates accounted for by the equity method, because the closing date differs from that of the consolidated financial statements, the financial statements prepared with the provisional closing date of December 31, 2016 (same as that of consolidated financial statements) are used.

3. Change in Consolidated Fiscal Term

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

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

4. Significant Accounting Policies

(1) Valuation methods for significant assets

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

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

2) Derivatives
Derivative financial instruments are stated at the fair value.

3) Inventories

Inventories are stated at the lower of cost or market. The costs are stated as follows:

Merchandise and finished goods:

Custom-made products:

Specific identification method

Mass products:

Average method

Work in process:

Custom-made products:

Specific identification method

Mass products:

Average method

Raw materials and supplies:

Mainly average method

(2) Depreciation and amortization method for significant long-term assets

1) Property, plant and equipment other than leased assets

Depreciated principally by the straight-line method

2) Intangible assets other than leased assets

Amortized by the straight-line method

3) Leased assets

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

Depreciated/Amortized in the same way as self-owned long-term assets

Leased assets under finance leases other than those under which ownership of the assets is transferred to the lessee

Amortized by the straight-line method over the lease term, assuming no residual value. The finance leases other than those under which the ownership of the assets transferred to the lessee contracted on or before March 31, 2008 are accounted for as operating lease transactions.

4) Long-term prepaid expenses

Amortized by the straight-line method

(3) Basis of significant reserves

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on an individual estimate of the collectability of receivables from companies in financial difficulty.

2) Provision for products warranties

The Group accrues product warranty liabilities for estimated future warranty costs using the individual estimates for the specific matters as well as historical ratio of warranty costs to net sales.

3) Provision for loss on guarantees

Provision for loss on guarantees is made for the amount of the estimated future losses related to debt guarantees, which the Group has taken into account for the deterioration of financial conditions.

4) Provision for business structure improvement

Provision for business structure improvement is made for the amount of the estimated losses to be incurred in connection with business structure reconstructions and consolidation.

5) Provision for contingent loss

In relation to matters such as legal proceedings and litigations, a provision for the amount of expected losses and expenses is made when they are reasonably estimated considering individual risks associated with each contingency.

6) Provision for loss on disaster

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

(4) Accounting treatment for retirement benefits

1) Method of attributing expected benefit to periods

The method of attributing expected benefit to periods to estimate the asset or liability for retirement benefits is based on a benefit formula basis.

2) Treatment for actuarial gains and losses and prior service costs

Actuarial gains and losses are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly over 11 years), starting in the following year after its occurrence.
Prior service costs are amortized as incurred on a straight-line basis over the employees' estimated average remaining service periods (mainly over 11 years).

(5) Foreign currency translation

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

(6) Amortization method and term for goodwill

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

(7) Hedge accounting method

1) Hedge accounting method

Hedging activities are accounted for with deferred hedge accounting.

2) Hedging instruments and hedged items

Hedging instruments: Foreign exchange contracts, Currency options, Currency swaps, Foreign currency deposit
Hedged items: Forecast transaction in foreign currency

3) Hedging policy

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

4) Assessment of hedge effectiveness

The effectiveness of the hedging is evaluated by comparing the accumulated cash flow of the hedging instruments with that of the hedged items.

(8) Accounting for consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(9) Adoption of consolidated taxation system

The Company and its subsidiaries in Japan adopt the consolidated taxation system.

Notes to Consolidated Balance Sheet

1. Assets pledged as collateral and secured liabilities

(Assets pledged as collateral)

		(In millions of yen)
Buildings and structures	46,128	(45,594)
Machinery and equipment	54,151	(54,151)
Land	22,226	(18,532)
Total	122,505	(118,277)

(Secured liabilities)

		(In millions of yen)
Current portion of lease obligations	4,344	(—)
Long-term borrowings	152,568	(152,568)
Total	156,912	(152,568)

*Amounts in parenthesis represent assets pledged as collateral and secured liabilities related to factory properties.

2. Accumulated Depreciation of Property, Plant and Equipment: 733,365 million yen

3. Accumulated Impairment Loss of Property, Plant and Equipment:

Accumulated impairment loss was included in accumulated depreciation of property, plant and equipment.

4. Contingent Liabilities:

Guarantees for employees' housing loans: 131 million yen
Other guarantees: 321 million yen

Other Contingent Liabilities:

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

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

Notes to Consolidated Statement of Changes in Net Assets

1. Type and Number of Outstanding Shares as of December 31, 2016
Common Stock 1,667,124,490 shares

2. Type and Number of shares for purpose of the share subscription rights to shares (Excluded stock acquisition rights of which the commencement date of exercise period has not yet arrived) as of December31, 2016.
Common Stock 274,600 shares

Notes to Financial Instruments

1. Conditions of Financial Instruments

(1) Policies for Financial Instruments

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

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

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

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

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

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

The Group enters into forward exchange contracts in order to hedge the risks from exchange rate fluctuations of accounts receivable and accounts payable denominated in foreign currencies and interest rate swaps in order to hedge the risks from interest fluctuations of borrowings.

For details including hedging instruments, hedged items, hedging policy, Method of assessing hedge effectiveness, please refer to the aforementioned Notes to the Basis of Preparing Consolidated Financial Statements, “4 Significant Accounting Policies (7) Hedge Accounting”

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

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

2. Fair Value of Financial Instruments

The fair values of financial instruments in consolidated balance sheets as of December 31, 2016 were presented below. The table does not include the financial instruments for which it is extremely difficult to estimate fair values. (Note2)

(In millions of yen)

	Amounts on consolidated balance sheet(*)	Fair value (*)	Difference
(1) Cash and deposits	354,569	354,569	―
(2) Notes and accounts receivable-trade	80,480	80,480	―
(3) Accounts receivable-other	12,721	12,721	―
(4) Long-term investment securities			
Stocks of affiliates	3,165	2,077	(1,088)
Other securities	2,816	2,816	―
(5) Electronically recorded obligations	(11,138)	(11,138)	―
(6) Notes and accounts payable-trade	(74,750)	(74,750)	―
(7) Accounts payable-other	(44,652)	(44,652)	―
(8) Accrued income taxes	(2,309)	(2,309)	―
(9) Long-term borrowings (including current portion)	(152,568)	(152,039)	529
(10) Lease obligations (including current portion)	(4,750)	(4,796)	(46)
（11）Derivative transactions(*)			
Derivatives without hedge accounting	395	395	―
Derivatives with hedge accounting	3,044	3,044	―

(*) Liabilities (credit balances) are shown in parentheses.
Assets and liabilities arising from derivatives transactions are presented on a net basis. If the net balance of derivatives is in credit, it is shown in parenthesis.

Note 1. Calculation method for fair value of financial instruments and summary of securities and derivative transactions

(1) Cash and deposits, (2) Notes and accounts receivable-trade and (3) Accounts receivable-other
These were measured at book values because these were settled in the short-term and these fair values were nearly equal to their book values.

(4) Long-term investment securities
The fair value of shares was based on market price. The fair value of bond securities was measured at book value because these are settled in the short-term and the fair value was nearly equal to the book value. The fair value of mutual fund was measured at the price presented by financial institutions.

(5) Electronically recorded obligations, (6) Notes and accounts payable-trade, (7) Accounts payable-other and (8) Accrued income taxes

Their fair values were measured at book values because these were settled in the short-term and these fair values were nearly equal to its book value.

(9) Long-term borrowings and (10) Lease obligations

The fair values of long-term borrowings and lease obligations were estimated by discounting the future cash flows which includes both principals and interests. The discounts rates were considered both maturities and credit risks.

(11) Derivative transactions

1. Derivatives without hedge accounting

Derivative transactions without hedge accounting were forward exchange contracts. The fair value of forward exchange contracts were measured at the forward rate such as foreign exchange rate.

2. Derivatives with hedge accounting

Derivative transactions with hedge accounting were forward exchange contracts, currency options and currency swaps. The fair value were measured at the forward rate such as foreign exchange rate and measured at the price presented by financial institutions.

Note 2. Financial instruments for which it is extremely difficult to estimate their fair value

(In millions of yen)

	Amounts on consolidated balance sheet
Non-marketable securities	117

Non-marketable securities which did not have market prices and for which the future cash flows could not be estimated, were not included in “(4) Long-term investment securities” since it was extremely difficult to estimate their fair value.

Per Share Information

1. Net assets per share: 252.03 yen

Net income per share: 26.46 yen

Other Notes

1. Loss on Disaster

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

(In millions of yen)

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

2. Business Structure Improvement Expenses

The Group has reformed businesses and structures of the production along with the streamlining of employees to strengthen its financial basis, and those related expenses are shown as business structure improvement expenses.

The details of business structure improvement expenses (2,206 million yen) were as follows:

(In millions of yen)

Personnel expenses including the special incentive of early retirement program	582
Impairment loss	1,025
Other	599
Total	2,206

3. Impairment Loss

The details of impairment loss for the fiscal year were as follows:

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

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

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

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

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

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

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

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

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

4. Adjustment of Amounts of Deferred Tax Assets and Liabilities due to Changes in Statutory Tax Rates

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

5. Regarding Acquisition of Stock of Intersil Corporation

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

(1) Purpose of the Acquisition

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

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

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

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

(2) Overview of Intersil (Surviving Company)

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

(3) Acquisition Method

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

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

1) Shares owned before transfer: 0 share (Ownership percentage: 0.0%)

2) Number of shares to be acquired: 143,050,746 shares (Percentage of outstanding shares: 100.0%)

3) Acquisition price: US$3,219 million (approximately ¥321.9 billion at an exchange rate of 100 yen to the dollar)
4) Shares owned after transfer: 100 shares (Ownership percentage: 100.0%)

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

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

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

(5) Financing
Current cash reserves are expected to be sufficient to cover the purchase price.

6. Financing Arrangements

The company repaid the loan of the existing agreements and newly concluded 150,000 million yen long-term loan (five-year loan term) and 50,000 million yen commitment line agreement with the main financing banks to fund long-term operation on September 28,2016, and the company and the banks implemented the long-term loan of the agreement on September 30,2016.

Accordingly, some assets are provided as collateral.

In addition, the company concluded 50,000 million yen long-term loan agreement on October 5, 2016, with the main financing banks to accelerate the realization of growth strategy.

7. Significant Subsequent Events

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

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

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

NOTES TO FINANCIAL STATEMENTS (on a non-consolidated basis)

All figures are rounded to the nearest 1 million yen.

Notes to Significant Accounting Policies

1. Valuation Methods for Assets

1) Securities

Stocks of subsidiaries and affiliates:

These stocks are carried at cost determined by the moving-average method.

Other securities:

Marketable securities:

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

Non-marketable securities:

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

2) Derivatives

Derivative financial instruments are stated at the fair value.

3) Inventories

Inventories are stated at the lower of cost or market. The costs are stated as follows;

Finished goods:

Custom-made products:

Specific identification method

Mass products:

Average method

Work in process:

Custom-made products:

Specific identification method

Mass products:

Average method

Raw materials and supplies:

Average method as principal method

2. Depreciation and Amortization Method for Long-term Assets

1) Property, plant and equipment other than leased assets

Depreciated by the straight-line method

2) Intangible assets

Amortized by the straight-line method

3) Leased assets

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

Depreciated/Amortized in the same way as self-owned long-term assets

Leased assets under finance leases other than those under which ownership of the assets is transferred to the lessee

Amortized by the straight-line method over the lease term, assuming no residual value.

4) Long-term prepaid expenses

Amortized by straight-line method

3. Basis of Reserves

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experiences for normal receivables and on an individual estimate of the collectability of receivables from companies in financial difficulty.

2) Accrued retirement benefits

Accrued retirement benefits or prepaid pension cost are recorded for employees' pension and severance payments based on the projected benefit obligation and the estimated fair value of plan assets as of the fiscal year-end.

Actuarial gains and losses are amortized on a straight-line basis over the employees' estimated average remaining service periods. The amortization starts from the following year of the gains and losses recognized.

Prior service costs are amortized on a straight-line basis over the employees' estimated average remaining service periods.

3) Provision for products warranties

The Company accrues product warranty liabilities for estimated future warranty costs using the individual estimates for the specific matters as well as historical ratio of warranty costs to net sales.

4) Provision for loss on guarantees

Provision for loss on guarantees is made for the amount of the estimated future losses related to debt guarantees, which the Company has taken into account for the deterioration of financial conditions.

5) Provision for business structure improvement

Provision for business structure improvement is made for the amount of the estimated losses to be incurred in connection with business structure reconstructions and consolidation.

6) Provision for contingent loss

In relation to matters such as legal proceedings and litigations, a provision for the amount of expected losses and expenses is made when they are reasonably estimated considering individual risks associated with each contingency.

4. Accounting Treatment for Retirement Benefits

Accounting treatments for actuarial gains and losses and prior service costs differ from those applied by the consolidated financial statements.

5. Hedge Accounting Method

1) Hedge accounting method

Hedging activities are accounted for with deferred hedge accounting.

2) Hedging instruments and hedged items

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

Hedged items: Forecast transaction in foreign currency

3) Hedging policy

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

4) Assessment of hedge effectiveness

The effectiveness of the hedging is evaluated by comparing the accumulated cash flow of the hedging instruments with that of the hedged items.

6. Accounting Treatment for Consumption Tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

7. Adoption of Consolidated Taxation System

The Company adopts the consolidated taxation system.

Notes to Balance Sheet

1. Assets Pledged as Collateral and Secured liabilities

(1) Assets pledged as collateral

(In millions of yen)

Buildings	22,266	(22,166)
Structures	2,639	(2,639)
Machinery and equipment	36,967	(36,967)
Land	16,280	(13,129)
Total	78,152	(74,901)

(2) Secured liabilities

(In millions of yen)

Current portion of lease obligations	4,344	(—)
Long-term borrowings	152,568	(152,568)
Total	156,912	(152,568)

*Amounts in parenthesis represent assets pledged as collateral and secured liabilities related to factory properties.

2. Accumulated Depreciation of Property, Plant and Equipment: 156,571 million yen

3. Accumulated Impairment Loss of Property, Plant and Equipment:

Accumulated impairment loss was included in accumulated depreciation of property, plant and equipment.

4. Contingent Liabilities:

Liabilities for Guarantees

Loan of affiliated companies	86 million yen
Guarantees for employees' housing loans	111 million yen

5. Monetary Receivables from and Payables to Affiliated Companies:

Short-term receivable	108,606 million yen
Short-term payable	159,896 million yen

Notes to Statement of Operations

1. Transactions with Affiliated Companies:

Amounts of operating transactions

Net sales	258,673 million yen
Purchases	360,761 million yen
Amounts of non-operating transactions	1,644 million yen

2. Business Structure Improvement Expenses

The Company has reformed businesses and structures of the production along with the streamlining of employees to strengthen its financial basis, and those related expenses are shown as business structure improvement expenses.

The details of business structure improvement expenses (1,734 millions of yen) were as follows:

(In millions of yen)

Impairment loss and expenses for the reorganization of the design and development sites etc.	1,308
Other	426
Total	1,734

Notes to Statement of Changes in Net Assets

Type and Number of Treasury Stock as of December 31, 2016

Common Stock 2,581 shares

Notes to Tax-Effect Accounting

Significant components of deferred tax assets were operating loss carry forwards, loss on valuation of stocks of subsidiaries and affiliates, accrued retirement benefits and others, in view of the possibility of recoverability the company has posted a valuation reserve for 256,122 million yen. In addition, significant components of deferred tax liabilities were valuation difference of assets acquired by merger and deferred gains(losses) on hedges.

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

Notes to Transactions with Related Parties

Subsidiaries, affiliates and others: (In millions of yen)

Attribute	Company name	Ratio of Share-Holding (Owned)	Relation with related parties	Contents of transaction	Amounts of transaction (*4)	Account	Balance as of December 31 2016(*4)
Subsidiary	Renesas Semiconductor Manufacturing Co., Ltd.	(Own) Direct 100.0 %	Purchases of parts of our products	Purchases of products(*1)	110,423	Accounts payable-trade	20,587
						Accounts receivable-other	7,692
				Money deposited (*2)	—	Deposits received	14,197
Subsidiary	Renesas Semiconductor Package & Test Solutions Co., Ltd.	(Own) Direct 100.0 %	Purchases of parts of our products	Purchases of products(*1)	29,367	Accounts payable-trade	8,989
				Loan(*2)	22,000	Short-term loans receivable	16,883
				Acceptance of collateral(*3)	39,256	—	—
Subsidiary	Renesas System Design Co., Ltd.	(Own) Direct 100.0 %	Design of our products and consignment of development	Purchases of products(*1)	33,683	Accounts payable-trade	11,924
Subsidiary	Renesas Electronics America Inc.	(Own) Direct 100.0 %	Sales of our products, Consignment of design and development	Sales of products(*1)	43,874	Accounts receivable-trade	12,352
Subsidiary	Renesas Electronics Europe GmbH	(Own) Indirect 100.0 %	Sales of our products, Consignment of design and development	Sales of products(*1)	61,155	Accounts receivable-trade	14,829
				Money deposited (*2)	—	Deposits received	13,853
Subsidiary	Renesas Electronics Hong Kong Limited	(Own) Direct 100.0 %	Sales of our products	Sales of products(*1)	47,643	Accounts receivable-trade	13,985
				Money deposited (*2)	—	Deposits received	10,778
Subsidiary	Renesas Semiconductor Singapore Pte. Ltd.	(Own) Direct 100.0 %	Sales of parts of our products	Sales of products(*1)	28,113	Accounts receivable-trade	7,436
				Money deposited (*2)	—	Deposits received	21,813

Terms and conditions of transactions and polices on deciding terms and conditions

(*1) Price and other transaction conditions were determined based on a price negotiation.

(*2) Rate for loan to subsidiaries and money deposited from subsidiaries was determined by considering the market rate. Amount of transaction for loan described above was loan ceiling.

(*3) Collateral in connection with the Company's borrowing from financial institutions was provided. For details, please refer to "Notes to Balance Sheet, 1. Assets Pledged as Collateral and Secured liabilities"

(*4) Consumption tax and other taxes were not included in the amounts of transaction. Consumption tax and other taxes were included in the balances.

Notes to Per Share Information

1. Net assets per share: 191.27 yen
Net income per share: 16.34 yen

Other Notes

1.Change in Consolidated Fiscal Term

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

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

2.Regarding Acquisition of Stock of Intersil Corporation

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

3. Financing Arrangements

The company repaid the loan of the existing agreements and newly concluded 150,000 million yen long-term loan(five-year loan term) and 50,000 million yen commitment line agreement with the main financing banks to fund long-term operation on September 28,2016, and the company and the banks implemented the long-term loan of the agreement on September 30,2016.

Accordingly, some assets are provided as collateral.

In addition, the company concluded 50,000 million yen long-term loan agreement on December 5, 2016, with the main financing banks to accelerate the realization of growth strategy.