

Renesas

FINANCIAL REPORT 2016
Year Ended March 31, 2016

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 ("Renesas Electronics"), and its consolidated subsidiaries (together, "the Group"), for the year ended March 31, 2016.

Introduction

Financial Position, Operating Results and Cash Flow Analysis

Forward-looking statements concerning financial position, operating results and cash flow are the Group's judgment as of March 31, 2016.

(1) Significant Accounting Policies and Estimates

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported value of assets and liabilities and the disclosure of contingent assets and liabilities at the fiscal year-end, and the reported amounts of revenues and expenses during the period presented. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable. As a consequence, actual results may differ from these estimates and assumptions.

The Group believes when the following significant accounting policies are used, its estimates and assumptions could have a significant impact on its consolidated financial statements.

1) Allowance for Doubtful Accounts

The Group provides an allowance for doubtful accounts based on the historical write-off ratio for receivables and any specific doubtful accounts based on a case-by-case determination of collectability. On the basis of information currently available, we consider the allowance for doubtful accounts to be adequate. However, changes in the underlying financial position of our customers, resulting in an impairment of their ability to make payments, may require additional provisions.

2) Inventories

Inventories are valued at the lower of cost or market. Regarding slow-moving and obsolete inventories, the Group writes down such inventories to their estimated market value based on assumptions about future demand and market conditions. If future demand and market conditions are less favorable than those projected, additional inventory write-downs may be required.

3) Impairment of Long-term Assets

The Group assesses whether or not the residual value of long-term assets on the balance sheets can be recovered from future cash flows from those assets, if there are signs of impairment. If sufficient cash flows cannot be generated from these assets, the Group may have to recognize impairment of the carrying value.

4) Investment Securities

Investment securities with a market value are valued at fair value based on the stock market price and other factors at the fiscal year-end. Unrealized gains and losses are included as a component of net assets, and the cost of securities sold is computed using the moving-average method. Investment securities without a market value are valued at cost or amortized cost using the moving-average method. If there is a significant decline in

market price or value, the Group recognizes impairment, except when a recovery is expected. There could be extraordinary losses in the future if there is a significant decline in market price or value and no recovery is expected.

5) Deferred Tax Assets

The Group has recorded deferred tax assets resulting from deductible temporary differences and net loss carryforwards, both of which will reduce taxable income in the future. We set up a valuation allowance to reduce deferred tax assets to an amount that is more likely than not to be realized.

We evaluate the necessity of a valuation allowance for each subsidiary based on the information currently available, such as historical income performance, estimates of future taxable income, and estimates of the timing of when temporary differences will reverse.

In the event that some or all of these deferred tax assets are determined to be unrecoverable, the Group records adjustments to deferred tax assets as expenses in the period said judgment was made. Similarly, in the event that deferred tax assets in excess of the net total balance sheet amount are determined to be recoverable, the Group adjusts tax expenses for the period the judgment was made.

6) Retirement and Severance Benefits

The Group records retirement and benefit obligations and costs for employees based on a number of actuarial assumptions, including expected changes in employee numbers in the future, the discount rate, the rate of future salary increases, and the long-term expected rate of return on plan assets. In the event that the aforementioned assumptions change, or differ from actual results, any differences are amortized over the expected average remaining service period of employees.

7) Contingent Liabilities

The Group is involved in several lawsuits and other litigation in which compensation for damages is being sought. At present, we have booked allowances to cover losses associated with these actions in such cases where these losses are reasonably estimable.

(2) Overview of Financial Results

	Year ended March 31, 2015	Year ended March 31, 2016	Increase (Decrease)	
	Billion yen	Billion yen	Billion yen	% Change
Net sales	791.1	693.3	(97.8)	(12.4)
Sales from semiconductors	753.3	675.6	(77.7)	(10.3)
Sales from others	37.8	17.7	(20.1)	(53.2)
Operating income	104.4	103.8	(0.6)	(0.6)
Ordinary income	105.3	102.1	(3.2)	(3.1)
Net income attributable to shareholders of parent company	82.4	86.3	3.9	4.8
	Yen	Yen		
Exchange rate (USD)	108	121	-	-
Exchange rate (EUR)	140	133	-	-

[Net sales]

Consolidated net sales for the year ended March 31, 2016 were 693.3 billion yen, a 12.4% decrease year on year. This was mainly due to a decrease in sales from semiconductors, including small- and medium-sized display driver ICs for mobile handsets and consumer electronics devices, resulting from the Group's ongoing selection and concentration of businesses, despite the improved exchange rate.

[Sales from Semiconductors]

Sales from semiconductors for the year ended March 31, 2016 were 675.6 billion yen, a 10.3% decrease year on year.

The sales breakdown for “Automotive” and “General purpose”, and for “Other semiconductors” not belonging to these two categories, is as follows:

Automotive Business: 321.7 billion yen

The automotive business includes the product categories “Automotive control,” comprising semiconductor devices for controlling automobile engines and bodies, and “Automotive information,” comprising semiconductor devices used in automotive information systems such as navigation systems. The Group supplies microcontrollers, analog & power semiconductor devices, and system-on-chip (SoC) products in each of these categories.

Sales of Automotive business for the year ended March 31, 2016 were 321.7 billion yen, a decrease of 0.4% year on year. This was mainly due to decreased sales in the “Automotive information” category, despite the increased sales in the “Automotive control” category.

General-Purpose Business: 349.4 billion yen

The general-purpose business includes the product categories “Industrial/Home electronics,” comprising semiconductor devices for industrial equipment, white goods, etc., “OA/ICT,” comprising semiconductor devices for office automation (OA) equipment such as copy machines and information and communication technology (ICT) equipment such as network infrastructure, and “General-purpose,” comprising general-purpose semiconductor devices for other applications. The Group supplies microcontrollers, analog & power semiconductor devices, and SoC products in each of these categories.

Sales of General-purpose business for the year ended March 31, 2016 were 349.4 billion yen, a decrease of 17.9% year on year. This was mainly due to the Group’s promotion of selection and concentration of businesses which led to decreased sales in the “OA/ICT” and “General-Purpose” categories, although sales in the “Industrial/Home electronics” remained flat. In particular, sales in the “General-Purpose” category decreased year on year as a result of transferring all of the shares in Renesas SP Drivers Inc. (hereafter Renesas SP Drivers), a consolidated subsidiary of the Group and supplier of small- and medium-sized display driver ICs, to Synaptics Holding GmbH.

Other Semiconductors: 4.6 billion yen

Sales of Other semiconductors include production by commissioning and royalties.

Sales of other semiconductors for the year ended March 31, 2016 were 4.6 billion yen, a 3.4% decrease year on year.

[Sales from others]

Sales from others include non-semiconductor products sold on a resale basis by the Group’s sales subsidiaries and development and production by commissioning conducted at the Group’s design and manufacturing subsidiaries.

Sales from others for the year ended March 31, 2016 were 17.7 billion yen, a 53.2% decrease year on year. This decrease was mainly due to sales of the former Renesas SP Drivers products supplied by commissioning that continued even after the transfer of all of the shares in Renesas SP Drivers on October 1, 2014, in addition to the transfer of the LCD resale business of the Group’s overseas subsidiary in April 2015.

[Operating income]

Operating income for the year ended March 31, 2016 was 103.8 billion yen, a 0.6 billion

yen decrease year on year. It remained almost the same level as the previous year, mainly due to an improved US dollar exchange rate, in addition to the improved earnings structure, including the improvement of gross profit ratio, from implementing structural reform measures, despite the Group's promotion of selection and concentration of businesses which led to decreased net sales.

[Ordinary income]

Ordinary income for the year ended March 31, 2016 was 102.1 billion yen, a 3.2 billion yen decrease year on year. This was mainly due to decreased non-operating income including foreign exchange gains.

[Net income attributable to shareholders of parent company]

Net income for the year ended March 31, 2016 was 86.3 billion yen, a 3.9 billion yen improvement year on year. This was mainly due to a decrease in net income attributable to non-controlling interests and income taxes relating to Renesas SP Drivers, as result of the transfer of all of the shares in Renesas SP Drivers in October, 2014.

(3) Financial Position

[Total Assets, Liabilities and Net Assets]

	March 31, 2015	March 31, 2016	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Total assets	840.1	849.4	9.3
Net assets	311.9	381.7	69.8
Equity	309.5	379.5	70.0
Equity ratio (%)	36.8	44.7	7.8
Interest-bearing debt	259.7	244.3	(15.4)
Debt / Equity ratio	0.84	0.64	(0.20)

Total assets at March 31, 2016 were 849.4 billion yen, a 9.3 billion yen increase from March 31, 2015. This was primarily due to the recording of income before income taxes from the promotion of structural reform measures in the year ended March 31, 2016, which resulted in an increase in cash and deposits mainly from securing a certain level of free cash flows. Net assets were 381.7 billion yen, a 69.8 billion yen increase from March 31, 2015. This was mainly due to the recording of net income attributable to shareholders of parent company in the amount of 86.3 billion yen despite the worsening of foreign currency translation adjustments due to the appreciation of the yen against emerging market currencies.

Equity increased by 70.0 billion yen from March 31, 2015 and the equity ratio was 44.7%. Interest-bearing debt decreased by 15.4 billion yen from March 31, 2015. Consequently, the debt to equity ratio dropped to 0.64.

[Cash Flows]

	Year ended March 31, 2015	Year ended March 31, 2016
	Billions of yen	Billions of yen
Net cash provided by (used in) operating activities	116.7	126.3
Net cash provided by (used in) investing activities	(26.6)	(33.6)
Free cash flows	90.1	92.7
Net cash provided by (used in) financing activities	(23.8)	(30.3)
Cash and cash equivalents at the beginning of period	265.9	343.7
Cash and cash equivalents at the end of period	343.7	398.4

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

Net cash provided by operating activities for the year ended March 31, 2016 was 126.3 billion yen. This was mainly due to the recording of income before income taxes in the amount of 90.8 billion yen as well as the adjustment of non-expenditure items such as depreciation and amortization, etc., which are included in income before income taxes.

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

Net cash used in investing activities for the year ended March 31, 2016 was 33.6 billion yen, mainly due to the purchase of property, plant and equipment in the amount of 43.0 billion yen, despite proceeds from sales of property, plant and equipment and collection of loans receivable.

The foregoing resulted in positive free cash flows of 92.7 billion yen for the year ended March 31, 2016.

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

Net cash used in financing activities for the year ended March 31, 2016 was 30.3 billion yen.

Consequently, cash and cash equivalents at the end of the period were 398.4 billion yen, a 54.7 billion yen increase from the beginning of the period.

(4) Effect of Change in Exchange Rates on Foreign Currency Translation

The average annual exchange rate of the Japanese yen against the U.S. dollar during the fiscal year ended March 31, 2016 was weaker compared with the fiscal year ended March 31, 2015. This increased the yen-denominated amount of U.S. dollar-denominated sales, thereby contributing to increased earnings. We recorded a net foreign exchange gain of 30 million yen as non-operating income for the fiscal year ended March 31, 2016. Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the fiscal year-end. Revenue and expenses are translated at the average exchange rates for the fiscal year. Adjustments resulting from the translation are accumulated and recorded in "foreign currency translation adjustments" and "non-controlling interests" in the consolidated balance sheets. For details, see Basis of Consolidated Financial Statements.

(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. To secure capital resources, the Company issued new shares offered by way of third-party allotment to the Innovation Network Corporation of Japan, Toyota Motor Corporation, Nissan Motor Co., Ltd., Keihin Corporation, Denso Corporation, Canon Inc., Nikon Corporation, Panasonic Corporation, and Yaskawa Electric Corporation on September 30, 2013, thereby procuring capital totaling 150 billion yen. Also, the Company renegotiated the terms of the syndicated loan agreement (for a total amount of 208.6 billion yen) concluded on September 28, 2012, with its main financing banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Corporate Bank, Ltd. (now Mizuho Bank, Ltd.), Sumitomo Mitsui Trust Bank, Limited, and Mitsubishi UFJ Trust and Banking Corporation. A refinancing agreement for the total amount of 208.6 billion yen was concluded on September 11, 2013, and it took effect on September 30 of the same year. As of March 31, 2016, the total amount of interest-bearing debt, including borrowings and lease obligations, was 244.3 billion yen. As of March 31, 2016, the Company had 398.4 billion yen in liquidity, including cash and deposits, and marketable securities.

(6) Off-balance Sheet Arrangements

The Group conducts operating leases as a means of avoiding risks associated with a decline in the value of obsolete production facilities, as well as to stabilize cash flows. As of March 31, 2016 the balance of lease obligations for unexpired non-cancelable operating lease transactions was 6.0 billion yen.

Risk Factors

Renesas Electronics Group's operations and financial results are subject to various risks and uncertainties, including those described below, that could significantly affect investors' judgments. In addition, the following statements include matters which might not necessarily fall under such significant risks, but are deemed important for investors' judgment from a standpoint of affirmative disclosure.

Descriptions about the future in the following are based on what the Group recognizes as of March 31, 2016.

1) *Market Fluctuations*

Semiconductor market fluctuations, which are caused by such factors 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 worsened cost ratios, 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. As a result, it is possible for our consolidated business results and financial condition, including our sales volume 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 Renesas Group assets, liabilities, income, and costs can change greatly by showing our foreign currency denominated assets and debts converted to 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.

Furthermore, since costs and the values of assets and debts associated with Renesas Group business operation are influenced by fluctuations in interest rates, it is also possible for Renesas Group businesses, performance, and financial condition to be adversely influenced by these fluctuations.

3) *Natural Disasters*

Natural disasters such as earthquakes, typhoons, and floods, as well as accidents, acts of terror, infection and other factors beyond the control of the Group could adversely affect the Group's business operation. Especially, 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. The Group sets and manages several preventive plans and Business Continuity Plan which defines countermeasures such as contingency plans and at the same time the Group is

subscribed to various insurances; however, these plans and insurances are not guaranteed to cover all the losses and damages incurred.

4) *Competition*

The semiconductor industry is extremely competitive, and the Group is exposed to fierce competition from rival companies around the world in areas such as product performance, structure, pricing and quality. To maintain and improve competitiveness, the Group takes various measures including development of leading edge technologies, standardizing design, and cost reduction, but 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. Price competition for the purpose of maintaining market share may also lead to sharp declines in the market price of the Group's products. When this cannot be offset by cost reductions, the Group's gross profit margin ratio may decline.

5) *Implementation of Management Strategies and Structural Measures*

The Group is implementing a variety of business strategies and structural measures to strengthen the foundations of its profitability. However, due to changes in economic conditions and the business environment, factors whose future is uncertain, and 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 structural reform costs may arise. Thus these issues may adversely influence Renesas Group 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 risks; outbreaks of illness or disease; exchange rate fluctuations; drops in individual consumption or in equipment investment; fluctuations in the prices of goods and land; and rising wage levels. 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 involving third parties in the areas of R&D on key technologies and products, manufacturing, etc. The Group studies from many aspects the potential of these alliances and acquisitions in terms of return on investment and profitability, but time and money are necessary to achieve integration in areas such as business execution, technology, products, and personnel, and it is possible that these collaborative relationships cannot be sustained due to issues such as differences from the Group's partners on management strategy in areas such as capital procurement, technology management, and product development, or financial or other business problems the Group's partners may encounter. In addition, it is not guaranteed that strategic alliances and corporate acquisitions would actually yield the results initially anticipated.

8) *Financing*

While the Group has been procuring business funds by methods such as borrowing from financial institutions and other sources, 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

Renesas 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 lending policies of lenders. 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 worsened financial base of the Group etc., 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) Notes on Additional Financing

After implementing of the allocation of new shares to a third party based on a decision at the Meeting of the Board of Directors held on December 10, 2012, we received an offer from the Innovation Network Corporation of Japan that they are willing to provide additional investments or loans with an upper limit of 50 billion yen. Currently, no specific details regarding the timing of or conditions associated with these additional investments or loans have been determined, and there is no guarantee that these additional investments or loans will actually be implemented. If investments occur based on this offer, further dilution of existing stock will occur and this may adversely impact existing shareholders. Also, if loans are made under this offer, Renesas' outstanding interest-bearing debt will increase and this may impose restrictions on some of our business activities. Furthermore, if fluctuations in interest rates occur in the future, Renesas Group businesses, performance, and financial condition may be adversely affected.

10) Notes on the Fact that the Largest Shareholder Possesses the a Majority Share of Voting Rights

As a result of the allocation by the Company of common stock to the Innovation Network Corporation of Japan and others by way of third-party allotment on September 30, 2013, the Innovation Network Corporation of Japan now holds a majority share of voting rights held in association with Renesas stock. Thus, the business operations of the Company are potentially subject to a substantial influence through the exercise by the Innovation Network Corporation of Japan of its voting rights at General Meetings of Shareholders. In addition, should the Innovation Network Corporation of Japan at some future date sell all or part of the Renesas stock it currently holds for investment purposes, this could potentially have a substantial effect on the market value of the Company, depending on factors such as the market climate at the time of the sale.

11) 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, Renesas Group businesses, performance, and financial condition may all be adversely affected by product obsolescence and the appearance of competing products.

12) Product Production

a. Production Process Risk

Semiconductor products require extremely complex production processes. In an effort to increase yields (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 problems in these production processes could lead to worsening yields. This problem, 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, worsening of business conditions, and withdrawal from the business occurred in suppliers could preclude their timely procurement, or may result in sharply higher prices for these essential materials upon procurement.

c. Risks Associated with Outsourced Production

The Group outsources the manufacture 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, the possibility of delivery delays, product defects and other production-side risks stemming from outsourcers cannot be ruled out completely. In particular, inadequate production capacity among outsourcers could result in the Group being unable to supply enough products amid periods of high product demand.

13) 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 and the diversity of ways in which the Group's products are used by customers. 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.

14) Product Sales

a. Reliance on Key Customers

The Group relies on certain key customers for the bulk 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 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 result in 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 the bulk 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 replace the Group products handled with those of a competitor, which could cause a downturn in the Group sales.

15) Securing Human Resources

The Renesas 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 acquisition of human resources. Under the current conditions, it may not be possible for the Group to secure the talented human resources it requires.

16) Retirement Benefit Obligations

The retirement benefit obligations and prepaid pension expenses that the Group budgets are calculated based on actuarial assumptions, such as discount rates and the long-term expected rates of 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 retirement benefit obligations increase or our pension assets decrease and there is an increase in the pension funding deficit in the retirement benefit obligations system.

17) Impairment Loss on Fixed Assets

The Group has recorded tangible fixed assets and many other long-lived assets in its consolidated balance sheet, and when there is an indicator of impairment loss, the Group reviews whether it will be able to recover the recorded residual value of these assets in the form of future cash flows generated by these assets. If these assets do not generate sufficient cash flows, the Group may be forced to recognize impairment loss in their value.

18) Information Systems

Information systems are 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 and unauthorized accesses.

19) 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 customer confidence and social trust would deteriorate, resulting in a negative effect on the Group's performance.

20) Legal Restrictions

The Group is subject to a variety of legal restrictions in the various countries and regions in which we operate. These include requirements for approval for businesses and investments, export restrictions, customs duties and tariffs, accounting standards and

taxation, and environment laws. Moving forward, it is possible that Renesas Group businesses, performance, and financial condition may be adversely affected by increased costs and restrictions on business activities associated with the strengthening of local laws.

21) *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.

22) *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 that 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 less favorable than before.

23) *Legal Issues*

As the Group conducts business worldwide, it is possible that the Group may become a party to lawsuits, investigation by regulatory authorities and other legal proceedings in various countries. In particular, the Group is at present the subject of investigation by regulatory authorities and is a defendant in civil lawsuits related to possible violations of antitrust law in several countries and areas.

The Group's subsidiaries in the U.S., Europe and South Korea are the subject of investigations each by the U.S. Department of Justice, the Competition Bureau of Canada, the European Commission, and the Korea Fair Trade Commission in connection with possible violations of antitrust law/competition law related to thin-film transistor liquid crystal displays (TFT-LCDs).

The Group has been named in Canada as a defendant in a civil lawsuit related to possible violations of competition law involving smartcard chips brought by purchasers of such products. Also, the Company and its European subsidiary have been named in the United Kingdom as defendants in a civil lawsuit related to possible violations of competition law involving smartcard chips brought by purchasers of such products.

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, and it is possible that the Group may be required to pay compensation for damages, possibly resulting in significant adverse effects to the business, performance, and financial condition of the Group.

FINANCIAL SECTION

1. Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements of Renesas Electronics Corporation (“the Company”) and its consolidated subsidiaries (“the Group”) were prepared in accordance with the Ministry of Finance Ordinance No. 28, 1976, “Regulations Concerning the Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (“Regulations for Consolidated Financial Statements”).

2. Audit Certification

The consolidated financial statements for the current fiscal year (from April 1, 2015 to March 31, 2016) were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Section 1, of the Financial Instruments and Exchange Law.

3. Special Measures for Preparing Fairly Stated Financial Statements

The Company is implementing the following special measures to ensure the fairness of financial statements.

- (1) 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 held by accounting standard-setters. In addition, we are updating our internal rules and in-house manuals as necessary to reflect these special measures.
- (2) In order to adopt International Financial Reporting Standards (IFRS) in the near future, the Company has started preparations for amending its internal accounting principles and new rules accounting in accordance with IFRS.

1. Consolidated Financial Statements

1.1 Consolidated Balance Sheets

As of March 31, 2015 and 2016

(In millions of yen)

	Prior Fiscal Year (As of March 31, 2015)	Current Fiscal Year (As of March 31, 2016)
Assets		
Current assets		
Cash and deposits	344,000	398,673
Notes and accounts receivable-trade	91,471	81,866
Merchandise and finished goods	※1 38,203	※1 39,028
Work in process	※1 66,761	※1 62,950
Raw materials and supplies	※1 6,457	※1 6,376
Deferred tax assets	1,529	1,738
Accounts receivable-other	14,174	16,155
Other current assets	8,560	5,146
Allowance for doubtful accounts	(92)	(89)
Total current assets	571,063	611,843
Long-term assets		
Property, plant and equipment		
Buildings and structures	246,883	219,651
Accumulated depreciation	※3 (172,963)	※3 (155,034)
Buildings and structures, net	※1 73,920	※1 64,617
Machinery and equipment	648,927	590,383
Accumulated depreciation	※3 (593,694)	※3 (532,480)
Machinery and equipment, net	※1 55,233	※1 57,903
Vehicles, tools, furniture and fixtures	107,251	102,494
Accumulated depreciation	※3 (90,506)	※3 (85,791)
Vehicles, tools, furniture and fixtures, net	16,745	16,703
Land	※1 27,277	※1 22,516
Construction in progress	8,640	11,307
Total property, plant and equipment	181,815	173,046
Intangible assets		
Software	9,743	10,111
Other intangible assets	18,509	14,987
Total intangible assets	28,252	25,098
Investments and other assets		
Investment securities	※2 8,108	※2 6,196
Net defined benefit asset	946	1,574
Deferred tax assets	2,106	1,796
Long-term prepaid expenses	35,024	27,209
Other assets	12,774	2,617
Allowance for doubtful accounts	(1)	(3)
Total investments and other assets	58,957	39,389
Total long-term assets	269,024	237,533
Total assets	840,087	849,376

(In millions of yen)

	Prior Fiscal Year (As of March 31, 2015)	Current Fiscal Year (As of March 31, 2016)
Liabilities		
Current liabilities		
Electronically recorded obligations	9,275	9,246
Notes and accounts payable-trade	76,364	76,882
Current portion of long-term borrowings	6,700	※1 25,000
Current portion of lease obligations	※1 1,135	※1 5,229
Accounts payable-other	37,337	33,161
Accrued expenses	36,875	31,246
Accrued income taxes	5,785	5,041
Provision for product warranties	366	376
Provision for business structure improvement	3,871	4,273
Provision for contingent loss	252	271
Asset retirement obligations	2,089	116
Other current liabilities	6,009	7,690
Total current liabilities	186,058	198,531
Long-term liabilities		
Long-term borrowings	※1 246,505	※1 213,806
Lease obligations	※1 5,385	307
Deferred tax liabilities	11,641	9,934
Provision for business structure improvement	2,980	110
Net defined benefit liability	50,489	31,850
Asset retirement obligations	2,862	2,744
Other liabilities	22,258	10,355
Total long-term liabilities	342,120	269,106
Total liabilities	528,178	467,637
Net assets		
Shareholders' equity		
Common stock	228,255	10,000
Capital surplus	525,413	191,919
Retained earnings	(475,815)	162,226
Treasury stock	(11)	(11)
Total shareholders' equity	277,842	364,134
Accumulated other comprehensive income		
Unrealized gains (losses) on securities	716	316
Foreign currency translation adjustments	13,716	(201)
Remeasurements of defined benefit plans	17,255	15,230
Total accumulated other comprehensive income	31,687	15,345
Non-controlling interests	2,380	2,260
Total net assets	311,909	381,739
Total liabilities and net assets	840,087	849,376

1.2 Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

1.2.1 Consolidated Statements of Operations

For the Years Ended March 31, 2015 and 2016

(In millions of yen)

	The year ended March 31, 2015	The year ended March 31, 2016
Net sales	791,074	693,289
Cost of sales	※1 472,303	※1 387,713
Gross profit	318,771	305,576
Selling, general and administrative expenses	※2, ※3 214,344	※2, ※3 201,794
Operating income	104,427	103,782
Non-operating income		
Interest income	888	680
Dividends income	129	127
Equity in earnings of affiliates	273	5
Foreign exchange gains	4,626	30
Insurance income	328	884
Other non-operating income	1,458	1,263
Total non-operating income	7,702	2,989
Non-operating expenses		
Interest expenses	3,166	2,851
Loss on disposal of long-term assets	456	483
Retirement benefit expenses	1,552	-
Other non-operating expenses	1,620	1,337
Total non-operating expenses	6,794	4,671
Ordinary income	105,335	102,100
Special income		
Gain on sales of property, plant and equipment	※4 1,259	※4 1,964
Gain on transfer of business	※5 20,045	261
Gain on sales of investment securities	146	311
Gain on extinguishment of debt	※6 1,694	-
Total special income	23,144	2,536
Special loss		
Loss on sales of property, plant and equipment	※7 175	※7 171
Impairment loss	※8 1,173	※8 350
Business structure improvement expenses	※8, ※9 30,141	※8, ※9 12,702
Loss on sales of investment securities	30	155
Loss on liquidation of subsidiaries and affiliates	498	-
Provision for contingent loss	274	88
Compensation expenses	※10 1,897	-
Loss on sales of subsidiaries and affiliates' stocks	129	385
Loss on change in equity	62	-
Total special loss	34,379	13,851
Income before income taxes	94,100	90,785
Income taxes-current	8,725	6,018
Income taxes-deferred	460	(1,696)
Total income taxes	9,185	4,322
Net income	84,915	86,463
Net income attributable to non-controlling interests	2,550	171
Net income attributable to shareholders of parent company	82,365	86,292

1.2.2 Consolidated Statements of Comprehensive Income

For the Years Ended March 31, 2015 and 2016

(In millions of yen)

	The year ended March 31, 2015	The year ended March 31, 2016
Net income	84,915	86,463
Other comprehensive income		
Unrealized gains (losses) on securities	103	(360)
Foreign currency translation adjustments	14,026	(14,200)
Remeasurements of defined benefit plans, net of tax	23,430	(2,037)
Share of other comprehensive income of affiliates accounted for by the equity method	70	(28)
Total other comprehensive income	※1 37,629	※1 (16,625)
Comprehensive income	122,544	69,838
Comprehensive income attributable to:		
Shareholders of parent company	120,031	69,950
Non-controlling interests	2,513	(112)

1.3 Consolidated Statements of Changes in Net Assets

The year ended March 31, 2015

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	228,255	525,413	(533,106)	(11)	220,551
Cumulative effects of changes in accounting policies			(25,074)		(25,074)
Restated balance	228,255	525,413	(558,180)	(11)	195,477
Changes during the period					
Net income attributable to shareholders of parent company			82,365		82,365
Net changes other than shareholders' equity					
Total changes during the period	—	—	82,365	—	82,365
Balance at the end of the period	228,255	525,413	(475,815)	(11)	277,842

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the period	572	(347)	(6,175)	(5,950)	12,713	227,314
Cumulative effects of changes in accounting policies						(25,074)
Restated balance	572	(347)	(6,175)	(5,950)	12,713	202,240
Changes during the period						
Net income attributable to shareholders of parent company						82,365
Net changes other than shareholders' equity	144	14,063	23,430	37,637	(10,333)	27,304
Total changes during the period	144	14,063	23,430	37,637	(10,333)	109,669
Balance at the end of the period	716	13,716	17,255	31,687	2,380	311,909

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

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the period	716	13,716	17,255	31,687	2,380	311,909
Changes during the period						
Transfer to other capital surplus from capital stock						—
Deficit disposition						—
Net income attributable to shareholders of parent company						86,292
Purchase of treasury stocks						0
Net changes other than shareholders' equity	(400)	(13,917)	(2,025)	(16,342)	(120)	(16,462)
Total changes during the period	(400)	(13,917)	(2,025)	(16,342)	(120)	69,830
Balance at the end of the period	316	(201)	15,230	15,345	2,260	381,739

1.4 Consolidated Statements of Cash Flows **For the Years Ended March 31, 2015 and 2016**

(In millions of yen)

	The year ended March 31, 2015	The year ended March 31, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	94,100	90,785
Depreciation and amortization	54,834	49,691
Amortization of long-term prepaid expenses	11,788	12,691
Impairment loss	1,173	350
Increase (decrease) in net defined benefit liability	(9,391)	(21,109)
Increase (decrease) in provision for business structure improvement	(836)	(403)
Increase (decrease) in provision for contingent loss	278	19
Interest and dividends income	(1,017)	(807)
Insurance income	(328)	(884)
Interest expenses	3,166	2,851
Equity in (earnings) losses of affiliates	(273)	(5)
Loss (gain) on sales and valuation of investment securities	(116)	(156)
Loss (gain) on liquidation of subsidiaries and affiliates	498	-
Loss (gain) on sales of subsidiaries and affiliates' stocks	129	385
Loss (gain) on sales of property, plant and equipment	(1,084)	(1,793)
Business structure improvement expenses	23,944	5,779
Loss (gain) on transfer of business	(20,045)	(261)
Decrease (increase) in notes and accounts receivable-trade	(7,286)	5,213
Decrease (increase) in inventories	15,876	901
Decrease (increase) in accounts receivable-other	9,258	1,956
Increase (decrease) in notes and accounts payable-trade	(17,387)	3,620
Increase (decrease) in accounts payable-other and accrued expenses	(6,995)	(11,668)
Other cash provided by (used in) operating activities, net	(6,246)	(17)
Subtotal	144,040	137,138
Interest and dividends received	1,089	886
Proceeds from insurance income	328	884
Interest paid	(3,167)	(2,858)
Income taxes paid	(6,435)	(5,819)
Payments for extra retirement benefits	(18,943)	(3,935)
Settlement package paid	(166)	-
Net cash provided by (used in) operating activities	116,746	126,296

(In millions of yen)

	The year ended March 31, 2015	The year ended March 31, 2016
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(39,274)	(42,950)
Proceeds from sales of property, plant and equipment	2,294	9,120
Purchase of intangible assets	(5,439)	(4,401)
Purchase of long-term prepaid expenses	(2,671)	(2,543)
Purchase of investment securities	(626)	(656)
Proceeds from sales of investment securities	944	1,287
Purchase of investments in subsidiaries	(3,200)	-
Proceeds from sales of subsidiaries and affiliates' stocks	967	584
Proceeds from transfer of business	※2 18,170	262
Payments for transfer of business	(448)	-
Collection of loans receivable	1,400	4,550
Other cash provided by (used in) investing activities, net	1,280	1,196
Net cash provided by (used in) investing activities	(26,603)	(33,551)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term borrowings	(2,000)	-
Proceeds from long-term borrowings	3,000	-
Repayments of long-term borrowings	(9,786)	(14,399)
Repayments of finance lease obligations	(2,461)	(1,154)
Repayments of installment payables	(12,515)	(14,786)
Net cash provided by (used in) financing activities	(23,762)	(30,339)
Effect of exchange rate change on cash and cash equivalents	11,444	(7,718)
Net increase (decrease) in cash and cash equivalents	77,825	54,688
Cash and cash equivalents at the beginning of the period	265,897	343,722
Cash and cash equivalents at the end of the period	※1 343,722	※1 398,410

Notes to Consolidated Financial Statements

(Basis of Consolidated Financial Statements)

1. Scope of Consolidation

All subsidiaries are consolidated.

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

The names of major subsidiaries:

Names of the major consolidated subsidiaries are listed on "Appendix" and omitted in this part.

Number of subsidiaries decreased by merger: 1

Renesas System Design Co, Ltd., a wholly-owned subsidiary of the Company, was excluded from the Group effective April 1, 2015 as a result of an absorption-type merger with Renesas Solutions Corporation, also a wholly-owned subsidiary of the Company. In addition, the name of Renesas Solutions Corporation was changed to Renesas System Design Co., Ltd.

2. Application of Equity Method

(1) The number of affiliates accounted for by the equity method: 2

The names of major affiliates accounted for by the equity method:

Renesas Easton Co., Ltd.
and other 1 company

Number of affiliates decreased by sale: 1

(2) The name of affiliates not accounted for by the equity method:

The equity method is not applied to Semiconductor Technology Academic Research Center because net income and retained earnings (both amounts equivalent to what is accounted for by the equity method) have little impact on the consolidated financial statements of the Company on an individual basis, nor have any material impact on them on an aggregate basis.

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

3. Significant Accounting Policies

(1) Valuation methods for significant assets

1) Securities

Other securities:

Marketable securities:

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

Non-marketable securities:

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

2) Derivatives

Derivative financial instruments are stated at the fair value.

3) Inventories

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

Merchandise and finished goods:

Custom-made products: Specific identification method

Mass products: Average method

Work in process:

Custom-made products: Specific identification method

Mass products: Average method

Raw materials and supplies: Mainly average method

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

1) Property, plant and equipment other than leased assets

Depreciated principally by the straight-line method

The useful lives of principal property, plant and equipment are as follows:

Buildings and structures: 10 to 45 years

Machinery and equipment: 2 to 8 years

Vehicles, tools, furniture and fixtures: 2 to 10 years

2) Intangible assets other than leased assets

Amortized by the straight-line method

Software for sales purposes

Amortized using the higher of the amount based on sales in the year as a proportion of total estimated sales over salable periods (not exceeding 3 years) or the amount based on a straight-line basis over the remaining salable period.

Software for internal use

Amortized by the straight-line method mainly over an estimated useful life of 5 years, which is the available term for internal use.

Developed technology

Amortized by the straight-line method based on the useful life (not exceeding 10 years) of the business activities.

3) Leased assets

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

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

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

Depreciated / amortized by the straight-line method over the lease term, assuming no residual value.

Other than those under which the ownership of the assets is transferred to the lessee, the finance leases which started the lease transactions on or before March 31, 2008 are accounted for as operating lease transactions.

4) Long-term prepaid expenses

Amortized by the straight-line method

(3) Basis of significant reserves

1) Allowance for doubtful accounts

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

2) Provision for product warranties

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

3) Provision for loss on guarantees

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

4) Provision for business structure improvement

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

5) Provision for contingent loss

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

(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 retirement benefit obligations is based on a benefit formula basis.

2) Actuarial gains and losses and prior service costs

Actuarial gains and losses are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly over 12 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 12 years).

(5) Foreign currency translation

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

(6) Amortization method and term for goodwill

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

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

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

(8) Others

1) Accounting for consumption tax

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

2) Adoption of consolidated taxation system

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

(Changes in Accounting Principles)

From the current fiscal year, the Group has adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on September 13, 2013), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued on September 13, 2013) and so forth. The Group has adopted the methods of recognizing the differences arising from changes in a parent company's equity interest in its subsidiaries that are still under its control as capital surplus and recognizing acquisition-related costs as expenses for the fiscal year in which such costs are incurred.

For business combinations conducted on or after April 1, 2015, the Group has also adopted the method of reflecting the adjustments to the allocation of acquisition costs caused by finalizing the provisional accounting treatment in the consolidated financial statements for the fiscal year in which the business combination occurs. In addition, the Group has changed the presentation of "Net income" etc., and the presentation from "Minority interests" to "Non-controlling interests." In order to reflect the changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified to reflect a consistent presentation format.

In the consolidated statement of cash flows, cash flows related to the acquisition or sale of subsidiaries' shares not resulting in a change in the scope of consolidation are included in "Net cash provided by (used in) financing activities," and cash flows related to costs arising from acquisition of subsidiaries' shares resulting in a change in the scope of consolidation or costs associated with acquisition or sale of subsidiaries' shares not resulting in a change in the scope of consolidation are included in "Net cash provided by (used in) operating activities."

The adoption of the accounting standards is subject to the transitional treatment set forth in Clause 58-2(4) of the "Revised Accounting Standard for Business Combinations," Clause 44-5(4) of the "Revised Accounting Standard for Consolidated Financial Statements," Clause 57-4(4) of the "Revised Accounting Standard for Business Divestitures," and the Group has applied the accounting standards from the fiscal year beginning on April 1, 2015.

Regarding the consolidated statement of cash flows, the Company has applied the transitional treatments stipulated in Article 26-4 of "Practical Guidelines on Accounting Standards for Preparing Consolidated Statements of Cash Flows" and did not reclassify the comparative information.

Furthermore, the adoption of the accounting standards had no impact on the consolidated financial statements and per share information for the current fiscal year.

(Accounting Standards Issued but Not Yet Adopted)

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, issued on March 28, 2016)

1. Outline of guidance

Regarding the treatment of the recoverability of deferred tax assets, a necessary review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets" whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- 1) Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- 2) Category requirements for (Category 2) and (Category 3)
- 3) Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- 4) Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- 5) Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

2. Application date

The Group is scheduled to apply the guidance from the beginning of the fiscal year ending December 31, 2016 (*).

3. Impact of adopting the guidance

The impact of adopting the guidance is currently under consideration through preparing the consolidated financial statements.

(*)A partial amendment to its "Articles of Incorporation" to change the fiscal term and the fiscal year-end from March 31 to December 31 starting from fiscal year 2016 was approved at the 14th Ordinary General Shareholders' Meeting held on June 28, 2016.

(Changes in Presentation)

(Consolidated Statements of Operations)

"Insurance income" included in "Other non-operating income" and "Loss on disposal of long-term assets" included in "Other non-operating expenses" for the previous fiscal year exceeded 10% of total non-operating income and non-operating expenses and are therefore presented independently from the current fiscal year. In order to reflect the change in presentation, the consolidated statement of operations for the previous fiscal year has been reclassified to reflect a consistent presentation format.

As a result of this change, 1,786 million yen of "Other non-operating income" for the previous fiscal year was reclassified as 328 million yen as "Insurance income" and 1,458 million yen for "Other non-operating income". In addition, 2,076 million yen of "Other non-operating expenses" for the previous fiscal year was reclassified as 456 million yen for "Loss on disposal of long-term assets" and 1,620 million yen as "Other non-operating expenses".

(Consolidated Balance Sheets)

*1 Assets pledged as collateral and secured liabilities
(Assets pledged as collateral)

	(In millions of yen)			
	As of March 31, 2015		As of March 31, 2016	
Merchandise and finished goods	25,052	(—)	25,972	(—)
Work in process	52,656	(—)	50,819	(—)
Raw materials and supplies	5,193	(—)	5,528	(—)
Buildings and structures	57,732	(57,084)	49,290	(48,705)
Machinery and equipment	31,126	(31,126)	33,904	(33,904)
Land	27,042	(23,334)	22,285	(18,577)
Total	198,801	(111,544)	187,798	(101,186)

(Secured liabilities)

	(In millions of yen)			
	As of March 31, 2015		As of March 31, 2016	
Current portion of long-term borrowings	—	(—)	25,000	(25,000)
Current portion of lease obligations	919	(—)	5,051	(—)
Long-term borrowings	246,505	(246,505)	213,806	(213,806)
Lease obligations	5,051	(—)	—	(—)
Total	252,475	(246,505)	243,857	(238,806)

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

*2 Items below relate to affiliates

	(In millions of yen)	
	As of March 31, 2015	As of March 31, 2016
Investment securities (Stock)	4,315	3,487

*3 Accumulated impairment loss was included in accumulated depreciation.

4 Contingent liabilities

(1) Debt guarantees

	(In millions of yen)			
	As of March 31, 2015		As of March 31, 2016	
Guarantees of employees' housing loans	230		Guarantees of employees' housing loans	159
Other	499		Other	378
Total	729		Total	537

(2) Others

The Group was named in Canada as one of the defendants in multiple civil lawsuits related to possible violations of the competition law involving SRAM brought by purchasers of such products, but the pending lawsuits were concluded by a settlement.

The Group's subsidiaries in the U.S., Europe and South Korea are the subject of investigations each by the U.S. Department of Justice, the Competition Bureau of Canada, the European Commission, and the Korea Fair Trade Commission in connection with possible violations of antitrust law/competition law related to thin-film transistor liquid crystal displays (TFT-LCDs).

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 have been named in the U.K. as the defendants in a civil lawsuit related to possible violations of the competition law involving smartcard chips brought by purchasers of such products.

(Consolidated Statements of Operations)

*1 Inventory balance as of the fiscal year-end

Inventory balance as of the fiscal year-end, presented after write-down of book value due to declines of profitability and the amount of the write-down included in cost of sales, was as follows:

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
	(3,578)	(5,875)

*2 Selling, general and administrative expenses

Principal items and amounts

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Research and development (R&D) expenses	91,082	97,383
Personnel expenses	43,977	39,014
Retirement benefit expenses	5,140	1,907
Subcontract expenses	21,923	20,243

*3 Total of research and development expenses

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
R&D expenses included in manufacturing costs and general and administrative expenses	91,082	97,383

*4 Components of gain on sales of property, plant and equipment

For the year ended March 31, 2015

Sales of machinery and equipment, land and others

For the year ended March 31, 2016

Sales of machinery and equipment, land and others

*5 Gain on transfer of business

Due to the transfer of a subsidiary's shares to Synaptics Holding GmbH.

*6 Gain on extinguishment of debt

Due to the extinguishment of the performance obligation for the accrued liabilities recognized in the past fiscal years.

*7 Components of loss on sales of property, plant and equipment

For the year ended March 31, 2015

Sales of machinery and equipment, construction in progress and others

For the year ended March 31, 2016

Sales of machinery and equipment, vehicles, tools, furniture and fixtures and others

*8 Impairment loss

The details of impairment loss were as follows:

For the year ended March 31, 2015

Location	Usage	Type
Otsu-city, Shiga-prefecture Kawasaki-city, Kanagawa-prefecture Sagamihara-city, Kanagawa-prefecture etc.	Assets to be disposed of	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land, Construction in progress, Software and Other intangible assets
Taiwan Malaysia China etc.	Idle assets	Machinery and equipment, Vehicles, tools, furniture and fixtures, Construction in progress and Long-term prepaid expenses

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 10,133 million yen, which was included in special loss.

The main components of such impairment loss which amounted to 6,116 million yen were semiconductor manufacturing facilities, land and building for 8-inch front-end wafer fabrication lines (these fixed assets will be transferred or leased to ROHM Co., Ltd. in February 2016) at the Shiga Factory of Renesas Semiconductor Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company.

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 1,125 million yen, which was included in special loss.

The assets to be disposed of and idle assets amounted to 11,258 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 10,085 million yen and impairment loss except for business structure improvement expenses, which amounted to 1,173 million yen.

The components of impairment loss (11,258 million yen) were as follows:

(In millions of yen)	
Buildings and structures	6,642
Machinery and equipment	769
Vehicles, tools, furniture and fixtures	662
Land	2,919
Construction in progress	231
Software	1
Other intangible assets	32
Long-term prepaid expenses	2
Total	11,258

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

For the year ended March 31, 2016

Location	Usage	Type
Itami-city, Hyogo-prefecture Tsuruoka-city, Yamagata-prefecture Showa-town, Nakakoma-country, Yamanashi-prefecture Otsu-city, Shiga-prefecture etc.	Assets to be disposed of	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Construction in progress, Land, Software and Other intangible assets
Taiwan China etc.	Idle assets	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures

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

The Group recognized impairment loss on assets to be transferred for the purpose of reforming the production structure for the establishment of a robust and profitable structure, and assets to be disposed of,

which had no business use due to a decision to close or sell the product line by reducing their net book values to their recoverable values because their fair value declined significantly. Such loss amounted to 3,752 million yen, which was included in special loss.

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

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

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

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

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

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

*9 Business structure improvement expenses

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

The details of business structure improvement expenses were as follows:

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Personnel expenses including the special incentive of early retirement program	14,198	2,737
Impairment loss	10,085	3,725
Other (*)	5,858	6,240
Total	30,141	12,702

(*)The main item of "Other" for the year ended March 31, 2015 is equipment relocation related expenses etc. to reorganize the design and development operation including its locations. In addition, the main item of "Other" for the year ended March 31, 2016 is equipment removal related expenses for the realignment of the manufacturing sites and equipment relocation related expenses etc. to reorganize the design and development operations including its locations.

*10 Compensation expenses

Temporarily expenses incurred by reviewing the manufacturing agreement with a contractor.

(Consolidated Statements of Comprehensive Income)

For the years ended March 31, 2015 and 2016

*1 Reclassification adjustments and tax effects pertaining to other comprehensive income

(In millions of yen)

	The year ended March 31, 2015	The year ended March 31, 2016
Unrealized gains (losses) on securities		
Amount arising during the period	241	(308)
Reclassification adjustments for gains (losses) realized in net income	(116)	(156)
Amount of unrealized holding gains (losses) on securities before tax effect	125	(464)
Tax effect	(22)	104
Unrealized gains (losses) on securities	103	(360)
Foreign currency translation adjustments		
Amount arising during the period	13,766	(14,200)
Reclassification adjustments for gains (losses) realized in net income	260	—
Amount of foreign currency translation adjustments before tax effect	14,026	(14,200)
Tax effect	—	—
Foreign currency translation adjustments	14,026	(14,200)
Remeasurements of defined benefit plans, net of tax		
Amount arising during the period	20,903	(2,203)
Reclassification adjustments for gains (losses) realized in net income	3,352	147
Amount of remeasurements of defined benefit plans before tax effect	24,255	(2,056)
Tax effect	(825)	19
Remeasurements of defined benefit plans, net of tax	23,430	(2,037)
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the period	70	(18)
Reclassification adjustments for gains (losses) realized in net income	—	(10)
Share of other comprehensive income of affiliates accounted for by the equity method	70	(28)
Total other comprehensive income	37,629	(16,625)

(Consolidated Statements of Changes in Net Assets)

For the year ended March 31, 2015

1. Shares issued and outstanding / Treasury stock

	Number of shares at the beginning of the period	Increase	Decrease	Number of shares at the end of the period
Shares issued				
Common stock	1,667,124,490	—	—	1,667,124,490
Total	1,667,124,490	—	—	1,667,124,490
Treasury stock				
Common stock	2,548	—	—	2,548
Total	2,548	—	—	2,548

For the year ended March 31, 2016

1. Shares issued and outstanding / Treasury stock

	Number of shares at the beginning of the period	Increase	Decrease	Number of shares at the end of the period
Shares issued				
Common stock (<i>Note 1</i>)	1,667,124,490	—	—	1,667,124,490
Total	1,667,124,490	—	—	1,667,124,490
Treasury stock				
Common stock	2,548	33	—	2,581
Total	2,548	33	—	2,581

Note 1: The increase in the number of common stock of 33 was due to the purchase of common stocks less than a standard unit.

(Consolidated Statements of Cash Flows)

*1 Cash and cash equivalents as of the fiscal year-end were reconciled to the accounts reported in the consolidated balance sheets as follows:

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Cash and deposits	344,000	398,673
Time deposits with maturities of more than three months	(278)	(263)
Cash and cash equivalents	343,722	398,410

*2 The details of assets and liabilities decreased by the business transfer

The details of assets and liabilities decreased by the transfer of shares of Renesas SP Drivers Inc. on October 1, 2014 as well as consideration transferred and proceeds from transfer of business are as follows:

	(In millions of yen)
Current assets	29,155
Long-term assets	14,324
Current liabilities	(15,243)
Non-controlling interests	(12,989)
Foreign currency translation adjustments	(152)
Unrealized gains and losses (Note)	(7,000)
Gain on transfer of business	20,045
Consideration transferred	28,140
Accounts receivable-other for transfer of business	(3,988)
Cash and cash equivalents owned by Renesas SP Drivers Inc. and Renesas SP Drivers Taiwan Inc.	(5,982)
Proceeds from transfer of business	18,170
(Note) Unrealized gains arose from the sales of fixed assets prior to the business transfer.	

3 Significant non-cash transactions

Long-term prepaid expenses of installment purchase contract

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Long-term prepaid expenses of installment purchase contract	23,365	3,023

(Lease Transactions)

1. Finance lease transactions (Lessees' accounting)

(1) Finance lease transactions in which ownership of the assets is transferred to the lessee

1) Leased assets

Property, plant and equipment

These were buildings and structures.

2) Methods for depreciation of leased assets

Described in "3 Significant Accounting Policies, (2) Depreciation and amortization method for significant long-term assets" in Basis of Consolidated Financial Statements

(2) Finance lease transactions in which ownership of the assets is not transferred to the lessee

1) Leased assets

Property, plant and equipment

These were principally manufacturing equipment for semiconductor products (Machinery and equipment and vehicles, tools, furniture and fixtures).

2) Methods for depreciation of leased assets

Described in "3 Significant Accounting Policies, (2) Depreciation and amortization method for significant long-term assets" in Basis of Consolidated Financial Statements

2. Operating lease transactions

Future lease payments relating to non-cancellable operating lease transactions were as follows:

(In millions of yen)

	As of March 31, 2015	As of March 31, 2016
Due within one year	2,884	1,643
Due after one year	6,283	4,402
Total	9,167	6,045

(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.

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

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

2. Fair Value of Financial Instruments

The fair values of financial instruments in consolidated balance sheets as of March 31, 2015 and 2016 were presented below. The table does not include the financial instruments for which it is extremely difficult to estimate fair values. (Note2)

As of March 31, 2015

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	344,000	344,000	—
(2) Notes and accounts receivable-trade	91,471	91,471	—
(3) Accounts receivable-other	14,174	14,174	—
(4) Long-term investment securities			
Stocks of affiliates	4,220	3,472	(748)
Other securities	3,662	3,662	—
Total assets	457,527	456,779	(748)
(5) Electronically recorded obligations	9,275	9,275	—
(6) Notes and accounts payable-trade	76,364	76,364	—
(7) Accounts payable-other	37,337	37,337	—
(8) Accrued income taxes	5,785	5,785	—
(9) Long-term borrowings			
(including current portion)	253,205	251,890	(1,315)
(10) Lease obligations			
(including current portion)	6,520	6,756	236
Total liabilities	388,486	387,407	(1,079)

As of March 31, 2016

(In millions of yen)

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

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

(1) Cash and deposits, (2) Notes and accounts receivable-trade and (3) Accounts receivable-other

The fair value was measured at the amounts equivalent to their book values because these were settled in the short-term and accordingly, their fair values approximated book values.

(4) Long-term investment securities

The fair value of shares was based on market price. The fair value of bond securities was measured at the book value because there are settled in the short-term and the fair value was nearly equal to the book value. The fair value of mutual funds was measured at the price provided by financial institutions.

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

The fair value was measured at the amount equivalent to their book values because these were settled in the short-term and accordingly, their fair values approximated book values.

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

The fair values of long-term borrowings and lease obligations were estimated by discounting the future cash flows which includes both principal and interest. The discount rates were considered for both the remaining periods and credit risks.

Note2: Financial instruments for which it is extremely difficult to estimate their fair value in consolidated balance sheets

(In millions of yen)

	As of March 31, 2015	As of March 31, 2016
Non-marketable securities	226	209

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.

Note3: The redemption schedule after the fiscal year-end for monetary claims and securities with maturity dates

As of March 31, 2015

(In millions of yen)

	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	344,000	—	—	—
Notes and accounts receivable-trade	91,471	—	—	—
Accounts receivable-other	14,174	—	—	—
Total	449,645	—	—	—

As of March 31, 2016

(In millions of yen)

	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	398,673	—	—	—
Notes and accounts receivable-trade	81,866	—	—	—
Accounts receivable-other	16,155	—	—	—
Total	496,694	—	—	—

Note4: The repayment schedules after the fiscal-year end for long-term borrowings and lease obligations
As of March 31, 2015

(In millions of yen)

	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
Long-term borrowings	6,700	25,000	23,609	197,896	—	—
Lease obligations	1,135	5,203	89	69	22	2
Total	7,835	30,203	23,698	197,965	22	2

As of March 31, 2016

(In millions of yen)

	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
Long-term borrowings	25,000	22,090	191,716	—	—	—
Lease obligations	5,229	119	101	55	31	1
Total	30,229	22,209	191,817	55	31	1

(Securities)

1. Other securities

As of March 31, 2015

(In millions of yen)

	Type	Carrying value	Acquisition cost	Unrealized gains (losses)
Securities whose carrying value exceeded their acquisition cost	(1) Stock	607	287	320
	(2) Other	3,055	2,644	411
	Subtotal	3,662	2,931	731
Securities whose carrying value did not exceed their acquisition cost	(1) Stock	—	—	—
	(2) Other	—	—	—
	Subtotal	—	—	—
Total		3,662	2,931	731

As of March 31, 2016

(In millions of yen)

	Type	Carrying value	Acquisition cost	Unrealized gains (losses)
Securities whose carrying value exceeded their acquisition cost	(1) Stock	—	—	—
	(2) Other	2,587	2,311	276
	Subtotal	2,587	2,311	276
Securities whose carrying value did not exceed their acquisition cost	(1) Stock	—	—	—
	(2) Other	8	8	0
	Subtotal	8	8	0
Total		2,595	2,319	276

2. Other securities sold for the period

As of March 31, 2015

(In millions of yen)

Type	Sales proceeds	Total gain	Total loss
(1) Stock	87	—	16
(2) Other	857	146	14
Total	944	146	30

(Note) The table includes other securities for which it was extremely difficult to estimate fair values.

As of March 31, 2016

(In millions of yen)

Type	Sales proceeds	Total gain	Total loss
(1) Stock	550	258	—
(2) Other	737	53	155
Total	1,287	311	155

(Note) The table includes other securities for which it was extremely difficult to estimate fair values.

3. Impairment loss recognized on securities

In case the fair market value at year-end of a marketable security falls below 50% of the acquisition cost, the impairment loss is recognized for full amount of the acquisition cost, and if the fair market value falls approximately 30% to 50% below the acquisition cost, the necessary amount of the impairment loss is recognized by considering the future recoverability. In the current and previous fiscal year, there was no impairment loss recognized on securities.

(Retirement Benefits)

1. Outline of retirement benefits

The Company and its subsidiaries in Japan have severance indemnity plans, non-contributory defined benefit pension plans and a defined contribution plan. In addition, the Company and its subsidiaries in Japan may pay extra retirement benefits in certain circumstances.

The Company and its subsidiaries in Japan adopt a point-based benefits system for the defined benefit pension plans, under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification. Furthermore, the Company and its subsidiaries in Japan adopt cash balance pension plans for the defined-benefit pension plan. Under the cash balance pension plans, each participant has an account in which a certain amount calculated by the revaluation rate that is calculated based on the current base salary, the job classification and the market interest rate, is accumulated by the Company. Although the Company and its subsidiaries in Japan adopted a point-based benefits system for the severance indemnity plans by this fiscal year-end, these plans were abolished after the unification of the retirement benefit plan and corporate pension plan as of April 1, 2016.

Certain foreign subsidiaries adopt various retirement benefit plans which are mainly defined contribution pension plans as well as defined benefit pension plans. Regarding multi-employer pension funds adopted by certain foreign subsidiaries, there are included in the note as defined benefit pension plan in case the pension amount corresponding with contribution can be calculated rationally. Also, in case the pension amount cannot be calculated rationally, it is posted using the same accounting method as the defined contribution pension plan.

2. Defined benefit pension plan

(1) Reconciliation of changes in retirement benefit obligations

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Retirement benefit obligations at the beginning of the year	203,992	159,075
Cumulative effects of changes in accounting policies	25,275	—
Restated balance	229,267	159,075
Service cost	7,966	4,405
Interest cost	2,453	2,034
Actuarial differences	(6,623)	(83)
Benefits paid	(27,081)	(8,460)
Withdrawal from NEC Corporation's pension plan (Note1)	(37,344)	—
Partial revision of retirement benefit plan (cost of benefit adjustment for prior service) (Note2)	(9,511)	—
Unification of retirement benefit plan and corporate pension plan (cost of benefit adjustment for prior service) (Note3)	—	(1,192)
Abolishment of retirement benefit plan owing to mass retirement	(240)	—
Other	188	(1,633)
Retirement benefit obligations at the end of the year	159,075	154,146

(Note) Although certain subsidiaries adopted a simplified method in the calculation of retirement benefit, the calculation method was changed to the principal method from this fiscal year-end along with the unification of the retirement benefit plan and corporate pension plan as of April 1, 2016.

Note1: Due to the retirement benefit obligations and plan assets retained at the time of the withdrawal from NEC Corporation's pension plan along with the unification of the company pension plans as of April 1, 2014.

Note2: Due to a partial revision of the retirement benefit plan.

Note3: Due to the unification of the retirement benefit plan and corporate pension plan as of April 1, 2016.

(2) Reconciliation of changes in plan assets

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Beginning balance of plan assets	146,610	109,532
Expected return on plan assets	2,934	2,270
Actuarial differences	4,768	(3,478)
Contributions by the employer	11,110	23,517
Benefits paid	(19,149)	(6,680)
Withdrawal from NEC Corporation's pension plan (Note1)	(37,344)	—
Other	603	(1,290)
Closing balance of plan assets	109,532	123,871

(Note) Although certain subsidiaries adopted a simplified method in the calculation of retirement benefit, the calculation method was changed to the principal method from this fiscal year-end along with the unification of the retirement benefit plan and corporate pension plan as of April 1, 2016.

Note1: Due to withdrawal from NEC Corporation's pension plan along with the unification of the company pension plans as of April 1, 2014, the necessary adjustment of retirement benefit obligations and plan assets was set.

(3) Reconciliation between closing balances of retirement benefit obligations and plan assets, and the net defined benefit liabilities and assets recognized in the consolidated balance sheet

	(In millions of yen)	
	As of March 31, 2015	As of March 31, 2016
Funded retirement benefit obligations	131,797	127,663
Plan assets	(109,532)	(123,871)
	22,265	3,792
Unfunded retirement benefit obligations	27,278	26,484
Net defined benefit liabilities and assets recognized in the consolidated balance sheet	49,543	30,276
Net defined benefit liability	50,489	31,850
Net defined benefit asset	(946)	(1,574)
Net defined benefit liabilities and assets recognized in the consolidated balance sheet	49,543	30,276

(4) Details of retirement benefit expenses

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Service cost (Note1)	7,966	4,405
Interest cost	2,453	2,034
Expected return on plan assets	(2,934)	(2,270)
Cost of differences on transition of accounting standards	1,604	—
Cost of actuarial differences	3,130	1,970
Cost of prior service cost	(979)	(1,824)
Total expenses for defined retirement benefit plan	11,240	4,315
Expenses for extra retirement benefits (Note2)	13,416	2,377
Gain and loss on abolishment of retirement benefit plan owing to mass retirement (Note2)	(613)	—

Note1: Although retirement benefit expenses for subsidiaries that adopted a simplified method were included in "Service cost", the calculation method was changed to the principal method from this fiscal year-end along with the unification of the retirement benefit plan and corporate pension plan as of April 1, 2016.

Note2: "Expenses for extra retirement benefits" and "Gain and loss on abolishment of retirement benefit plan owing to mass retirement" were included in "Business structure improvement expenses" in special loss.

(5) Remeasurements of defined benefit plans, before tax

Items recognized in remeasurements of defined benefit plans (before adjusting for tax effects) are as follows:

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Differences on transition of accounting standards	(1,607)	—
Actuarial gain or loss	(14,497)	1,424
Prior service cost	(8,151)	632
Total	(24,255)	2,056

(6) Remeasurements of defined benefit plans

Items recognized in remeasurements of defined benefit plans (before adjusting for tax effects) are as follows:

	(In millions of yen)	
	As of March 31, 2015	As of March 31, 2016
Unrecognized actuarial gain or loss	138	1,563
Unrecognized prior service cost	(17,323)	(16,691)
Total	(17,185)	(15,128)

(7) Plan assets

(a) Major breakdown categories of plan assets

The ratio of major categories in the plan assets are as follows:

	As of March 31, 2015	As of March 31, 2016
Debt securities	63%	53%
Equity securities	35%	25%
Short-term financial assets (Note 1)	2%	22%
Total	100%	100%

(Note 1) Regarding the main reason for the increase in the component ratio of short-term financial assets in the current fiscal year, this was because the cash ratio was raised for the portfolio based on a new funding policy for 2016 that was implemented at the end of the current fiscal year.

(b) Assumption of long-term expected rate of return on plan assets

In determining the long-term expected rate of return on plan assets, the allocation of present and future plan assets as well as the rate of long-term return expected at present and in the future from various assets comprising plan assets are taken into consideration.

(8) Basis of the actuarial assumptions

Main actuarial assumptions at the end of this fiscal year

	The year ended March 31, 2015	The year ended March 31, 2016
Discount rate	Mainly 1.1%	Mainly 1.1%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Planned rate of salary increase	Mainly 2.3%	Mainly 2.7%

3. Defined contribution plan

The Group's contributions for defined contribution plans were 1,930 million yen for the year ended March 31, 2015 and 1,482 million yen for the year ended March 31, 2016.

(Note) The above contributions included the contribution for the multi-employer pension fund that has been joined by a foreign subsidiary.

(Tax-Effect Accounting)

1. Significant components of deferred tax assets and liabilities

(In millions of yen)

	As of March 31, 2015	As of March 31, 2016
Deferred tax assets		
Loss carryforward	286,415	273,314
Net defined benefit liabilities	16,984	10,721
Long-term assets	12,853	8,285
Accrued expenses	8,097	7,173
Inventories	8,892	6,963
Research and development expenses	2,648	2,523
Tax credits carryforward	6,462	6,282
Others	4,421	4,904
Subtotal deferred tax assets	346,772	320,165
Valuation allowance	(339,433)	(313,388)
Total deferred tax assets	7,339	6,777
Deferred tax liabilities		
Valuation difference of assets acquired by merger	(8,444)	(7,577)
Tax on undistributed earnings	(5,144)	(5,104)
Gain on contribution of securities to retirement benefit trust	(1,216)	—
Others	(545)	(758)
Total deferred tax liabilities	(15,349)	(13,439)
Net deferred tax liabilities	(8,010)	(6,662)

Net deferred tax liabilities were reflected in the following accounts in the consolidated balance sheet.

(In millions of yen)

	As of March 31, 2015	As of March 31, 2016
Current assets – deferred tax assets	1,529	1,738
Long-term assets – deferred tax assets	2,106	1,796
Current liabilities – other	(4)	(262)
Long-term liabilities – deferred tax liabilities	(11,641)	(9,934)

2. Significant components in the reconciliation of the difference between the effective tax rate and the statutory effective tax rate reflected in the consolidated financial statements are as follows:

	As of March 31, 2015	As of March 31, 2016
Statutory effective tax rate	35.6%	33.1%
(Reconciliation)		
Changes in valuation allowance	(31.4)%	(23.7)%
Permanent difference	0.3%	0.3%
Foreign tax rate differences	(1.5)%	(1.2)%
Tax credits	(1.6)%	(2.2)%
Tax on undistributed earnings	1.5%	(0.0)%
Effect of the reorganization	5.7%	—%
Others	1.2%	(1.5)%
Tax rate after adoption of tax-effect accounting	9.8%	4.8%

3. Adjustment of amounts of deferred tax assets and liabilities due to changes in statutory tax rates

Associated with the enactment on March 29, 2016 of the Act for Partial Revision of the Income Tax Act etc., the effective statutory tax rates applied for the calculations of deferred tax assets and liabilities were changed from 32.34% to 30.86% for temporary differences expected to be realized or settled in the periods from April 1, 2016 to March 31, 2018 and 30.62% for temporary differences expected to realized or settled after April 1, 2018.

The impact of the tax rate change on the consolidated financial statements for the year ended March 31, 2016 is negligible.

(Business Combinations)

Transactions under Common Control

(The reorganization of the design and development functions involving the Company and its subsidiaries)

As a part of reorganizing the design and development functions within the Group, the Company implemented absorption-type splits involving the Company and its subsidiaries as well as a merger between two subsidiaries with a subsequent change in the subsidiary's name on April 1, 2015. The following is the outline of the absorption-type splits and the merger.

1. Summary of transaction under common control

- (1) The device solution development functions of the Company were transferred to Renesas Solutions Corporation by means of an absorption-type split.
- (2) The Company's development and technical support functions related to semiconductor products were transferred to Renesas Engineering Services Co., Ltd. by means of an absorption-type split.
- (3) The Kit, platform and field solutions development functions, sales promotion infrastructure development functions and other functions of Renesas Solutions Corporation were transferred to the Company by means of an absorption-type split.
- (4) An absorption-type merger was implemented between Renesas Solutions Corporation (the surviving company) and Renesas System Design Co., Ltd. (the absorbed company), both of which are design and development subsidiaries of the Company, and the surviving company's name was changed to Renesas System Design Co., Ltd.

2. Overview of accounting treatment applied

The reorganization has been accounted for as transactions under common control in accordance with "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(Asset Retirement Obligations)

Asset retirement obligations recognized on the consolidated financial statements

(1) Outline of Asset Retirement Obligations

Asset retirement obligations were recognized for obligations relating to the restoration of leased real estate (office and plant) to its original state and the removal expenses of asbestos and so forth during the dismantling of company-owned buildings in accordance with the Ordinance on Prevention of Health Impairment due to Asbestos and others.

(2) Computation method for the amount of asset retirement obligations

The amount of asset retirement obligations was computed using an estimated useful life of 2 to 47 years as well as a discount rate of 0.5% to 5.5%.

(3) Increase (decrease) of the total amount of asset retirement obligations

Due to closing of factories and disposal of the company-owned equipment containing polychlorinated biphenyl (PCB), asset retirement obligation was settled. In addition, asset retirement obligation was extinguished by the sale of manufacturing subsidiaries' factories and demolition of leased building.

	(In millions of yen)	
	The year ended March 31, 2015	The year ended March 31, 2016
Balance at the beginning of the period	4,124	4,951
Increase due to acquisition of property, plant and equipment	105	137
Accretion adjustment	60	28
Increase due to changes in estimate	787	19
Decrease due to settlement of asset retirement obligations	(126)	(1,337)
Decrease due to extinguishment of asset retirement obligations	—	(926)
Increase (decrease) in other items	1	(12)
Balance at the end of the period	4,951	2,860

(Segment Information)

[Business Segment Information]

For the years ended March 31, 2015 and 2016

The semiconductor business segment is the sole operating segment of the Group. The information by business segment is therefore omitted.

[Related Information]

For the year ended March 31, 2015

1. Information by product and service

(In millions of yen)

	Automotive Business	General-Purpose Business	Other Semiconductors	Others	Total
Net sales to third parties	323,072	425,506	4,732	37,764	791,074

2. Information by region and country

(1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
332,783	129,424	145,054	113,816	65,596	4,401	791,074

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

(2) Property, plant and equipment

(In millions of yen)

Japan	Asia	Europe	North America	Total
156,333	24,170	539	773	181,815

3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	108,843	Semiconductor business

For the year ended March 31, 2016

1. Information by product and service

(In millions of yen)

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

2. Information by region and country

(1) Net sales

(In millions of yen)

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

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

(2) Property, plant and equipment

(In millions of yen)

Japan	Asia	Europe	North America	Total
143,680	28,102	563	701	173,046

3. Information by major customer

(In millions of yen)

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

(Related Party Information)

1. Transactions with related parties
None

2. Notes related to the parent company and significant affiliates
None

(Amounts per Share)

Item	The year ended March 31, 2015	The year ended March 31, 2016
Net assets per share	185.67 yen	227.63 yen
Basic net income per share	49.41 yen	51.76 yen

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

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

Item	The year ended March 31, 2015	The year ended March 31, 2016
Basic net income per share		
Net income attributable to shareholders of parent company (In millions of yen)	82,365	86,292
Amounts not attributable to common stock (In millions of yen)	—	—
Net income attributable to shareholders of parent company attributable to common stock (In millions of yen)	82,365	86,292
Average number of common stock during the fiscal year (In thousands)	1,667,122	1,667,122

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

Item	As of March 31, 2015	As of March 31, 2016
Total net assets (In millions of yen)	311,909	381,739
Amounts deducted from total net assets (In millions of yen)	2,380	2,260
Non-controlling interests (In millions of yen)	(2,380)	(2,260)
Net assets attributable to common stock at the end of the year (In millions of yen)	309,529	379,479
The fiscal year-end number of common stock used for the calculation of net assets per share (In thousands)	1,667,122	1,667,122

(Significant Subsequent Events)

(Impact of the Earthquake in Kumamoto Prefecture)

The Kawashiri Factory of Renesas Semiconductor Manufacturing Co., Ltd., a wholly-owned subsidiary of the Company, was damaged by the Kumamoto Earthquake that occurred after April 14, 2016.

After that, having completed a thorough assessment, the Company resumed some manufacturing processes starting April 22. On May 22, the production capacity (wafer input basis) was restored to the same level existing before the earthquake. Some subcontractor companies have also been damaged due to the earthquake, but the overall supply chain was restored to the same level existing before the earthquake.

The amount of damages arising from the disposal of inventories, repair of fixed assets and others caused by the earthquake is estimated at 8,000 million yen according to currently available information.

There is a possibility that the amount of damages may change depending on insurance payments or changes in the estimations of the repair costs for fixed assets.

(Grant of Stock Options)

A resolution on the granting of stock options was adopted at the 14th Ordinary General Shareholders' Meeting on June 28, 2016, and the stock acquisition rights are to be issued as stock options based on the Companies Act.

The details are as below.

Date of resolution	June 28, 2016
Category and number of grantees	Directors of the Company (Except outside directors) 2
	Corporate executive officers of the Company 5
	Corporate officers of the Company 5
Type of stock	Common stock
Number of shares	288,500 shares (Note 1)
Grant date	August 1, 2016
Exercise price	1 yen per share
Exercise period	From August 2, 2016 to August 1, 2026
Conditions for exercise	(Note 2)
Transfer of stock acquisition rights	Approval by resolution of the board of directors meeting is required for acquisition of stock acquisition rights by transfer.
Payment of substitution	—
Issuance of stock acquisition rights on reorganization	(Note 3)

Note 1: Number of shares to be issued upon exercise of the stock acquisition rights

The number of shares to be issued upon exercise of each stock acquisition right (hereinafter "number of shares granted") shall be 100 shares. However, the following day after the date of resolution, if the Company performs either a stock split (including an allotment of shares without contribution of the Company's common stock. This applies to all mentions of stock splits in the remainder of this note.) or a stock consolidation, the number of shares granted shall be adjusted according to the following formula. If the result of the adjustment includes a fractional share, that fractional share would be discarded.

(Adjusted number of shares granted) = (Number of shares granted prior to adjustment) × (Stock split or stock consolidation ratio)

The adjusted number of shares granted applies from the following day after the basis date of stock split (or effective date of the stock split, if the basis date is not stipulated) in the case of a stock split or the following day after the effective date of the stock consolidation in the case of a stock consolidation. However, the adjusted number of shares granted retroactively applies from the following day of the basis date in the case of executing a stock split subject to the approval of a measure to increase common stock or capital reserve with a decrease in capital surplus at the ordinary general shareholders' meeting, and the stipulated basis date for this stock split before the end of the ordinary general shareholders' meeting.

In addition to the above, if, at any time after the date of resolution, the Company undergoes a merger or a company split, or similar situation of this type and an adjustment of the number of shares granted, the Company may appropriately adjust the number of shares granted within a reasonable range.

Note 2: Conditions for exercise of stock acquisition rights

(1) Conditions relating to exercise of stock acquisition rights

In principle, grantees may execute those options starting from the day one year after the grant date. However, in the event such a person loses his/her position both as a member of the board and as an officer due to, for example, expiration of the term of office, the said person may execute the said stock options starting on the day following said loss of position until 60 days after.

(2) If grantees forfeit their stock acquisition rights, they may not execute those options.

Note 3: Issuance of stock acquisition rights accompanying a reorganization

If the Company undergoes a merger (in the case of dissolution of the Company in a merger), an absorption-type split, or incorporation-type split (in the case of split of the Company) , and share exchange or share transfer (hereinafter "execution of reorganization"), the Company grants the stock acquisition rights of companies mentioned in Article 236-1(8) in Companies Acts to grantees who retain the stock acquisition rights just before the effective date of the execution of reorganization (the day of effectuation of the absorption-type merger in the case of absorption-type merger, the day of formation of the incorporation of a formed stock company in the case of incorporation-type merger, the day of effectuation of the absorption-type split in the case of absorption-type split, the day of effectuation of the incorporation-type split in the case of the incorporation-type split, the day of effectuation of the share exchange in the case of the share exchange, and the day of effectuation of share transfer in the case of share transfer according to each situation.)

Provided that the grant of the stock acquisition rights of the reorganized companies is stipulated according to this procedure in an absorption-type merger contract, incorporation-type merger contract, absorption-type split contract, incorporation-type split contract, share exchange contract and share transfer contract.

(Consolidated Supplemental Schedules)**[Schedule of borrowings]**

Category	Beginning balance (In millions of yen)	Closing balance (In millions of yen)	Average interest rate (%)	Maturity
Short-term borrowings	—	—	—	—
Current portion of long-term borrowings	6,700	25,000	1.0	—
Current portion of lease obligations	1,135	5,229	1.4	—
Long-term borrowings (excluding current portion)	246,505	213,806	1.0	From 2017 to 2018
Lease obligations (excluding current portion)	5,385	307	2.7	From 2017 to 2023
Other interest-bearing debts	—	—	—	—
Total	259,725	244,342	—	—

Note 1: The average interest rate represents the weighted-average rate applicable to the fiscal year-end balance of borrowings etc.

Note 2: The repayment schedules of long-term borrowings and lease obligations for 5 years subsequent to the fiscal year-end are as follows:

(In millions of yen)

	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
Long-term borrowings	22,090	191,716	—	—
Lease obligations	119	101	55	31

[Schedule of asset retirement obligations]

The beginning and ending balances of asset retirement obligations in the fiscal year ended March 31, 2016 were less than 1% of total liabilities and net assets. The schedule was therefore omitted in accordance with Article 92-2 of the Regulations for Consolidated Financial Statements.

[Other]

(1) Summary of consolidated financial data for each quarter of the fiscal year ended March 31, 2016

	1st Quarter consolidated cumulative period (from April 1, 2015 to June 30, 2015)	2nd Quarter consolidated cumulative period (from April 1, 2015 to September 30, 2015)	3rd Quarter consolidated cumulative period (from April 1, 2015 to December 31, 2015)	The year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)
Net sales (In millions of yen)	179,302	360,701	525,497	693,289
Income before income taxes (In millions of yen)	32,304	62,164	81,723	90,785
Net income attributable to shareholders of parent company (In millions of yen)	29,872	57,409	76,000	86,292
Basic quarterly net income per share (Yen)	17.92	34.44	45.59	51.76

	1st Quarter (from April 1, 2015 to June 30, 2015)	2nd Quarter (from July 1, 2015 to September 30, 2015)	3rd Quarter (from October 1, 2015 to December 31, 2015)	4th Quarter (from January 1, 2016 to March 31, 2016)
Basic net income per share (Yen)	17.92	16.52	11.15	6.17

(2) Matters subsequent to the fiscal year-end

None

(3) Lawsuits

Described in “4 Contingent liabilities (3) Others” of “Consolidated Balance Sheets” of the notes to Consolidated Financial Statements

(Appendix) Renesas Electronics Group Companies

The Renesas Electronics Group comprises 30 consolidated subsidiaries and 2 equity method affiliates, as listed below according to primary business activity.

	Japan	Overseas
Sales Companies	<u><Equity Method Affiliate></u> RENASAS EASTON Co., Ltd.	<u><Consolidated Subsidiary></u> Renesas Electronics (China) Co., Ltd. Renesas Electronics (Shanghai) Co., Ltd. Renesas Electronics Hong Kong Limited Renesas Electronics Taiwan Co., Ltd. Renesas Electronics Korea Co., Ltd. Renesas Electronics Singapore Pte. Ltd. Renesas Electronics Malaysia Sdn. Bhd. Renesas Electronics India Private Limited Renesas Electronics America, Inc. Renesas Electronics Canada Limited Renesas Electronics Brasil-Servicos Ltda. Renesas Electronics Europe Limited (UK) Renesas Electronics Europe GmbH (Germany)
Manufacturing and Engineering Service Companies	<u><Consolidated Subsidiary></u> Renesas Semiconductor Manufacturing, Co., Ltd. Renesas Semiconductor Package & Test Solutions Co., Ltd.	<u><Consolidated Subsidiary></u> Renesas Semiconductor (Beijing) Co., Ltd. Renesas Semiconductor (Suzhou) Co., Ltd. Renesas Semiconductor Singapore Pte. Ltd. Renesas Semiconductor KL Sdn. Bhd. Renesas Semiconductor (Malaysia) Sdn. Bhd. Renesas Semiconductor (Kedah) Sdn. Bhd. Renesas Semiconductor Technology (Malaysia) Sdn. Bhd.
Design and Application Technologies Companies	<u><Consolidated Subsidiary></u> Renesas System Design Co., Ltd. Renesas Engineering Services Co., Ltd.	<u><Consolidated Subsidiary></u> Renesas Semiconductor Design (Beijing) Co., Ltd. Renesas Design Vietnam Co., Ltd. Renesas Semiconductor Design (Malaysia) Sdn. Bhd.
Business Corporations and Others	<u><Equity Method Affiliate></u> 1 company	<u><Consolidated Subsidiary></u> 3 companies

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

Independent Auditor's Report

The Board of Directors
Renesas Electronics Corporation

We have audited the accompanying consolidated financial statements of Renesas Electronics Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Renesas Electronics Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

June 28, 2016
Tokyo, Japan