NewsReleaseNewsReleaseNewsReleaseNewsRelease

Media Contacts

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

Investor Contacts

Hirokazu Kato
Renesas Electronics Corporation
+81 3-6773-3002
ir@renesas.com

Renesas Electronics Reports Financial Results for the Year Ended December 31, 2018

Tokyo, Japan, February 8, 2019 — Renesas Electronics Corporation (TSE:6723) today announced consolidated financial results for the year ended December 31, 2018.

Summary of Consolidated Financial Results

	Year ended December 31, 2018	
	Billion Yen	% of Net Sales
Net sales	757.4	100.0
Sales from semiconductors	740.5	
Sales from others	16.9	
Operating income	66.8	8.8
Ordinary income	65.1	8.6
Net income attributable to shareholders of parent company	54.6	7.2
Capital expenditures	17.6	
Depreciation and others	127.8	
R&D expenses	125.0	
	Yen	
Exchange rate (USD)	110	
Exchange rate (EUR)	131	

	As of December 31, 2018
	Billion Yen
Total assets	967.8
Net assets	531.6
Equity Capital	524.0
Equity ratio (%)	54.1
Interest-bearing debt	192.9

Note 1: All figures are rounded to the nearest 100 million yen.
Note 2: Consolidated financial results for the full year ended December 31, 2018 have not been reviewed by the auditors. The figures are subject to change based on subsequent events or the auditor's review.
Note 3: Capital expenditures refer to the amount of capital for property, plant and equipment (manufacturing equipment) and intangible assets based on the amount of investment decisions made during the year ended December 31, 2018.
Note 4: Depreciation and others includes depreciation and amortization of intangible assets and amortization of long-term prepaid expenses in consolidated statements of cash flows.

Consolidated Financial Results for the Year Ended December 31, 2018

English translation from the original Japanese-language document

February 8, 2019

Company name : **Renesas Electronics Corporation**
Stock exchanges on which the shares are listed : Tokyo Stock Exchange, First Section
Code number : 6723
URL : https://www.renesas.com
Representative : Bunsei Kure, Representative Director, President and CEO
Contact person : Yoichi Kobayashi, Senior Director
Corporate Communications Dept.
Tel. +81 (0)3-6773-3002
Date of the ordinary general shareholders' meeting (scheduled)
: March 20, 2019
Filing date of Yukashoken Hokokusho (scheduled) : March 28, 2019

(Amounts are rounded to the nearest million yen)

1. Consolidated financial results for the year ended December 31, 2018

1.1 Consolidated financial results

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

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended December 31, 2018	757,360	(2.9)	66,784	(14.8)	65,130	(13.5)	54,595	(29.3)
Year ended December 31, 2017	780,261	---	78,400	---	75,288	---	77,196	---

Reference: Comprehensive income for the year ended December 31, 2018: 14,910 million yen (-82.9%)
Comprehensive income for the year ended December 31, 2017: 87,174 million yen (--%)

	Net income per share basic	Net income per share diluted	Net income ratio per equity	Ordinary income ratio per total assets	Operating income ratio per sales
	Yen	Yen	%	%	%
Year ended December 31, 2018	32.74	32.66	10.6	6.5	8.8
Year ended December 31, 2017	46.30	46.26	16.6	8.0	10.0

Reference: Equity in net income of affiliates of the year ended December 31, 2018: 37 million yen
Equity in net income of affiliates of the year ended December 31, 2017: 114 million yen

1.2 Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
December 31, 2018	967,790	531,558	54.1	314.08
December 31, 2017	1,051,474	511,898	48.2	304.20

Reference: Equity as of December 31, 2018: 524,002 million yen
Equity as of December 31, 2017: 507,152 million yen

1.3 Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended December 31, 2018	164,157	(61,339)	(50,633)	188,820
Year ended December 31, 2017	164,222	(432,635)	63,243	139,545

2. Cash dividends

	Cash dividends per share					**Total dividends during the year**	**Dividends payout ratio** (consolidated)	**Dividends ratio per net assets** (consolidated)
	At the end of first quarter	At the end of second quarter	At the end of third quarter	At the end of year	Total			
	Yen	Yen	Yen	Yen	Yen			
Year ended December 31, 2017	---	0.00	---	0.00	0.00	---	---	---
Year ended December 31, 2018	---	0.00	---	0.00	0.00	---	---	---
Year ending December 31, 2019 (forecast)	---	---	---	---	---		---	

Note: For the year ending December 31, 2019, whether the Group provides dividend payments remains undecided.

3. Forecast of consolidated results for the three months ending March 31, 2019

	Non-GAAP Net Sales	**Non-GAAP Semiconductor Sales**	**Non-GAAP Gross Margin**	**Non－GAAP Operating Margin**
Forecasts as of February 8, 2019	Million yen 149,500 – 157,500	Million yen 146,000 – 154,000	% 39.0	% 4.5

Note 1: Instead of a forecast for the full year ending December 31, 2019, the group has provided a forecast for the three months ending March 31, 2019, in a range format. For more information, please refer to page 4.

Note 2: The consolidated forecasts for the three months ending March 31, 2019, are calculated based on International Financial Reporting Standards (hereafter IFRS), on the decision that the Group voluntarily adopts IFRS as of the annual securities report for the fiscal year ended December 31, 2018. As the Japanese GAAP was used to calculate the results, comparisons for the three months ended March 31, 2018 are not provided.

Note 3: Non-GAAP figures are calculated by adjusting or removing non-recurring items and other adjustments from GAAP figures. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group's constant business results, and therefore forecasts are provided in non-GAAP base. This adjustment and exclusion include depreciation of intangible assets recognized from acquisitions, other PPA (purchase price allocation) adjustments and costs relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable.

4. Others

4.1 Changes in significant subsidiaries for the year ended December 31, 2018

(Changes in specified subsidiaries resulting in changes in scope of consolidation): No

(Note) For details, please refer to page 15.

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

1. Changes in accounting policies with revision of accounting standard: No
2. Changes in accounting policies except for 4.2.1: No
3. Changes in accounting estimates: No

4. Corrections of prior period errors: No

4.3 Number of shares issued and outstanding (common stock)

1. Number of shares issued and outstanding (including treasury stock)
   As of December 31, 2018: 1,668,385,390 shares
   As of December 31, 2017: 1,667,194,490 shares

2. Number of treasury stock
   As of December 31, 2018: 2,581 shares
   As of December 31, 2017: 2,581 shares

3. Average number of shares issued and outstanding
   For the year ended December 31, 2018: 1,667,716,659 shares
   For the year ended December 31, 2017: 1,667,167,556 shares

(Reference) Non-consolidated results for the year ended December 31, 2018

Non-consolidated financial results

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended December 31, 2018	631,220	(7.6)	73,243	(19.6)	68,864	(24.0)	49,216	(43.7)
Year ended December 31, 2017	683,266	--	91,108	--	90,620	--	87,457	--

	Net income per share: basic	Net income per share: diluted
	Yen	Yen
Year ended December 31, 2018	29.51	29.44
Year ended December 31, 2017	52.46	52.41

Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
December 31, 2018	928,277	438,896	46.7	260.07
December 31, 2017	937,490	399,675	42.4	238.35

Reference: Equity at the end of the year ended December 31, 2018: 433,731 million yen
Equity at the end of the year ended December 31, 2017: 397,364 million yen

(Note) Information regarding the implementation of audit procedures
These financial results are not subject to audit review procedures.

Cautionary Statement

The statements with respect to the financial outlook of Renesas Electronics Corporation (hereafter “the Company”) and its consolidated subsidiaries (hereafter “the Group”) are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may differ materially from such forward-looking statements due to changes in several important factors.

The Group will hold an earnings conference for institutional investors and analysts on February 8, 2019. The Group plans to post the materials which are provided at the meeting, on the Group’s website on that day.

[APPENDIX]

1. Business Results

1.1 Analysis of Business Results

Summary of Consolidated Financial Results for the Fiscal Year ended December 31, 2018

	Year ended December 31, 2017 (Jan 1 – Dec 31, 2017)	**Year ended December 31, 2018** (Jan 1 – Dec 31, 2018)	Increase (Decrease)	
	Billion yen	Billion yen	Billion yen	% Change
Net sales	780.3	757.4	(22.9)	(2.9)
Sales from semiconductors	764.4	740.5	(23.9)	(3.1)
Sales from others	15.8	16.9	1.0	6.3
Operating income	78.4	66.8	(11.6)	(14.8)
Ordinary income	75.3	65.1	(10.2)	(13.5)
Net income attributable to shareholders of parent company	77.2	54.6	(22.6)	(29.3)
	Yen	Yen		
Exchange rate (USD)	112	110	-	-
Exchange rate (EUR)	127	131	-	-

(Net sales)
Consolidated net sales for the year ended December 31, 2018 were 757.4 billion yen, a 2.9% decrease year on year. Consolidated sales decreased mainly due to weakening demand for focused applications including Automotive and Industrial from increasing uncertainties in the global economy, as well as the continuing efforts to reduce channel inventory which built up during the last financial year, leading to a decrease in sales.

(Sales from Semiconductors)
Sales from semiconductors for the year ended December 31, 2018 were 740.5 billion yen, a 3.1% decrease year on year.

The sales breakdown for “Automotive”, “Industrial” and “Broad-based”, and for “Other semiconductors” not belonging to these three categories, is as follows:

<u>Automotive Business: 398.5 billion yen</u>
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 mainly supplies microcontrollers (MCUs), system-on-chips (SoCs), analog semiconductor devices and power semiconductor devices in each of these categories.

Sales of Automotive business for the year ended December 31, 2018 were 398.5 billion yen, a decrease of 3.4% year on year. This was due to decreases in sales in both the “Automotive control” and “Automotive information” categories.

<u>Industrial Business: 187.2 billion yen</u>
The Industrial business includes the product categories "Smart factory", "Smart home" and "Smart infrastructure" which support the smart society. The Group mainly supplies MCUs and SoCs in each of these categories.

Sales of Industrial business for the year ended December 31, 2018 were 187.2 billion yen, a decrease of 4.7% year on year. This was due to decreases sales in “Smart factory”, “Smart home” and “Smart infrastructure” categories.

<u>Broad-Based Business: 151.3 billion yen</u>
The Broad-based business targets a wide variety of end-market solutions. In this business, the Group mainly supplies "General-purpose MCUs " and “General-purpose analog semiconductor devices".

Sales of Broad-based business for the year ended December 31, 2018 were 151.3 billion yen, an increase of 0.6% year on year. While the sales in the “General-purpose MCUs” category decreased, sales in the “General-purpose analog semiconductor devices" category increased.

<u>Other Semiconductors: 3.4 billion yen</u>
Sales of Other semiconductors include production by commissioning and royalties.

(Sales from others)
Sales from others include development and production by commissioning conducted at the Group's design and manufacturing subsidiaries.
Sales from others for the year ended December 31, 2018 were 16.9 billion yen, a 6.3% increase year on year.

(Operating income)
Operating income for the year ended December 31, 2018 was 66.8 billion yen, an 11.6 billion yen decrease year on year. This was mainly due to a decreases in sales for the Automotive and Industrial businesses.

(Ordinary income)
Ordinary income for the year ended December 31, 2018 was 65.1 billion yen, a 10.2 billion yen decrease year on year. This was mainly due to a decrease in operating income.

(Net income attributable to shareholders of parent company)
Net income attributable to shareholders of parent company for the year ended December 31, 2018 was 54.6 billion yen, a 22.6 billion yen decrease year on year. This was mainly due to a temporary increase in cost payments caused by a revision in the production agreement with an outsourcing foundry.

1.2 Consolidated Financial Condition

Total Assets, Liabilities and Net assets

	December 31, 2017	**December 31, 2018**	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Total assets	1,051.5	967.8	(83.7)
Net assets	511.9	531.6	19.7
Equity	507.2	524.0	16.8
Equity ratio (%)	48.2	54.1	5.9
Interest-bearing debt	229.5	192.9	(36.6)
Debt / Equity ratio	0.45	0.37	(0.08)

Total assets at December 31, 2018 were 967.8 billion yen, an 83.7 billion yen decrease from December 31, 2017. This was mainly due to a decrease in fixed assets including goodwill and developed technology caused by depreciations and amortizations. Net assets were 531.6 billion yen, a 19.7 billion yen increase from December 31, 2017. This was mainly due to recording of net income attributable to shareholders of parent company in the amount of 54.6 billion yen, despite the decrease in comprehensive income.

Equity increased by 16.8 billion yen from December 31, 2017 and the equity ratio was 54.1%. Interest-bearing debt decreased by 36.6 billion yen from December 31, 2017. Consequently, the debt to equity ratio decreased to 0.37.

1.3 Cash Flows

	Year ended December 31, 2017 (Jan 1 – Dec 31, 2017)	Year ended December 31, 2018 (Jan 1 – Dec 31, 2018)
	Billions of yen	Billions of yen
Net cash provided by (used in) operating activities	164.2	164.2
Net cash provided by (used in) investing activities	(432.6)	(61.3)
Free cash flows	(268.4)	102.8
Net cash provided by (used in) financing activities	63.2	(50.6)
Cash and cash equivalents at the beginning of period	354.3	139.5
Cash and cash equivalents at the end of period	139.5	188.8

(Net cash provided by (used in) operating activities)
Net cash provided by operating activities for the year ended December 31, 2018 was 164.2 billion yen. Despite the payments made in accounts payable-other, accrued expenses and income taxes, this was mainly due to a recording of income before income taxes in the amount of 55.6 billion yen and adjustment of non-expenditure items including depreciation and amortization, etc. within these income before income taxes.

(Net cash provided by (used in) investing activities)
Net cash used in investing activities for the year ended December 31, 2018 was 61.3 billion yen, mainly due to the purchase of property, plant and equipment.

The foregoing resulted in positive free cash flows of 102.8 billion yen for the year ended December 31, 2018.

(Net cash provided by (used in) financing activities)
Net cash used in financing activities for the year ended December 31, 2018 was 50.6 billion yen. This was mainly due to the execution of the commitment line loan agreement and the term loan agreement with the main financing banks.

1.4 Consolidated Forecasts

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

To increase the international comparability of financial information in the capital market as the Group expands its business globally, the Group has decided at the Meeting of the Board of Directors held on November 28, 2018 that it will voluntarily adopt the International Financial Reporting Standards ("IFRS") to its consolidated financial statements starting from the annual securities report for the fiscal year ending December 31, 2018.

Further, starting from the consolidated forecasts for the three months ending March 31, 2019, the Group will present its financial forecasts as a range. Additionally, in order to provide useful information that will help to better understand the Group's constant business results, figures such as sales, semiconductor sales and gross margin will be presented in the non-GAAP format, which excludes the non-recurring items related to acquisitions and other adjustments removed as non-recurring expenses or income. The gross margin and operating margin forecasts are given assuming the midpoint in the net sales forecast.

(For the three months ending March 31, 2019)

	Non-GAAP Net Sales	**Non-GAAP Semiconductor Sales**	**Non-GAAP Gross Margin**	**Non-GAAP Operating Margin**
Forecasts as of February 8, 2019	Million yen 149,500 – 157,500	Million yen 146,000 – 154,000	% 39.0	% 4.5

(*1) The consolidated forecasts for the three months ending March 31, 2019, are calculated based on IFRS, on the decision that the Group voluntarily adopts IFRS as of the annual securities report for the fiscal year ended December 31, 2018. As the Japanese GAAP was used to calculate the results, comparisons for the three months ended March 31, 2018 are not provided.
(*2) Non-GAAP figures are calculated by adjusting or removing non-recurring items and other adjustments from GAAP figures. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group's constant business results, and therefore forecasts are provided in non-GAAP base. This adjustment and exclusion include depreciation of intangible assets recognized from acquisitions, other PPA (purchase price allocation) adjustments and costs relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable.

The consolidated forecasts for the first quarter ending March 31, 2019 are calculated at the rate of 109 yen per USD and 124 yen per Euro.

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

1.5 Dividend Payments

While the Group recorded a consolidated net income (net income attributable to shareholders of parent company) for the year ended December 31, 2018, the Group forewent dividend payment for this period.
The Group will divert its retained earnings for strategic investment opportunities that will enable the Group to respond to rapid environmental changes to thrive into the global marketplace, and will aim to increase shareholder profit by improving corporate value. In addition, based on a long-term standpoint, the Group aims to realize stable and sustained growth in profits and intends to resume divided payments.

For the year ending December 31, 2019, whether the Group provides interim and year-end dividend payments remain undecided, and the Group will immediately announce it when the decisions are made.

2. Primary policy for selection of accounting standards

The Group has adopted IFRS for its consolidated financial statements from annual securities report for the fiscal year ended December 31, 2018 to increase the international comparability of financial information considering that the Group drives its business globally further, although currently the consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in Japan (JGAAP).

3. Consolidated Financial Statements

3.1 Consolidated Balance Sheets

As of December 31, 2017 and December 31, 2018

(In millions of yen)

	Prior Fiscal Year (As of December 31, 2017)	Current Fiscal Year (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	123,320	185,651
Notes and accounts receivable-trade	99,155	76,356
Short-term investment securities	16,756	3,661
Merchandise and finished goods	48,430	37,193
Work in process	69,936	72,822
Raw materials and supplies	8,215	8,024
Accounts receivable-other	16,637	8,562
Other current assets	7,598	3,965
Allowance for doubtful accounts	(80)	(48)
Total current assets	389,967	396,186
Long-term assets		
Property, plant and equipment		
Buildings and structures	212,421	208,167
Accumulated depreciation	*3 (149,208)	*3 (148,889)
Buildings and structures, net	*1 63,213	*1 59,278
Machinery and equipment	656,681	665,073
Accumulated depreciation	*3 (520,565)	*3 (542,865)
Machinery and equipment, net	*1 136,116	*1 122,208
Vehicles, tools, furniture and fixtures	120,262	123,172
Accumulated depreciation	*3 (93,096)	*3 (97,227)
Vehicles, tools, furniture and fixtures, net	27,166	25,945
Land	*1 21,684	*1 20,387
Construction in progress	19,162	14,791
Total property, plant and equipment	267,341	242,609
Intangible assets		
Goodwill	172,750	148,913
Software	18,651	17,837
Developed technology	118,038	99,879
Other intangible assets	25,205	21,655
Total intangible assets	334,644	288,284
Investments and other assets		
Investment securities	*2 8,133	2,981
Net defined benefit asset	2,525	3,221
Deferred tax assets	3,344	2,793
Long-term prepaid expenses	42,527	28,520
Other assets	2,993	3,196
Total investments and other assets	59,522	40,711
Total long-term assets	661,507	571,604
Total assets	1,051,474	967,790

(In millions of yen)

	Prior Fiscal Year (As of December 31, 2017)	Current Fiscal Year (As of December 31, 2018)
Liabilities		
Current liabilities		
Electronically recorded obligations	19,240	13,091
Notes and accounts payable-trade	78,496	59,579
Short-term borrowings	*1 35,000	*1 45,000
Current portion of long-term borrowings	*1 12,875	-
Current portion of lease obligations	114	72
Accounts payable-other	51,605	39,176
Accrued expenses	39,166	38,639
Accrued income taxes	15,920	4,584
Provision for product warranties	157	206
Provision for business structure improvement	2,331	1,057
Provision for contingent loss	9,096	5,286
Provision for loss on disaster	2	3
Provision for sales rebates	1,275	2,570
Asset retirement obligations	56	43
Other current liabilities	16,048	22,136
Total current liabilities	281,381	231,442
Long-term liabilities		
Long-term borrowings	*1 181,396	*1 147,742
Lease obligations	146	66
Deferred tax liabilities	22,828	19,237
Provision for business structure improvement	210	188
Provision for contingent loss	-	600
Net defined benefit liability	25,171	25,943
Asset retirement obligations	2,537	2,732
Other liabilities	25,907	8,282
Total long-term liabilities	258,195	204,790
Total liabilities	539,576	436,232
Net assets		
Shareholders' equity		
Common stock	10,022	10,699
Capital surplus	191,941	192,618
Retained earnings	283,541	338,679
Treasury stock	(11)	(11)
Total shareholders' equity	485,493	541,985
Accumulated other comprehensive income		
Unrealized gains (losses) on securities	397	72
Deferred gains or losses on hedges	-	(14,318)
Foreign currency translation adjustments	7,894	(6,363)
Remeasurements of defined benefit plans	13,368	2,626
Total accumulated other comprehensive income	21,659	(17,983)
Subscription rights to shares	2,311	5,165
Non-controlling interests	2,435	2,391
Total net assets	511,898	531,558
Total liabilities and net assets	1,051,474	967,790

3.2 Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

3.2.1 Consolidated Statements of Operations (The year ended December 31, 2017 and the year ended December 31, 2018)

(In millions of yen)

	The year ended December 31, 2017	The year ended December 31, 2018
Net sales	780,261	757,360
Cost of sales	427,463	420,743
Gross profit	352,798	336,617
Selling, general and administrative expenses	274,398	269,833
Operating income	78,400	66,784
Non-operating income		
Interest income	519	1,391
Dividends income	105	91
Equity in earnings of affiliates	114	37
Subsidy income	43	294
Foreign exchange gains	-	127
Other non-operating income	1,280	694
Total non-operating income	2,061	2,634
Non-operating expenses		
Interest expenses	1,981	1,782
Loss on disposal of long-term assets	508	671
Commission for syndicate loan	325	451
Foreign exchange losses	1,070	-
Other non-operating expenses	1,289	1,384
Total non-operating expenses	5,173	4,288
Ordinary income	75,288	65,130
Special income		
Gain on sales of property, plant and equipment	604	1,070
Gain on transfer of business	3,847	-
Gain on sales of investment securities	419	338
Gain on liquidation of subsidiaries and affiliates	63	-
Insurance Income	*1 10,429	*1 417
Reversal of provision for contingent loss	7	*2 6,385
Gain on reversal of share acquisition rights	-	14
Total special income	15,369	8,224

		The year ended December 31, 2017		The year ended December 31, 2018
Special loss				
Loss on sales of property, plant and equipment		119		45
Impairment loss	*3	1,218	*3	1,526
Loss on disaster		-		354
Business structure improvement expenses	*3, *4	4,047	*3, *4	4,230
Loss on sales of investment securities		1		12
Provision for contingent loss		480	*5	3,432
Loss on sales of subsidiaries and affiliates' stocks		-		457
Compensation expenses		-	*6	7,652
Total special loss		5,865		17,708
Income before income taxes		84,792		55,646
Income taxes-current		16,137		4,805
Income taxes-deferred		(8,620)		(3,819)
Total income taxes		7,517		986
Net income		77,275		54,660
Net income attributable to non-controlling interests		79		65
Net income attributable to shareholders of parent company		77,196		54,595

3.2.2 Consolidated Statements of Comprehensive Income
(The year ended December 31, 2017 and the year ended December 31, 2018)

(In millions of yen)

	The year ended December 31, 2017	The year ended December 31, 2018
Net income	77,275	54,660
Other comprehensive income		
Unrealized gains (losses) on securities	(140)	(210)
Deferred gains (losses) on hedges	(9,012)	(14,318)
Foreign currency translation adjustments	11,277	(14,365)
Remeasurements of defined benefit plans, net of tax	7,715	(10,742)
Share of other comprehensive income of affiliates accounted for by the equity method	59	(115)
Total other comprehensive income	9,899	(39,750)
Comprehensive income	87,174	14,910
Comprehensive income attributable to:		
Shareholders of parent company	86,946	14,953
Non-controlling interests	228	(43)

3.3 Consolidated Statements of Changes in Net Assets
(The year ended December 31, 2017 and the year ended December 31, 2018)

The year ended December 31, 2017

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	10,000	191,919	206,345	(11)	408,253
Cumulative effects of changes in accounting policies					
Restated balance	10,000	191,919	206,345	(11)	408,253
Changes during the period					
Net income attributable to shareholders of parent company			77,196		77,196
Issuance of new shares	22	22			44
Change of scope of equity method					
Net changes other than shareholders' equity					
Total changes during the period	22	22	77,196	-	77,240
Balance at the end of the period	10,022	191,941	283,541	(11)	485,493

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	474	9,012	(3,221)	5,644	11,909	23	2,208	422,393
Cumulative effects of changes in accounting policies								
Restated balance	474	9,012	(3,221)	5,644	11,909	23	2,208	422,393
Changes during the period								
Net income attributable to shareholders of parent company								77,196
Issuance of new shares								44
Change of scope of equity method								
Net changes other than shareholders' equity	(77)	(9,012)	11,115	7,724	9,750	2,288	227	12,265
Total changes during the period	(77)	(9,012)	11,115	7,724	9,750	2,288	227	89,505
Balance at the end of the period	397	-	7,894	13,368	21,659	2,311	2,435	511,898

The year ended December 31, 2018

(In millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	10,022	191,941	283,541	(11)	485,493
Cumulative effects of changes in accounting policies			1,304		1,304
Restated balance	10,022	191,941	284,845	(11)	486,797
Changes during the period					
Net income attributable to shareholders of parent company			54,595		54,595
Issuance of new shares	677	677			1,354
Change of scope of equity method			(761)		(761)
Net changes other than shareholders' equity					
Total changes during the period	677	677	53,834	-	55,188
Balance at the end of the period	10,699	192,618	338,679	(11)	541,985

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	397	-	7,894	13,368	21,659	2,311	2,435	511,898
Cumulative effects of changes in accounting policies								1,304
Restated balance	397	-	7,894	13,368	21,659	2,311	2,435	513,202
Changes during the period								
Net income attributable to shareholders of parent company								54,595
Issuance of new shares								1,354
Change of scope of equity method								(761)
Net changes other than shareholders' equity	(325)	(14,318)	(14,257)	(10,742)	(39,642)	2,854	(44)	(36,832)
Total changes during the period	(325)	(14,318)	(14,257)	(10,742)	(39,642)	2,854	(44)	18,356
Balance at the end of the period	72	(14,318)	(6,363)	2,626	(17,983)	5,165	2,391	531,558

3.4 Consolidated Statements of Cash Flows
(The year ended December 31, 2017 and the year ended December 31, 2018)

(In millions of yen)

	The year ended December 31, 2017	The year ended December 31, 2018
Net cash provided by (used in) operating activities		
Income before income taxes	84,792	55,646
Depreciation and amortization	76,495	90,853
Amortization of long-term prepaid expenses	14,807	16,230
Impairment loss	1,218	1,526
Amortization of goodwill	17,445	20,679
Increase (decrease) in net defined benefit liability	(8,442)	(10,394)
Increase (decrease) in provision for business structure improvement	559	(1,018)
Increase (decrease) in provision for contingent loss	49	(3,022)
Interest and dividends income	(624)	(1,482)
Insurance income	(10,528)	(449)
Interest expenses	1,981	1,782
Equity in (earnings) losses of affiliates	(114)	(37)
Loss (gain) on sales of property, plant and equipment	(485)	(1,025)
Business structure improvement expenses	1,769	2,366
Loss (gain) on transfer of business	(3,847)	-
Compensation expenses	-	7,652
Decrease (increase) in notes and accounts receivable-trade	(9,839)	20,317
Decrease (increase) in inventories	(10,528)	7,238
Decrease (increase) in accounts receivable-other	(750)	6,220
Increase (decrease) in notes and accounts payable-trade	8,903	(25,236)
Increase (decrease) in accounts payable-other and accrued expenses	(10,745)	(1,223)
Increase (decrease) in other current liabilities	3,270	(6,134)
Other cash provided by (used in) operating activities, net	4,405	5,963
Subtotal	159,791	186,452
Interest and dividends received	676	1,533
Proceeds from insurance income	11,528	449
Interest paid	(1,919)	(1,775)
Income taxes paid	(3,532)	(15,118)
Compensation paid	-	(7,198)
Payments for loss on disaster	(2,322)	(186)
Net cash provided by (used in) operating activities	164,222	164,157

(In millions of yen)

	The year ended December 31, 2017	The year ended December 31, 2018
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(114,747)	(60,281)
Proceeds from sales of property, plant and equipment	953	2,248
Purchase of intangible assets	(8,890)	(5,080)
Purchase of long-term prepaid expenses	(4,543)	(2,196)
Purchase of investment securities	(276)	(766)
Proceeds from sales of investment securities	971	3,175
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(311,428)	-
Proceeds from sales of subsidiaries and affiliates' stocks	-	1,378
Proceeds from transfer of business	4,940	-
Other cash provided by (used in) investing activities, net	385	183
Net cash provided by (used in) investing activities	(432,635)	(61,339)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term borrowings	35,000	10,000
Proceeds from long-term borrowings	50,000	-
Repayment of long-term borrowings	(8,297)	(46,529)
Repayments of finance lease obligations	(356)	(108)
Repayments of installment payables	(13,104)	(13,996)
Net cash provided by (used in) financing activities	63,243	(50,633)
Effect of exchange rate change on cash and cash equivalents	(9,572)	(2,910)
Net increase (decrease) in cash and cash equivalents	(214,742)	49,275
Cash and cash equivalents at the beginning of the year	354,287	139,545
Cash and cash equivalents at the end of the year	139,545	188,820

3.5. Notes to Consolidated Financial Statements

(Notes about Going Concern Assumption)

Not applicable

(Basis of Consolidated Financial Statements)

1. Scope of Consolidation

All subsidiaries are consolidated.

The number of consolidated companies of Renesas Electronics Corporation Group: 48

Number of subsidiaries decreased by merger, assignment and liquidation: 3
Renesas Electronics America Inc. (*) and other 2 companies.

The number of subsidiaries increased by acquisition and foundation: 1
(*) On January 1, 2018 Renesas Electronics America Inc. merged with former Intersil in an absorption-type merger and became extinguished. Former Intersil then changed the trade name to Renesas Electronics America Inc.. Renesas Electronics America Inc. is a specified subsidiary of the Group.

2. Application of Equity Method

The number of affiliates accounted for by the equity method: 0
Following the partial transfer of the Group's shares of RENESAS EASTON Co., Ltd. on August 1, 2018, the Group has excluded RENESAS EASTON Co., Ltd. from the scope of application of the equity method.

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 12 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.

4) Long-term prepaid expenses
Amortized by the straight-line method

(3) Basis of significant reserves

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

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

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

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

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

6) Provision for sales rebates
Provision for sales rebates is made for the estimated amount based on historical rebate rates in order to prepare for any expenditure on sales rebates.

(4) Accounting treatment for retirement benefits

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

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

Prior service costs are amortized as incurred on a straight-line basis over the employee’s estimated average remaining service periods (mainly over 11 years).

(5) Foreign currency translation

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

(6) Amortization method and term for goodwill

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

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

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

(8) Hedge accounting

1) Hedge accounting method

Hedging activities are accounted for with deferred hedge accounting.

2) Hedging instruments and hedged items

Hedging instruments: Currency options, Currency swaps

Hedging items: Forecast transaction in foreign currency

3) Hedging policy

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

4) Assessment of hedge effectiveness

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

(9) Others

1) Accounting for consumption tax

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

2) Adoption of consolidated taxation system

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

(Changes in Presentation)

(Changes following the early adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)
“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ABSJ Statement No.28 February 16, 2018, hereinafter “the Partial Amendments”) can be adopted for the financial statements of the year ended December 31, 2018. Therefore, the Group adopted the Partial Amendments and changed the classification of “Deferred tax assets” to “Investments and other assets”, and “Deferred tax liabilities” to “Non-current liabilities”.

As a result of this change, within 13,365 million yen presented as “Deferred tax assets” under “Current assets” in the previous fiscal year, 2,167 million yen is reclassified into “Deferred tax assets” under “Investment and other assets”, in addition to 11,198 million yen is offset by “Deferred tax liabilities” under “Non-current liabilities”.

(Consolidated Statements of Operations)
“Subsidy income”, which was included in “Other non-operating income” under “Non-operating income” in the previous fiscal year, is presented separately in the current fiscal year because of its materiality. To reflect this change in presentation, the amount of 43 million yen presented in “Other non-operating income” in the previous fiscal year is reclassified into “Subsidy income”.

In addition, “Commission for syndicate loan”, which was included in “Other non-operating expenses” under “Non-operating expenses” in the previous fiscal year, is presented separately in the current fiscal year because of its materiality. To reflect this change in presentation, the amount of 325 million yen presented in “Other non-operating expenses” in the previous fiscal year is reclassified into “Commission for syndicate loan”.

(Consolidated Statements of Cashflow)
“Increase (decrease) in provision for contingent loss”, which was included in “Other cash provided by (used in) operating activities, net” under “Net cash provided by (used in) operating activities” in the previous fiscal year, is presented separately in the current fiscal year because of its materiality. To reflect this change in presentation, the amount of 49 million yen presented in “Other cash provided by (used in) operating activities, net” in the previous fiscal year is reclassified into “Increase (decrease) in provision for contingent loss”.

(Additional information)

1. Regarding the Acquisition of Stock of Integrated Device Technology, Inc. (hereafter “IDT”).
The Company resolved at the Meeting of Board of Directors to reach an agreement with IDT, whereby IDT will become a wholly-owned subsidiary of the Company, and concluded merger agreements for the purpose of implementing the acquisition on September 11, 2018.

1) Purpose of the Acquisition
The Group has been executing its growth strategy to thrive as a world-leading embedded solution provider in the rapidly changing global semiconductor market. As the pillars of its growth strategy, the Group is accelerating its focus on the automotive segment, where the Group has maintained a key global position over many years and further growth is anticipated in areas such as autonomous driving and EV/HEV; industrial and infrastructure segments, which are expected to advance with Industry 4.0 and 5G (fifth-generation) wireless communications, as well as the fast-growing IoT segment.

In order to achieve this growth strategy, the Group is working to expand its analog solution lineup and to strengthen its kit solution offerings that combine its world-leading microcontrollers (MCUs), system-on-chips (SoCs) and analog products. In this context, the Group already completed the acquisition of Intersil, a U.S.-based analog semiconductor supplier, in February 2017.

With the Intersil acquisition, the Group enhanced its lineup of power management-related analog devices as well as its ability to deliver kit solutions to customers combining the Group’s MCUs/SoCs and analog products from the former Intersil. At the same time, the Group expanded its sales and design-ins outside of Japan and strengthened global management capabilities by absorbing the former Intersil’s experienced management team into the Group.

The Group has made the decision to acquire IDT, a U.S.-based analog semiconductor supplier, to contribute further towards the growth strategy. IDT is a global enterprise engaged in the development, production, sale, and provision of services related to analog semiconductor products such as mixed-signal semiconductor solutions particularly for markets related to the data economy such as data center and communication infrastructure that require big-data processing. IDT has annual sales of approximately US$843 million (approximately 92.7 billion yen at an exchange rate of 110 yen to the dollar, as of March 2018) and an operating profit margin of over 25 percent (non-GAAP basis).

The main strategic benefits this transaction is expected to bring are: (1) Complementary products expand the Group’s solution offerings, and (2) Expands business growth opportunities. Details are as follows:

(1) Complementary products expand the Group’s solution offerings
The acquisition will provide the Group with access to a vast array of robust analog mixed-signal capabilities in embedded systems, including RF, high performance timing, memory interface, real-time interconnect, optical interconnect, wireless power and smart sensors. The combination of these product lines with the Group’s advanced MCUs and SoCs and power management ICs enables the Group to offer an integrated solution that supports the increasing demand of high data processing performance. The enriched solution offerings will bring optimal systems from external sensors through analog front end to processors and interfaces.

(2) Expands business growth opportunities.
IDT's analog mixed-signal products for data sensing, storage and interconnect are key devices that support the growth of data economy. Acquisition of these products enables the Group to extend its reach to fast-growing data economy-related applications including data center and communication infrastructure and strengthens its presence in the industrial and automotive segments.

Welcoming IDT as part of the Group after the Intersil acquisition completed in 2017 is therefore seen as an effective measure to further enhance the Group’s competitiveness in fields where the Group is focusing its efforts to strengthen the company’s position as a global leader.

2) Overview of the acquiree

(1) Name	Integrated Device Technology, Inc.
(2) Address	6024 Silver Creek Valley Road, San Jose, CA 95138 USA
(3) Type of business	Development, manufacturing and sale of analog integrated circuits including mixed-signal solutions
(4) Capital	2,752,914 thousand US$ (As of March 2018)
(5) Established	May 1980

3) Acquisition Method
For the purpose of the acquisition, the Group will establish a wholly-owned subsidiary (“acquisition subsidiary”) in Delaware, United States that will then merge with IDT (in a reverse triangular merger). The surviving company following the merger will be IDT. Cash will be issued for IDT’s shares as consideration for the merger, and the shares of the acquisition subsidiary owned by the Group will be converted into outstanding shares in the surviving company, making the surviving company a wholly-owned subsidiary of the Group.

Number of shares to be acquired, acquisition price, and share ownership before and after acquisition are as follows.

(1) Shares owned before transfer	0 share (Ownership percentage: 0.0%)
(2) Number of shares to be acquired	135,840,094 (Note 1) shares (Percentage of outstanding shares: 100.0%)
(3) Acquisition price	Approximately US$6,700 million (approximately ¥733 billion at an exchange rate of 110 yen to the dollar)
(4) Shares owned after transfer	135,840,094 shares (Ownership percentage: 100.0%)

Note 1: Based on the number of shares on a fully-diluted basis as of September 11, 2018 (reflecting dilutions, etc., that occurred following the stock-related compensation from the said acquisition). Above figures have been rounded off to the closest whole number.

4) Schedule

(1) The company Board approval	September 11, 2018
(2) IDT Board approval	August 30, 2018 (Pacific Daylight Time)
(3) Conclusion of merger agreement	September 11, 2018
(4) IDT General Shareholders approval of the merger agreement	January 15, 2019(PST)
(5) Effective date of merger	Within the first half of the fiscal year ending December 31, 2019 (expected)

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

2. Execution of Syndicated Loan Agreement (Financing of the above acquisition)

To finance a portion of the funds necessary for the acquisition of IDT, on October 11, 2018, the Company entered into a term loan agreement. Recently, the Company has terminated this term loan agreement and with the intention to refinance other existing term loan, and to finance funds necessary for the acquisition of IDT and working capital as the medium-and-long term funds, the Company has newly entered into a syndicated loan agreement on January 15, 2019 as below.

(1) Total amount: 897.0 billion yen

(2) Loan type:
- (A) Term loan with availability period: 698.0 billion yen
- (B) Term loan: 149.0 billion yen
- (C) Commitment line loan: 50.0 billion yen

(3) Execution date of agreement: January 15, 2019

(4) Availability/Commitment period:
- (A) Term loan with availability period: From the day four business days prior to the completion date of acquisition of IDT until December 11, 2019
- (B) Term loan: -
- (C) Commitment line: Five years from the date of drawdown of (B) Term loan

(5) Repayment Date:
- (A) Term loan with availability: Date that is five years from the date of initial drawdown of this loan
- (B) Term loan: Date that is 5 years from the date of drawdown of this loan
- (C) Commitment line: Date designated by the Company that is within six months from each drawdown

(6) Participating financial institutions: MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited and other 5 financial institutions

Note: The initial drawdown of (A) Term loan with availability period and the drawdown of (B) Term loan are scheduled to occur in the first half of the fiscal year ending December 31, 2019, when the Group expects the completion of the acquisition of IDT.

(Consolidated Balance Sheets)

*1 Assets pledged as collateral and secured liabilities

(Assets pledged as collateral)

(In millions of yen)

	As of December 31, 2017		As of December 31, 2018	
Buildings and structures	43,309	(43,020)	40,587	(40,539)
Machinery and equipment	73,008	(73,008)	68,323	(68,323)
Land	17,929	(17,311)	16,845	(16,627)
Total	134,246	(133,339)	125,755	(125,489)

(Secured liabilities)

(In millions of yen)

	As of December 31, 2017		As of December 31, 2018	
Short-term borrowings	35,000	(35,000)	45,000	(45,000)
Current portion of long-term borrowings	2,875	(2,875)	-	(-)
Long-term borrowings	148,896	(148,896)	147,742	(147,742)
Total	186,771	(186,771)	192,742	(192,742)

*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 December 31, 2017	As of December 31, 2018
Investment securities (Stock)	3,105	-

*3 Accumulated impairment loss was included in accumulated depreciation.

4 Contingent liabilities

(1) Debt guarantees

(In millions of yen)

	As of December 31, 2017	As of December 31, 2018
Guarantees of employees' housing loans	99	65
Other	312	-
Total	411	65

(2) Others

The Company's US subsidiary has been named as a defendant in a civil lawsuit in the United States related to the alleged patent infringement and trade secret violation. The amount of 79 million USD had been included in "Provision for contingent loss" for the part which can be reasonably estimated based on the judgement of the Court of First Instance until the three months period ended March 31, 2018. However, an amount of 22 million USD (2,403 million yen) has been included in "Provision for contingent loss" from the three months period ended June 30, 2018, which was re-estimated based on the judgement of the Appellate Court which vacated the damage amount awarded by the judgment of the Court of First Instance and ordered the retrial at the Court of First Instance. The estimated amount may possibly increase or decrease in accordance with the development of the lawsuit.

The Group has been named as one of the defendants in civil lawsuits in Canada and the United Kingdom related to the alleged violations of the competition law involving smartcard chips.

There is a potential indemnification claim against the Company's subsidiary in Taiwan related to environmental pollution occurred at the transferred factory.

In addition to the above, the Group also recognized provision for contingent loss for compensation or litigation proceedings, etc. to other companies.

(Consolidated Statements of Operations)

*1 Insurance income

The amount of insurance income for the year ended December 31, 2017 was due to the receipt of the insurance related to the 2016 Kumamoto Earthquake.

*2 Reversal of provisions on contingent loss

A partial amount of provision on contingent loss has been reversed for the year ended December 31, 2018, mainly regarding the civil lawsuit in the United States related to the alleged patent infringement and trade secret violation etc. in which the Company's subsidiary has been named as a defendant, after reviewing the estimated amount following the revocation of compensation based on the judgement of the Court of First Instance in addition to reasons stated at the Appellate Court, which was conducted following the retrial order at the Court of First Instance.

*3 Impairment loss

The details of impairment loss were as follows:

For the year ended December 31, 2017

Location	Usage	Type
Kai-city, Yamanashi-prefecture Taiwan etc.	Assets to be disposed of	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land, Software, Other intangible assets, Long-term prepaid expenses
China Mashiki-town, Kamimashiki-county Kumamoto-prefecture etc.	Idle assets	Buildings and structures, Machinery and equipment, Land

The Group classifies its business assets based on division of management accounting, with relation in manufacturing process taken into account. 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 2,561 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 354 million yen, which was included in special loss.

The assets to be disposed of and idle assets amounted to 2,915 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 1,697 million yen and impairment loss except for business structure improvement expenses, which amounted to 1,218 million yen.

The components of impairment loss (2,915 million yen) were as follows:

	(In millions of yen)
Buildings and structures	767
Machinery and equipment	228
Vehicles, tools, furniture and fixtures	768
Land	1,113
Software	14
Other intangible assets	1
Long-term prepaid expenses	24
Total	2,915

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 December 31, 2018

Location	Usage	Type
Konan-city, Kochi-prefecture China etc.	Assets to be disposed of	Buildings and structures, Vehicles, tools, furniture and fixtures, Land, Long-term prepaid expenses
China Matsudo-city, Chiba-prefecture etc.	Idle assets	Buildings and structures, Machinery and equipment, Vehicles, tools, furniture and fixtures, Land
The United States	Operational assets	Intangible assets

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 1,744 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 1,018 million yen, which was included in special loss.

In addition, the Group recognized an amount of 331 million yen for impairment loss on certain operational assets which had no business use.

The assets to be disposed of and idle assets amounted to 3,093 million yen for special loss.

In addition, impairment loss includes business structure improvement expenses, which amounted to 1,567 million yen and impairment loss except for business structure improvement expenses, which amounted to 1,526 million yen.

The components of impairment loss (3,093 million yen) were as follows:

	(In millions of yen)
Buildings and structures	994
Machinery and equipment	719
Vehicles, tools, furniture and fixtures	35
Land	736
Long-term prepaid expenses	278
Intangible assets	331
Total	3,093

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

*4 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 main items of business structure improvement expenses of the year ended December 31, 2017 were relocation/disposal expenses associated with fixed assets.

In addition, the main items of business structure improvement expenses were personnel expenses, including the special incentive of early retirement program, etc. in addition to relocation/disposal expenses associated with fixed assets for the year ended December 31, 2018.

*5 Provision for contingent losses

Provision was provided for compensation or litigation proceedings, etc.

*6 Compensation expenses

Compensation expenses for the year ended December 31, 2018 were temporary payments due to manufacturing contract revision between the Group and contract manufacturers.

(Consolidated Statements of Changes in Net Assets)

For the year ended December 31, 2017
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	70,000	—	1,667,194,490
Total	1,667,124,490	70,000	—	1,667,194,490
Treasury stock				
Common stock	2,581	—	—	2,581
Total	2,581	—	—	2,581

For the year ended December 31, 2018
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	1,667,194,490	1,190,900	—	1,668,385,390
Total	1,667,194,490	1,190,900	—	1,668,385,390
Treasury stock				
Common stock	2,581	—	—	2,581
Total	2,581	—	—	2,581

(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 from the fiscal year-end. Certain borrowings with variable interest rates are exposed to interest rate fluctuation risk. In addition, certain contracts include financial covenants.

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

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

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

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

2. Fair Value of Financial Instruments

The fair values of financial instruments in consolidated balance sheets as of December 31, 2017 and December 31, 2018 were presented below. The table does not include the financial instruments for which it is extremely difficult to estimate fair values. (Note2)

As of December 31, 2017

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	123,320	123,320	–
(2) Notes and accounts receivable-trade	99,155	99,155	–
(3) Accounts receivable-other	16,637	16,637	–
(4) Short-term and long-term investment securities			
Stocks of affiliates	3,105	2,926	(179)
Other securities	20,321	20,321	–
Total assets	262,538	262,359	(179)
(5) Electronically recorded obligations	19,240	19,240	–
(6) Notes and accounts payable-trade	78,496	78,496	–
(7) Short-term borrowings	35,000	35,000	–
(8) Accounts payable-other	51,605	51,605	–
(9) Accrued income taxes	15,920	15,920	
(10) Long-term borrowings (including current portion)	194,271	196,821	2,550
(11) Lease obligations (including current portion)	260	281	21
Total liabilities	394,792	397,363	2,571

As of December 31, 2018

(In millions of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	185,651	185,651	–
(2) Notes and accounts receivable-trade	76,356	76,356	–
(3) Accounts receivable-other	8,562	8,562	–
(4) Short-term and long-term investment securities			
Other securities	5,678	5,678	–
Total assets	276,247	276,247	–
(5) Electronically recorded obligations	13,091	13,091	–
(6) Notes and accounts payable-trade	59,579	59,579	–
(7) Short-term borrowings	45,000	45,000	–
(8) Accounts payable-other	39,176	39,176	–
(9) Accrued income taxes	4,584	4,584	
(10) Long-term borrowings (including current portion)	147,742	147,554	(188)
(11) Lease obligations (including current portion)	138	143	5
Total liabilities	309,310	309,127	(183)
(12) Derivative transactions (*)			
Derivatives not subject to hedge accounting	–	–	–
Derivatives subject to hedge accounting	(14,318)	(14,318)	–
Total derivative transactions	(14,318)	(14,318)	–

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

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

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

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

(4) Short-term and long-term investment securities

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

(5) Electronically recorded obligations, (6) Notes and accounts payable-trade, (7) Short-term borrowings, (8) Accounts payable-other and (9) 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.

(10) Long-term borrowings and (11) 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.

(12) Derivative transactions
Derivatives subject to hedge accounting were forward currency option contracts and currency swap contracts. The fair value was calculated based on forward foreign exchange quotation or the price provided by financial institutions.

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

(In millions of yen)

	As of December 31, 2017	As of December 31, 2018
Non-marketable securities	1,463	964

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) Short-term and long-term investment securities” since it was extremely difficult to estimate their fair value.

(Segment Information)

[Business Segment Information]

(The year ended December 31, 2017 and the year ended December 31, 2018)

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 December 31, 2017

1. Information by product and service

(In millions of yen)

	Automotive Business	Industrial	Broad-based	Other Semiconductors	Others	Total
Net sales to third parties	412,601	196,405	150,433	4,960	15,862	780,261

2. Information by region and country

(1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
329,450	150,556	112,341	109,394	74,607	3,913	780,261

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

(2) Property, plant and equipment

(In millions of yen)

Japan	Malaysia	China	Asia (Excluding Malaysia and China)	Europe	North America	Total
186,515	34,668	32,684	649	822	12,003	267,341

[Note] Because the sales of China accounted for 10% or more of total sales, we stated it separately from the previous fiscal year.

3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	106,526	Semiconductor business

For the year ended December 31, 2018

1. Information by product and service

(In millions of yen)

	Automotive Business	Industrial	Broad-based	Other Semiconductors	Others	Total
Net sales to third parties	398,512	187,229	151,343	3,408	16,868	757,360

2. Information by region and country

(1) Net sales

(In millions of yen)

Japan	China	Asia (Excluding China)	Europe	North America	Others	Total
301,340	153,295	107,027	125,060	67,239	3,399	757,360

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

(2) Property, plant and equipment

(In millions of yen)

Japan	Malaysia	China	Asia (Excluding Malaysia and China)	Europe	North America	Total
175,270	28,248	26,100	592	674	11,725	242,609

3. Information by major customer

(In millions of yen)

Name of major customers	Net sales	Name of related segment
Ryosan Company, Limited	94,804	Semiconductor business

(Amount per Share Information)

Item	The year ended December 31, 2017	The year ended December 31, 2018
Net assets per share	304.20 yen	314.08 yen
Basic net income per share	46.30 yen	32.74 yen
Net income per share fully diluted	46.26 yen	32.66 yen

Note 1: The basis of calculation for net income per share and net income per share fully diluted was as follows

Item	The year ended December 31, 2017	The year ended December 31, 2018
Basic net income per share		
Net income attributable to shareholders of parent company (In millions of yen)	77,196	54,595
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)	77,196	54,595
Average number of common stock during the fiscal year (Thousands)	1,667,168	1,667,717
Net income per share fully diluted		
Net income adjustment attributable to shareholders of parent company (In millions of yen)	—	—
Increase in the number of common stock (Thousands)	1,615	4,043
(Subscription rights to shares (Thousands))	(1,615)	(4,043)
Brief description of residual shares excluded from diluted earnings per share, because it does not have the dilutive effect.	—	—

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

Item	As of December 31, 2017	As of December 31, 2018
Total net assets (In millions of yen)	511,898	531,558
Amounts deducted from total net assets (In millions of yen)	4,746	7,556
(Subscription rights to shares (In millions of yen))	(2,311)	(5,165)
(Non-controlling interests (In millions of yen))	(2,435)	(2,391)
Net assets attributable to common stock at the end of the year (In millions of yen)	507,152	524,002
The fiscal year-end number of common stock used for the calculation of net assets per share (Thousands)	1,667,192	1,668,383

Forward-Looking Statements

The statements in this press release with respect to the plans, strategies and financial outlook of Renesas Electronics Corporation and its consolidated subsidiaries (collectively “we”) are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may differ materially from such forward-looking statements due to several important factors including, but not limited to, general economic conditions in our markets, which are primarily Japan, North America, Asia, and Europe; demand for, and competitive pricing pressure on, products and services in the marketplace; ability to continue to win acceptance of products and services in these highly competitive markets; and fluctuations in currency exchange rates, particularly between the yen and the U.S. dollar. Among other factors, downturn of the world economy; deteriorating financial conditions in world markets, or deterioration in domestic and overseas stock markets, may cause actual results to differ from the projected results forecast.

About Renesas Electronics Corporation

Renesas Electronics Corporation (TSE: 6723) delivers trusted embedded design innovation with complete semiconductor solutions that enable billions of connected, intelligent devices to enhance the way people work and live—securely and safely. A global leader in microcontrollers, analog, power, and SoC products and integrated platforms, Renesas provides the expertise, quality, and comprehensive solutions for a broad range of Automotive, Industrial, Home Electronics, Office Automation and Information Communication Technology applications to help shape a limitless future. Learn more at renesas.com.

# # #