

To Shareholders

The 17th Ordinary General Meeting of Shareholders Matters for Internet Disclosure

The 17th Business Period from January 1, 2018 to December 31, 2018

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

Renesas Electronics Corporation

Stock Acquisition Rights, etc. of the Company

1. Overview of Stock Acquisition Rights Granted as Stock Options (as of December 31, 2018)

The overview of the stock acquisition rights Renesas Electronics Corporation (the "Company") granted as stock options as of December 31, 2018 is as follows.

Name (Resolution Date for Issuance)	Total Number of Stock Acquisition Rights	Type and Number of Company's Stocks to be Issued upon Exercise of Stock Acquisition Rights	Amount to be Paid for Stock Acquisition Rights	Exercise Price (per share)	Exercise Period
No. 1 of Year 2016 (June 28, 2016)	1,343	common stock 134,300 shares	600 yen	1 yen	August 2, 2016 ~August 1, 2026
No. 2 of Year 2016 (June 28, 2016)	75	common stock 7,500 shares	None	1 yen	August 2, 2016 ~August 1, 2026
No. 1 of Year 2017 (March 13, 2017)	12,860	common stock 1,286,000 shares	1,167 yen	1 yen	April 4, 2017 ~April 3, 2027
No. 2 of Year 2017 (March 13, 2017)	29,299	common stock 2,929,900 shares	None	1 yen	April 4, 2017 ~April 3, 2027
No. 3 of Year 2017 (April 26, 2017)	194	common stock 19,400 shares	None	1 yen	May 12, 2017 ~May 11, 2027
No. 4 of Year 2017 (June 27, 2017)	346	common stock 34,600 shares	None	1 yen	July 13, 2017 ~July 12, 2027
No. 5 of Year 2017 (August 29, 2017)	91	common stock 9,100 shares	1,239 yen	1 yen	September 15, 2017 ~September 14, 2027
No. 6 of Year 2017 (August 29, 2017)	587	common stock 58,700 shares	None	1 yen	September 15, 2017 ~September 14, 2027
No. 7 of Year 2017 (September 27, 2017)	744	common stock 74,400 shares	None	1 yen	October 13, 2017 ~October 12, 2027
No. 8 of Year 2017 (December 27, 2017)	923	common stock 92,300 shares	None	1 yen	January 16, 2018 ~January 15, 2028
No. 1 of Year 2018 (March 16, 2018)	16,945	common stock 1,694,500 shares	1,092 yen	1 yen	April 3, 2018 ~April 2, 2028
No. 2 of Year 2018 (March 16, 2018)	38,036	common stock 3,803,600 shares	None	1 yen	April 3, 2018 ~April 2, 2028
No. 3 of Year 2018 (June 27, 2018)	3,023	common stock 302,300 shares	995 yen	1 yen	August 1, 2018 ~July 31, 2028
No. 4 of Year 2018 (June 27, 2018)	2,251	common stock 225,100 shares	None	1 yen	August 1, 2018 ~July 31, 2028
No. 5 of Year 2018 (September 26, 2018)	1,827	common stock 182,700 shares	None	1 yen	November 1, 2018 ~October 31, 2028

- (Note) 1. A person granted of stock acquisition rights may exercise the prescribed portion of those rights respectively each time after the day set for each stock acquisition rights.
2. If a person granted of stock acquisition rights ceases to be a board member, a corporate officer or the like, the person can exercise any vested portion of the stock acquisition rights only for thirteen (13) months from such date.

3. Regarding the stock acquisition rights granted under “No.1 of Year 2016”, “No.1 of Year 2017”, “No.5 of Year 2017”, “No.1 of Year 2018” and “No.3 of Year 2018”, the debt for the amount to be paid for issuance of stock acquisition rights is offset by the remuneration to the Company and there is no monetary payment.

2. Stock Acquisition Rights Held by Officers of the Company (as of December 31, 2018)

Name (Resolution Date for Issuance)	A Holder of Stock Acquisition Rights	Total Number of Stock Acquisition Rights	Type and Number of Company's Stocks to be Issued upon Exercise of the Stock Acquisition Rights
No. 1 of Year 2016 (June 28, 2016)	3 directors	744	common stock 74,400 shares
No. 1 of Year 2017 (March 13, 2017)	3 directors	1,427	common stock 142,700 shares
No. 1 of Year 2018 (March 16, 2018)	3 directors	3,096	common stock 309,600 shares

(Note) Outside directors and corporate auditors do not have any stock acquisition rights.

3. Stock Acquisition Rights Granted to the Employees (excluding those Employees who are also Directors of the Company) of the Company during this Business Period (from January 1, 2018 to December 31, 2018)

Name (Resolution Date for Issuance)	A Person Granted of Stock Acquisition Rights	Total Number of Stock Acquisition Rights	Type and Number of Company's Stocks to be Issued upon Exercise of Stock Acquisition Rights
No. 1 of Year 2018 (March 16, 2018)	6 corporate officers 472 employees	12,283	common stock 1,228,300 shares
No. 2 of Year 2017 (March 16, 2018)	4 corporate officers	6,783	common stock 678,300 shares
No. 3 of Year 2018 (June 27, 2018)	257 employees	2,584	common stock 258,400 shares

- (Note) 1. The stock acquisition rights granted under “No.1 of Year 2018”, 334 of such rights (common stock of 33,400 shares) have lapsed without being exercised until the end of this Business Period.
2. The stock acquisition rights granted under “No.2 of Year 2018”, 123 of such rights (common stock of 12,300 shares) have lapsed without being exercised until the end of this Business Period.
3. The stock acquisition rights granted under “No.3 of Year 2018”, 14 of such rights (common stock of 1,400 shares) have lapsed without being exercised until the end of this Business Period.

4. Stock Acquisition Rights Granted to the Employees of the Company's Subsidiaries during this Business Period (from January 1, 2018 to December 31, 2018)

Name (Resolution Date for Issuance)	A Person of Company's Subsidiary Granted of Stock Acquisition Rights	Total Number of Stock Acquisition Rights	Type and Number of Company's Stocks to be Issued upon Exercise of Stock Acquisition Rights
No. 8 of Year 2017 (December 27, 2017)	26 employees	1,173	common stock 117,300 shares
No. 1 of Year 2018 (March 16, 2018)	3 corporate officers 99 employees	1,973	common stock 197,300 shares
No. 2 of Year 2018 (March 16, 2018)	15 corporate officers 644 employees	32,409	common stock 3,240,900 shares
No. 3 of Year 2018 (June 27, 2018)	49 employees	453	common stock 45,300 shares
No. 4 of Year 2018 (June 27, 2018)	1 director 132 employees	2,309	common stock 230,900 shares
No. 5 of Year 2018 (September 26, 2018)	22 employees	1,827	common stock 182,700 shares

- (Note) 1. The stock acquisition rights granted under "No.8 of Year 2017", 64 of such rights (common stock of 6,400 shares) have lapsed without being exercised until the end of this Business Period.
2. The stock acquisition rights granted under "No.2 of Year 2018", 941 of such rights (common stock of 94,100 shares) have lapsed without being exercised until the end of this Business Period.
3. The stock acquisition rights granted under "No.4 of Year 2018", 58 of such rights (common stock of 5,800 shares) have lapsed without being exercised until the end of this Business Period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes to Basis of Consolidated Financial Statements

1. Scope of Consolidation

All subsidiaries are consolidated.

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

The names of major subsidiaries:

Names of the major consolidated subsidiaries are listed on "1-(7). Principal Subsidiaries (as of December 31, 2018)" in the Business Report and omitted in this part.

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 Corporation (hereafter 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

2) Intangible assets other than leased assets

Amortized by the straight-line method

3) Leased assets

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

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

Leased assets under finance leases other than those under which 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) 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.

(8) Accounting for consumption tax

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

(9) Adoption of consolidated taxation system

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

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".

Notes to Consolidated Balance Sheet

1. Assets pledged as collateral and secured liabilities

(Assets pledged as collateral)

	(In millions of yen)	
Buildings and structures	40,587	(40,539)
Machinery and equipment	68,323	(68,323)
Land	16,845	(16,627)
Total	125,755	(125,489)

(Secured liabilities)

	(In millions of yen)	
Short-term borrowings	45,000	(45,000)
Long-term borrowings	147,742	(147,742)
Total	192,742	(192,742)

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

2. Accumulated Depreciation of Property, Plant and Equipment: 788,981 million yen

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

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

4. Contingent Liabilities:

Guarantees for employees' housing loans: 65 million yen

Other Contingent Liabilities:

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.

Notes to Consolidated Statement of Changes in Net Assets

1. Type and Number of Outstanding Shares as of December 31, 2018

Common Stock	1,668,385,390 shares
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2. Type and Number of shares for purpose of the share subscription rights to shares (Excluded stock acquisition rights of which the commencement date of exercise period has not yet arrived) as of December 31, 2018.

Common Stock	10,854,400 shares
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Notes to Financial Instruments

1. Conditions of Financial Instruments

(1) Policies for Financial Instruments

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

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

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

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

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

Most borrowings and lease obligations from finance lease transactions are mainly utilized for working capital and capital investments. Their repayment terms are at most 6 years 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, 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, 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	—
(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)
(12) Derivative transactions			
Derivatives not subject to hedge accounting	—	—	—
Derivatives subject to hedge accounting	(14,318)	(14,318)	—

(*) The amount of liabilities is shown in parenthesis.

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, 2018
Non-marketable securities	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.

Per Share Information

1. Net assets per share: 314.08 yen

Net income per share: 32.74 yen

Other Notes

1. 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.

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:

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. 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.

5. Provision for contingent losses

Provision was provided for compensation or litigation proceedings, etc.

6. 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(Pacific Standard Time)
(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.

7. 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.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

All figures are rounded to the nearest 1 million yen.

Notes to Significant Accounting Policies

1. Valuation Methods for Assets

1) Securities

Stocks of subsidiaries and affiliates:

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

Other securities:

Marketable securities:

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

Non-marketable securities:

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

2) Derivatives

Derivative financial instruments are stated at the fair value.

3) Inventories

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

Finished goods:

Custom-made products:

Specific identification method

Mass products:

Average method

Work in process:

Custom-made products:

Specific identification method

Mass products:

Average method

Raw materials and supplies:

Average method as principal method

2. Depreciation and Amortization Method for Long-term Assets

1) Property, plant and equipment other than leased assets

Depreciated by the straight-line method

2) Intangible assets

Amortized by the straight-line method

3) Leased assets

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

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

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

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

4) Long-term prepaid expenses

Amortized by straight-line method

3. Basis of Reserves

1) Allowance for doubtful accounts

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

2) Accrued retirement benefits

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

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

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

3) Provision for products warranties

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

4) Provision for loss on guarantees

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

5) Provision for business structure improvement

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

6) Provision for contingent loss

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

4. Accounting Treatment for Retirement Benefits

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

5. Hedge Accounting Method

1) Hedge accounting method

Hedging activities are accounted for with deferred hedge accounting.

2) Hedging instruments and hedged items

Hedging instruments: Currency options, Currency swaps

Hedged items: Forecast transaction in foreign currency

3) Hedging policy

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

4) Assessment of hedge effectiveness

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

6. Accounting Treatment for Consumption Tax

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

7. Adoption of Consolidated Taxation System

The Company adopts the consolidated taxation system.

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".

Notes to Balance Sheet

1. Assets Pledged as Collateral and Secured liabilities

(1) Assets pledged as collateral

	(In millions of yen)	
Buildings	18,636	(18,589)
Structures	2,427	(2,427)
Machinery and equipment	39,724	(39,724)
Land	11,550	(11,372)
Total	72,336	(72,111)

(2) Secured liabilities

	(In millions of yen)	
Short-term borrowings	45,000	(45,000)
Long-term borrowings	147,742	(147,742)
Total	192,742	(192,742)

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

2. Accumulated Depreciation of Property, Plant and Equipment: 207,776 million yen

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

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

4. Contingent Liabilities:

Liabilities for Guarantees	
Loan of affiliated companies	9,816 million yen
Guarantees for employees' housing loans	54 million yen

5. Monetary Receivables from and Payables to Affiliated Companies:

Short-term receivable	104,229 million yen
Short-term payable	173,263 million yen

Notes to Statement of Operations

1. Transactions with Affiliated Companies:

Amounts of operating transactions	
Net sales	364,503 million yen
Purchases	440,404 million yen
Amounts of non-operating transactions	3,183 million yen

2. 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.

3. Provision for contingent losses

Provision was provided for compensation or litigation proceedings, etc.

4. Business Structure Improvement Expenses

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

The details of business structure improvement expenses (2,652 million yen) were as follows:

	(In millions of yen)
Impairment loss and expenses for the reorganization of the manufacturing sites etc.	2,026
Other	626
Total	2,652

Notes to Statement of Changes in Net Assets

Type and Number of Treasury Stock as of December 31, 2018	
Common Stock	2,581 shares

Notes to Tax-Effect Accounting

Significant components of deferred tax assets were operating loss carry forwards, loss on valuation of stocks of subsidiaries and affiliates and others, in view of the possibility of recoverability the company has posted a valuation reserve for 163,888 million yen. In addition, significant components of deferred tax liabilities were valuation difference of assets acquired by merger.

Notes to Transactions with Related Parties

Subsidiaries, affiliates and others:

(In millions of yen)

Attribute	Company name	Ratio of Share-Holding (Owned)	Relation with related parties	Contents of transaction	Amounts of transaction (*4)	Account	Balance as of December 31, 2018 (*4)
Subsidiary	Renesas Semiconductor Manufacturing Co., Ltd.	(Own) Direct 100.0 %	Purchases of parts of our products	Purchases of products (*1)	145,056	Accounts payable-trade	13,283
Subsidiary	Renesas Semiconductor Package & Test Solutions Co., Ltd.	(Own) Direct 100.0 %	Purchases of parts of our products	Loan (*2) Acceptance of collateral (*3)	— 49,253	Short-term loans receivable	29,372 —
Subsidiary	Renesas Electronics America Inc.	(Own) Direct 100.0 %	Sales of our products, Manufacturing and development	Money deposited (*2) Guarantees (*4)	— 9,674	Deposits received	45,833 —
Subsidiary	Renesas Electronics Europe GmbH	(Own) Indirect 100.0 %	Sales of our products, Consignment of design and development	Sales of products (*1) Money deposited (*2)	103,506 —	Accounts receivable-trade Deposits received	14,836 9,316
Subsidiary	Renesas Electronics Taiwan Co., Ltd.	(Own) Direct 100.0 %	Sales of our products	Money deposited (*2)	—	Deposits received	19,058
Subsidiary	Renesas Semiconductor Singapore Pte. Ltd.	(Own) Direct 100.0 %	Sales of parts of our products	Money deposited (*2)	—	Deposits received	22,131
Subsidiary	Renesas Electronics Hong Kong Limited	(Own) Direct 100.0 %	Sales of our products	Sales of products (*1)	71,163	Accounts receivable-trade	8,864

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

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

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

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

(*4) Guarantees of lawsuits against subsidiaries and borrowing from banks etc.

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

Notes to Per Share Information

Net assets per share: 260.07 yen

Net income per share: 29.51 yen

Significant Subsequent Events

(Business combination between the Company and the Company's consolidated subsidiary, Renesas Semiconductor Package & Test Solutions Co., Ltd.)

At the Meeting of Board of Directors on October 31, 2018, the Company resolved and concluded business combination agreements for the absorption-type merger with the Company's consolidated subsidiary, namely Renesas Semiconductor Package & Test Solutions Co., Ltd.

1. Overview of the transaction

(1) Name and overview of business of combined company or business

(i) Name of the surviving company: Renesas Electronics Corporation

(ii) Name and business overview of the absorbed company

Name of the absorbed company: Renesas Semiconductor Package & Test Solutions Co., Ltd.

Business overview of the absorbed company: Development, design, manufacture and sale of semiconductor devices, integrated circuits and other electronic components.

(2) Date of the business combination

January 1, 2019

(3) Legal form of the business combination

An absorption-type merger, with the Company as the surviving company and Renesas Semiconductor Package & Test Solutions Co., Ltd. as the extinguished company.

(4) Other matters related to the transaction

The Company aims to simplify organization and decision-making process as well as accelerate consistent decision-making in the semiconductor industry. Therefore, the Company has decided to conduct an absorption-type merger with Renesas Semiconductor Package & Test Solutions Co., Ltd., administration of the back-end manufacturing business.

2. Summary of accounting treatment

The business combination will be accounted for as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ statement No. 21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 September 13, 2013).

Other notes

Regarding the Acquisition of Stock of 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. Please refer to "Other notes" of "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" for more details.