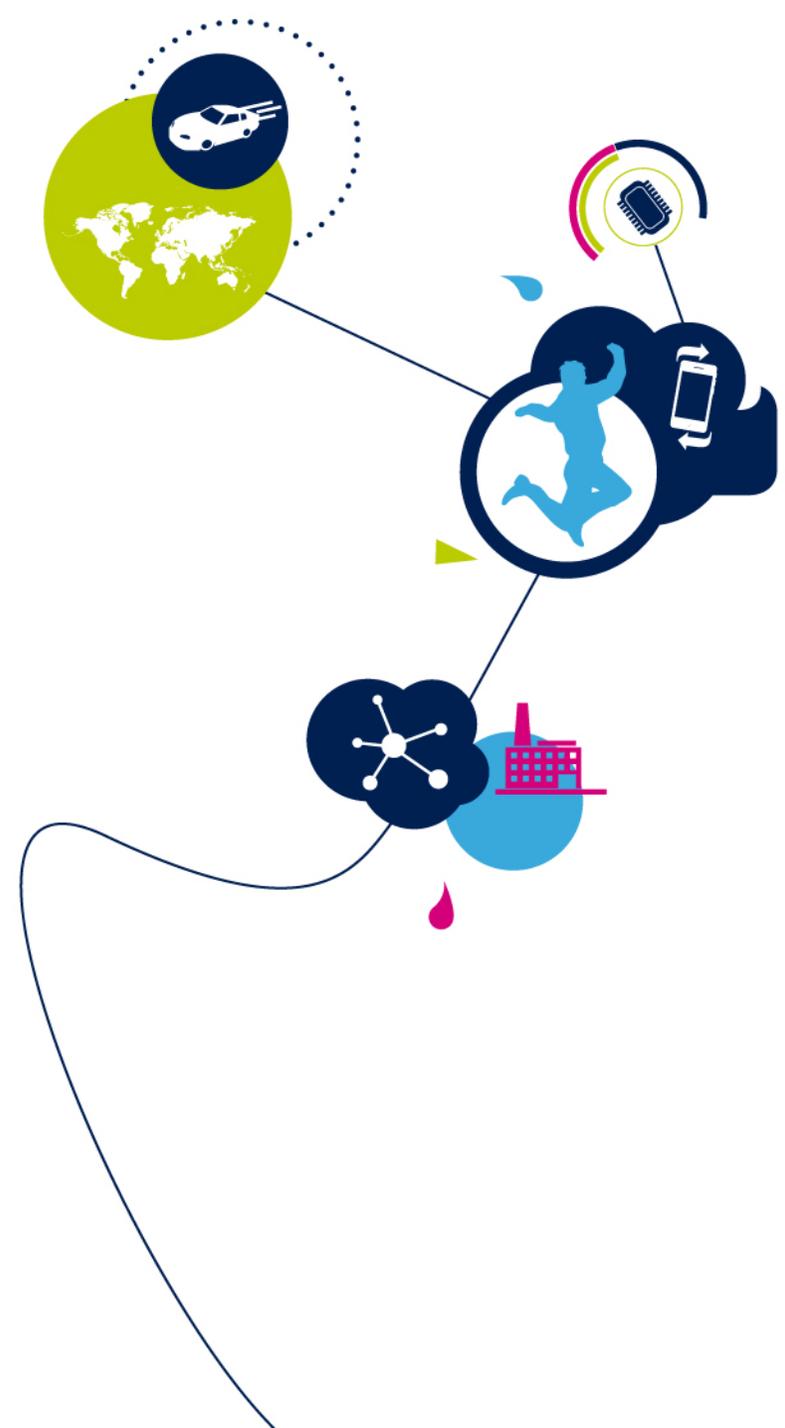


STMicroelectronics 4Q & FY 2017 Financial Results

January 25, 2018



Forward Looking Statements

Some of the statements contained in this release that are not historical facts are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended) that are based on management's current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those anticipated by such statements, due to, among other factors:

- *Uncertain macro-economic and industry trends, which may impact end-market demand for our products;*
- *Customer demand that differs from projections;*
- *The ability to design, manufacture and sell innovative products in a rapidly changing technological environment;*
- *Unanticipated events or circumstances, which may impact our ability to execute the planned reductions in our net operating expenses and / or meet the objectives of our R&D Programs, which benefit from public funding;*
- *Changes in economic, social, labor, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macro-economic or regional events, military conflicts, social unrest, labor actions, or terrorist activities;*
- *The Brexit vote and the perceptions as to the impact of the withdrawal of the U.K. may adversely affect business activity, political stability and economic conditions in the U.K., the Eurozone, the EU and elsewhere. While we do not have material operations in the U.K. and have not experienced any material impact from Brexit on our underlying business to date, we cannot predict its future implications;*
- *Financial difficulties with any of our major distributors or significant curtailment of purchases by key customers;*
- *The loading, product mix, and manufacturing performance of our production facilities;*
- *The functionalities and performance of our IT systems, which support our critical operational activities including manufacturing, finance and sales, and any breaches of our IT systems or those of our customers or suppliers;*
- *Variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;*
- *The impact of intellectual property ("IP") claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;*
- *The ability to successfully restructure underperforming business lines and associated restructuring charges and cost savings that differ in amount or timing from our estimates;*
- *Changes in our overall tax position as a result of changes in tax rules, new or revised legislation, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;*
- *The outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;*
- *Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, or recalls by our customers for products containing our parts;*
- *Natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, health risks and epidemics in locations where we, our customers or our suppliers operate;*
- *Availability and costs of raw materials, utilities, third-party manufacturing services and technology, or other supplies required by our operations;*
- *Industry changes resulting from vertical and horizontal consolidation among our suppliers, competitors, and customers;*
- *The ability to successfully ramp up new programs that could be impacted by factors beyond our control, including the availability of critical third party components and performance of subcontractors in line with our expectations; and*
- *Theft, loss, or misuse of personal data about our employees, customers, or other third parties, and breaches of global privacy legislation, including the EU's General Data Protection Regulation ("GDPR").*

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward looking terminology, such as "believes," "expects," "may," "are expected to," "should," "would be," "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions.

Some of these risk factors are set forth and are discussed in more detail in "Item 3. Key Information — Risk Factors" included in our Annual Report on Form 20-F for the year ended December 31, 2016, as filed with the SEC on March 3, 2017. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this release as anticipated, believed, or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this release to reflect subsequent events or circumstances.



Agenda

- Welcome
- 2017 Product & Application Review
- 4Q & FY17 Business & Financial performance
- Technology & Manufacturing
- Closing Remarks and Questions & Answers

Speakers



Carlo Bozotti
President & CEO

Supported by



Jean-Marc Chery
Designated President & CEO



Carlo Ferro
Chief Financial Officer



Georges Penalver
Chief Strategy Officer



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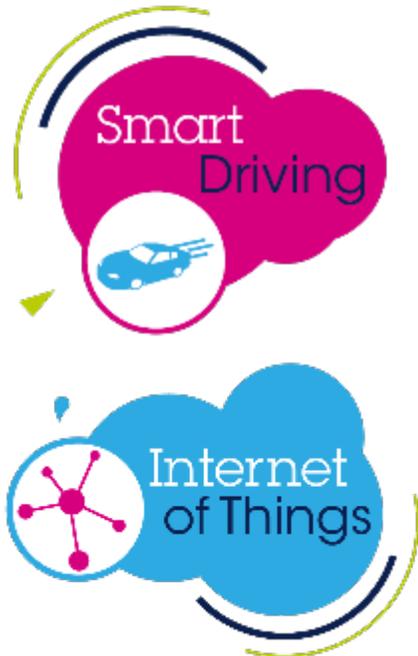
Carlo Bozotti
President & CEO



life.augmented

ST stands for life.augmented

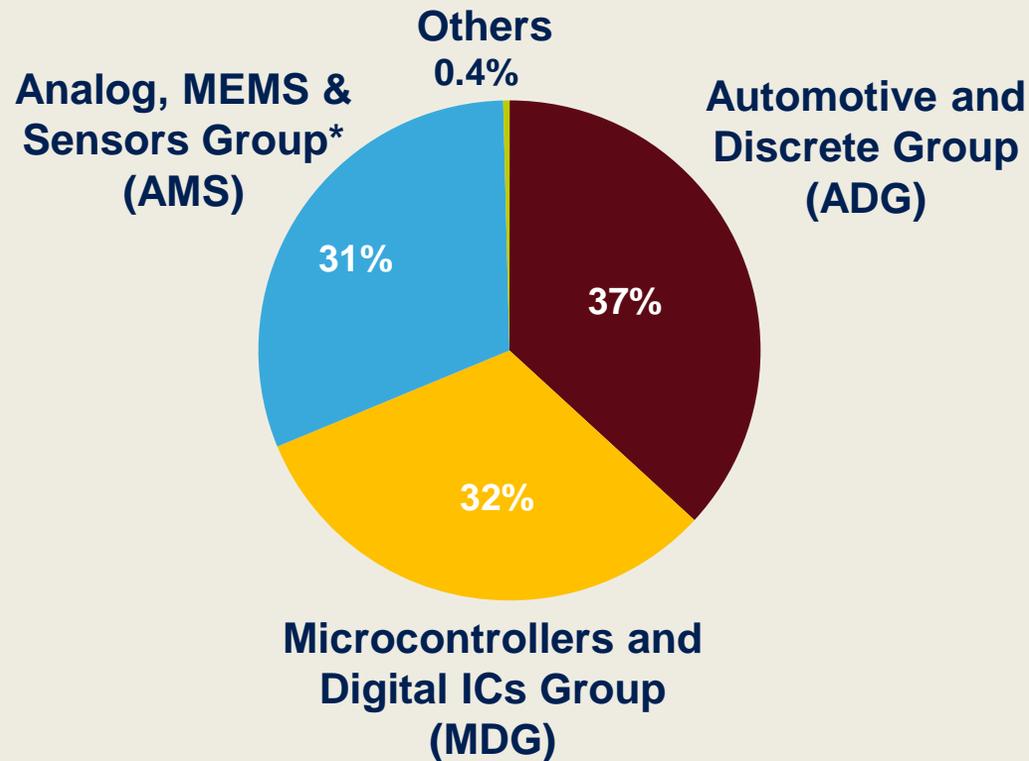
Everywhere microelectronics make a positive contribution to people's lives, ST is there



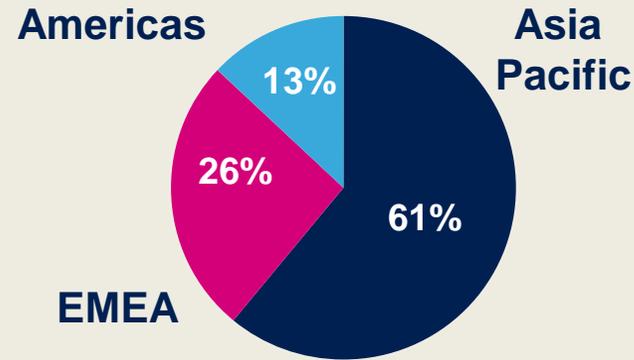
- A global semiconductor leader with an application strategic focus
- 2017 revenues of **\$8.35B** with year-on-year growth of **19.7%**
- Listed: NYSE, Euronext Paris and Borsa Italiana, Milan
- Approximately **45,500** employees worldwide
- Approximately **7,400** people working in R&D
- Portfolio of over **9.500** patent families
- **11** manufacturing (front and back-end) sites
- Over **80** sales & marketing offices

FY17 Revenues

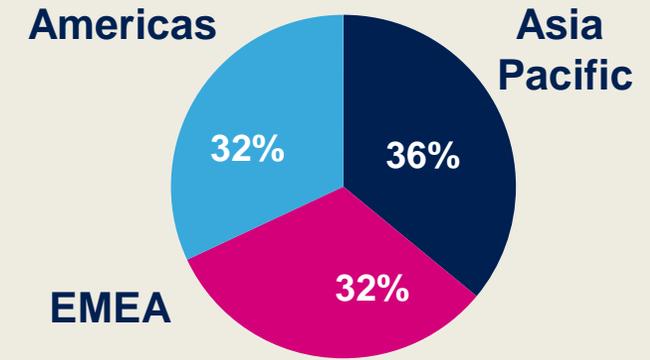
% by product group



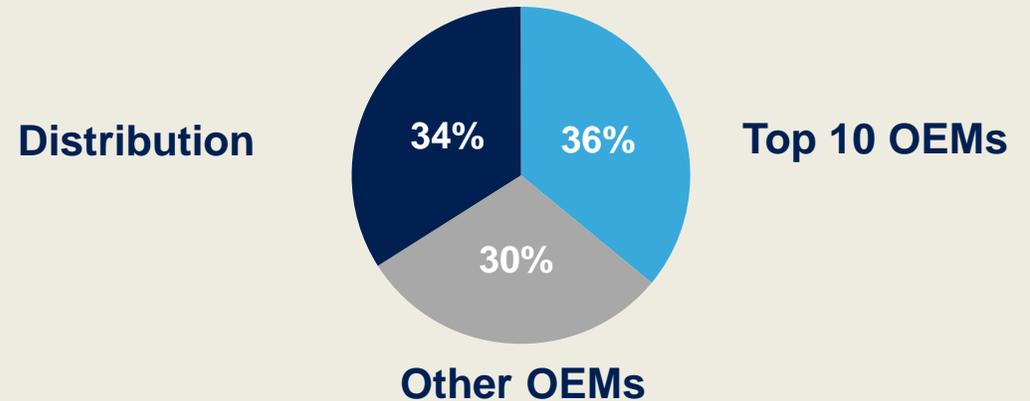
% by shipment location



% by region of origin



% by customer type



*Commencing in the fourth quarter of 2017, the Company transferred the Imaging Product Division, previously reported in Others, into the Analog and MEMS Group (AMG) to create the new organization Analog, MEMS and Sensors Group (AMS). The Company has reclassified prior-period revenues.

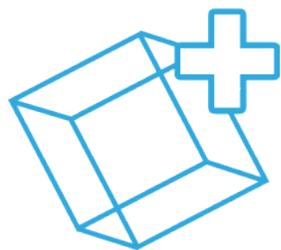
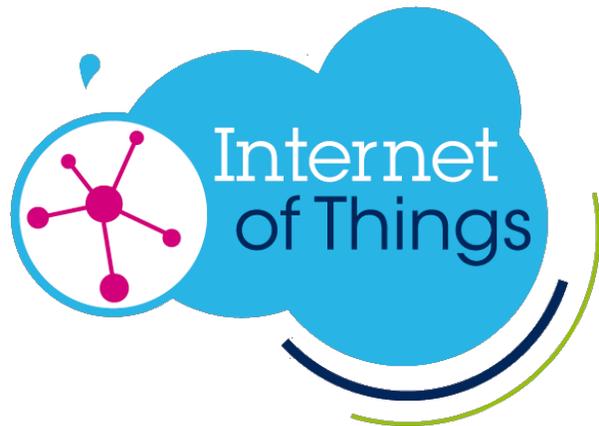


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Georges Penalver
Chief Strategy Officer



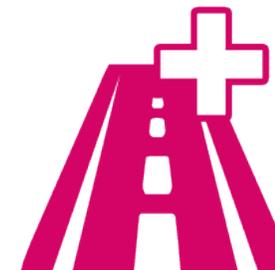
Smart Things



Smart Home & City



Smart Industry



Smart Driving



Serving More Than 100,000 Customers

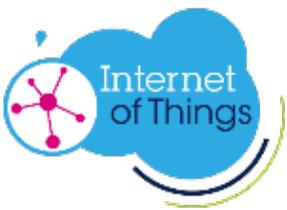
- Top 10 Customers***
2017
Apple
Bosch
Cisco
Conti
HP
Huawei
Nintendo
Samsung
Seagate
Western Digital

*In alphabetical order



Unified worldwide account management tailored to each account to provide global coverage and service

Standard process, reporting & follow-up in Sales & Marketing worldwide
Differentiated approach by type of customer



Building Blocks

Processing

New STM32L4 ultra-low-power MCUs advanced audio and energy efficiency



- 256 to 512KB Flash
- Up to 160KB RAM



STM32F413 MCU The new King of STM32F4 Access lines



- Up to 1.5MB Flash / 330KB SRAM
- 3x DACs / 3x CANs / 10x UARTs
- 125°C qualified



On-chip USB High-Speed PHY expands STM32F7 MCU ecosystem



STM8S general-purpose MCU Now available in 8-pin package



Best-in-class infotainment processor for all classes of vehicles



Security

Boost your contactless-payment designs with all-in-one ST53G module



STM32T1 IoT secure solution with STSAFE™ and ProvenCore-M™



STM32H7 MCUs boost protection for smart connected devices



HW and SW for complete drop-in solution for IoT security



Advanced secure microprocessors protect connected cars



Sensing & Actuating

Versatile 3-axis accelerometer for IoT and wearable devices



New FlightSense™ ranging sensor multi-zone, multi-target detection



Smart motion sensors for always-on activity tracking



Tiny low-dropout regulator ultra-low noise and high-precision sensing



10-bar water-resistant MEMS pressure sensor



Connectivity

Bluetooth® low energy System-on-Chip for smartphone-controlled applications



STM32 hardware tools boost LoRa® technology



Turnkey PLC chipset for smart-energy infrastructure



SPWF04 Wi-Fi module



Sub-1GHz transceiver connects Smart Things to the Cloud

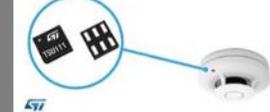


Conditioning & Protection

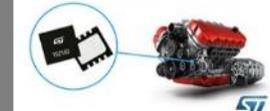
TSX low-power comparators better performance and robustness



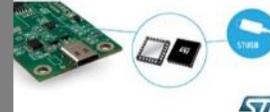
Tiny nano-power op amp Enables longer battery life



3 MHz chopper op amp for high-accuracy signal conditioning



USB Type-C™ and PD controllers save space and enhance operation safety



Industry-best clamping voltage ESD protection in Q201



Motor Control

Super-Junction MOSFET-based 600V intelligent power modules



Tiny 2.6A brushed DC motor driver for portable, battery-powered devices



Intelligent motion control for Smart Industry



MOSFET-based SLLIMM™-nano modules



Next-gen automotive door-zone controllers boost reliability and power efficiency

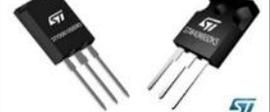


Power & Energy Management

1200V SiC diodes Industrial and automotive-grade



MDmesh™ DK5 VHV MOSFETs with fast recovery diode



Configurable interleaved PFC controller unlocks digital-power advantages



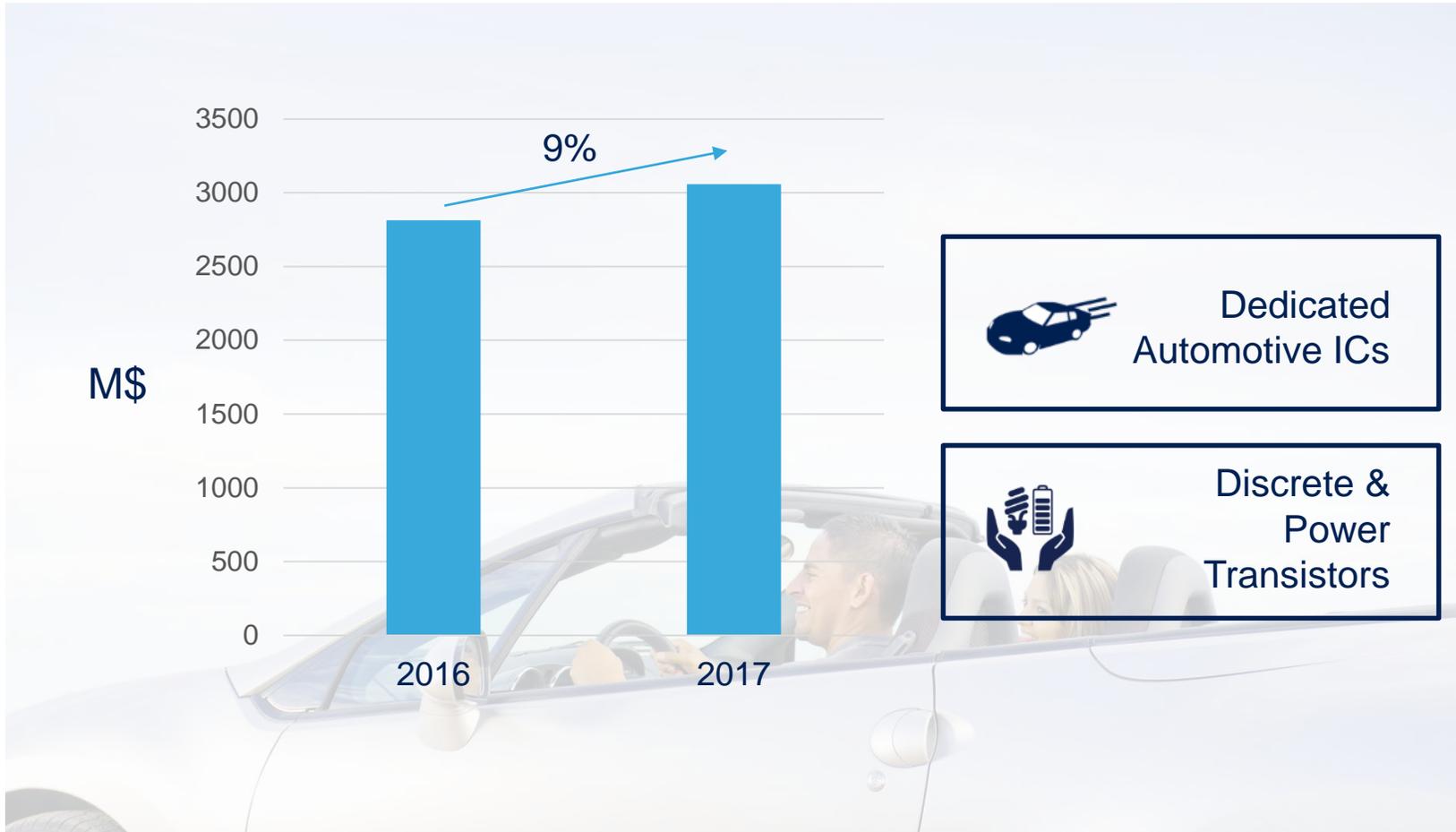
Digital DC-DC multiphase controllers for energy-efficient power delivery



Automotive Power MOSFETs in PowerFLAT™ 5x6 dual-side cooling

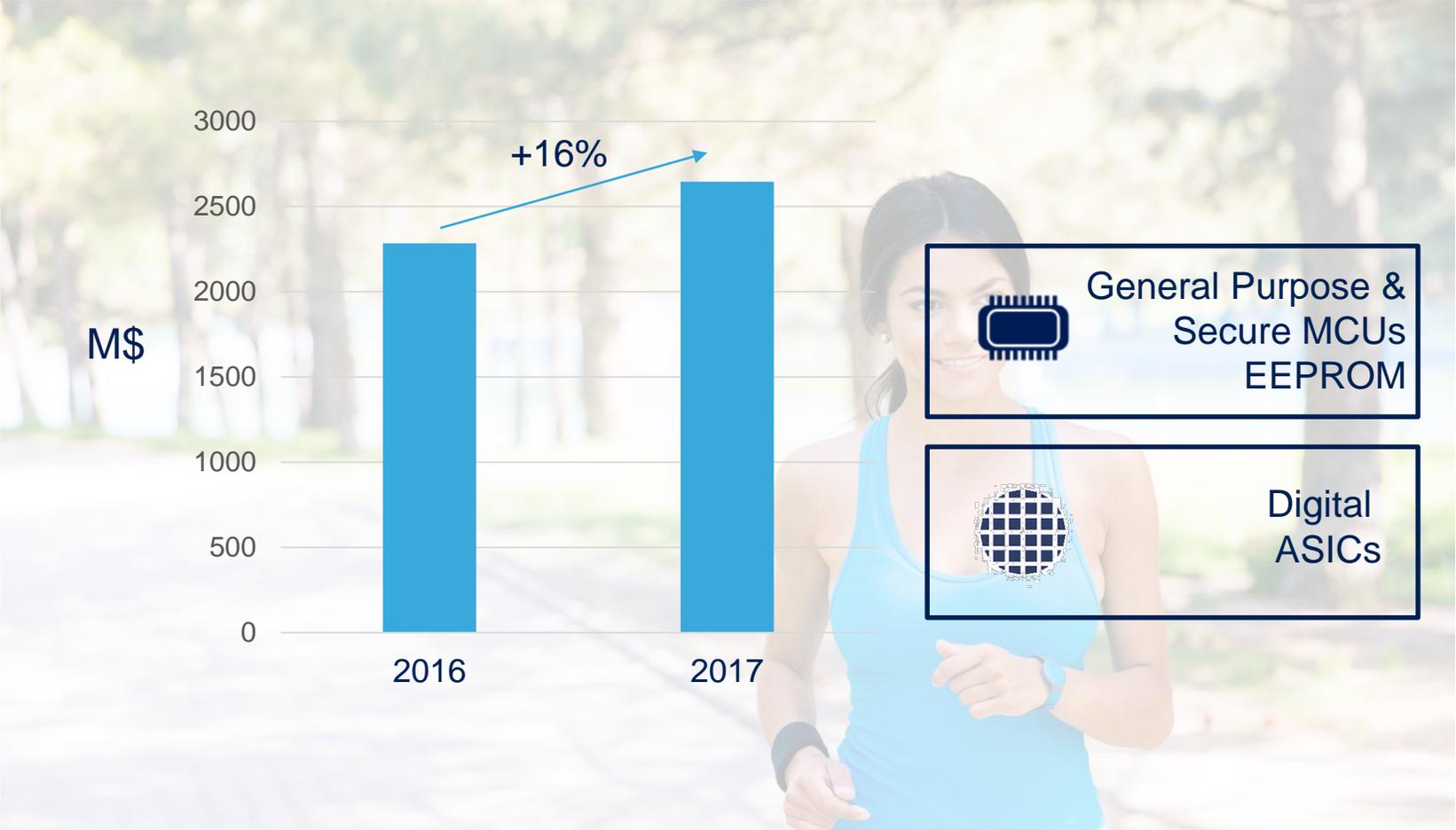


Automotive & Discrete Group (ADG)



- Automotive Power MOSFETs in PowerFLAT™ 5x6 dual-side cooling**
- Super-Junction MOSFET-based 600V intelligent power modules**
- 1200V SiC diodes Industrial and automotive-grade**
- MDmesh™ DK5 VHV MOSFETs with fast recovery diode**
- MOSFET-based SLLIMM™-nano modules**
- Next-gen automotive door-zone controllers boost reliability and power efficiency**
- Best-in-class infotainment processor for all classes of vehicles**
- Advanced secure microprocessors protect connected cars**

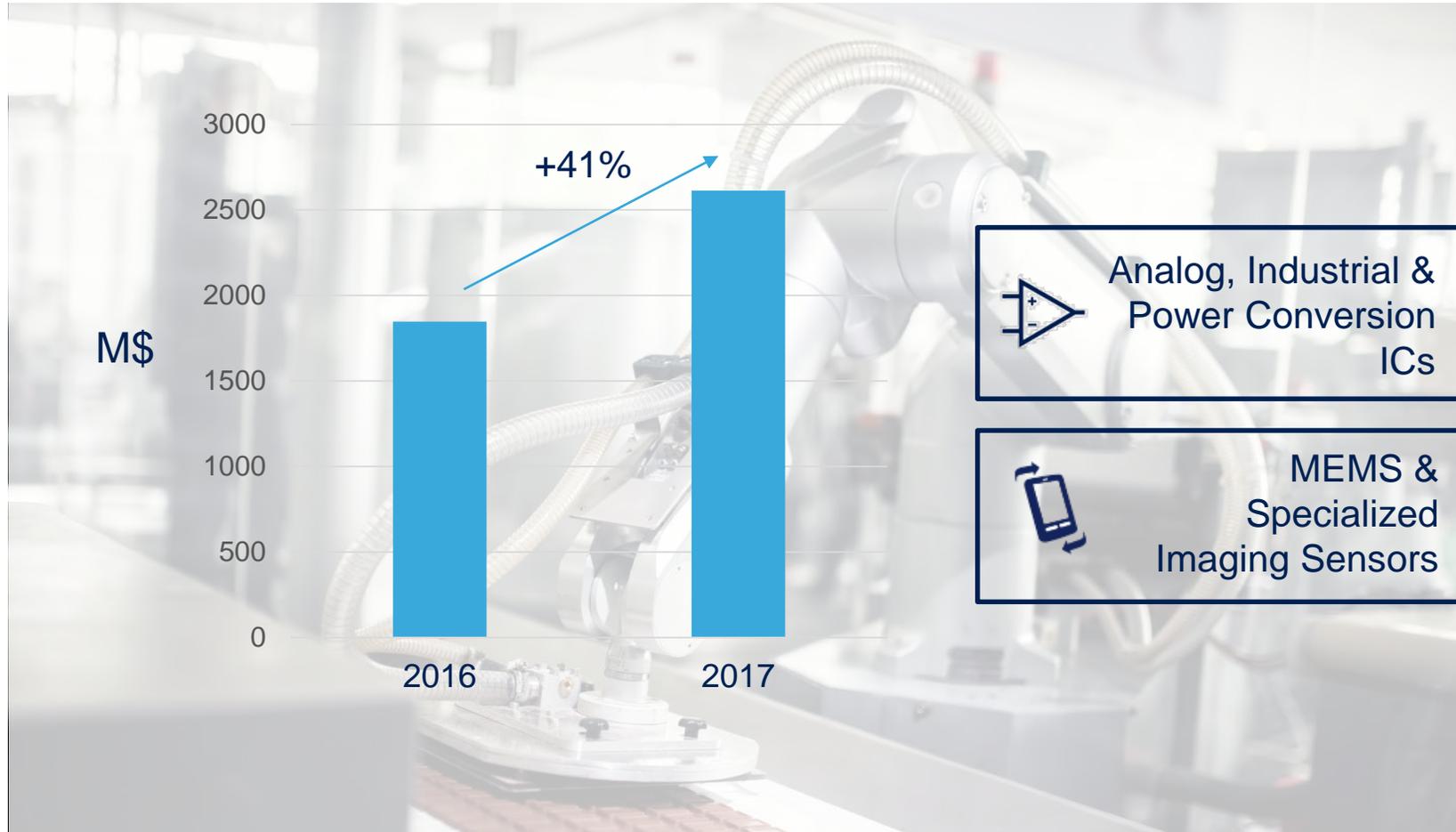
Microcontrollers & Digital ICs Group (MDG)



A grid of eight product highlights for STM32 microcontrollers and digital ICs:

- New STM32L4 ultra-low-power MCUs**: advanced audio and energy efficiency. Features: 256 to 512KB Flash, Up to 160KB RAM.
- STM32H7 MCUs**: boost protection for smart connected devices.
- HW and SW for complete drop-in solution for IoT security**: Includes AXIO-OS and AXIO-RA.
- STM32F413 MCU**: The new King of STM32F4 Access lines. Features: Up to 1.5MB Flash / 320KB SRAM, 3x DACs / 3x CANs / 10x UARTs, 125°C qualified.
- On-chip USB High-Speed PHY**: expands STM32F7 MCU ecosystem.
- STM32 hardware tools**: boost LoRa® technology.
- STM32™ IoT secure solution**: with STSAFE™ and ProvenCore-M™.
- Boost your contactless-payment designs**: with all-in-one ST53G module.

Analog, MEMS & Sensors Group (AMS)



- Smart motion sensors** for always-on activity tracking
- 10-bar water-resistant MEMS pressure sensor**
- New FlightSense™ ranging sensor** multi-zone, multi-target detection
- Sub-1GHz transceiver connects Smart Things to the Cloud**
- Bluetooth® low energy System-on-Chip** for smartphone-controlled applications
- TSX low-power comparators** better performance and robustness
- Intelligent motion control** for Smart Industry
- USB Type-C™ and PD controllers** save space and enhance operation safety



*Commencing in the fourth quarter of 2017, the Company transferred the Imaging Product Division, previously reported in Others, into the Analog and MEMS Group (AMG) to create the new organization Analog, MEMS and Sensors Group (AMS). The Company has reclassified prior-period revenues.



Agenda

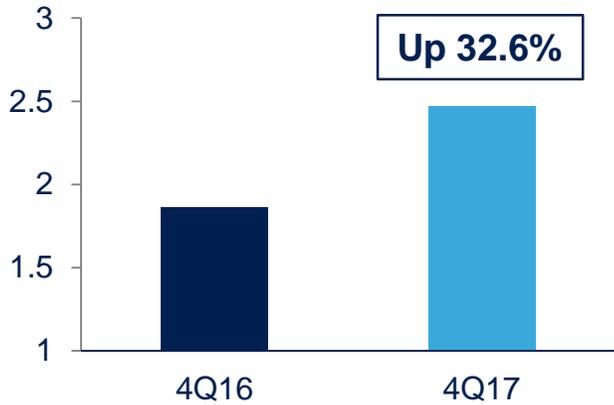
- Welcome
- 2017 Product & Application Review
- **4Q & FY17 Business & Financial performance**
- Technology & Manufacturing
- Closing Remarks and Questions & Answers



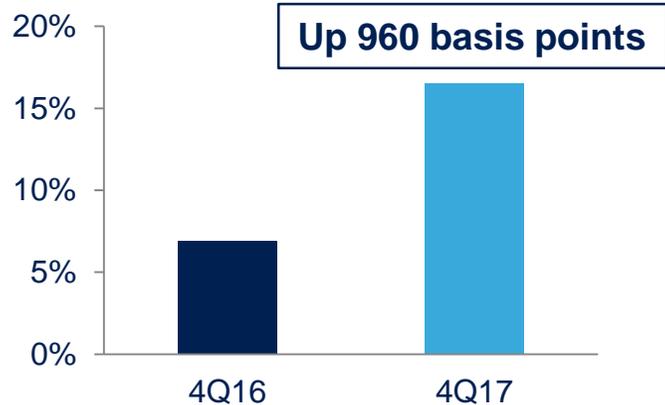
Carlo Ferro
Chief Financial Officer

4Q17 Financial Highlights

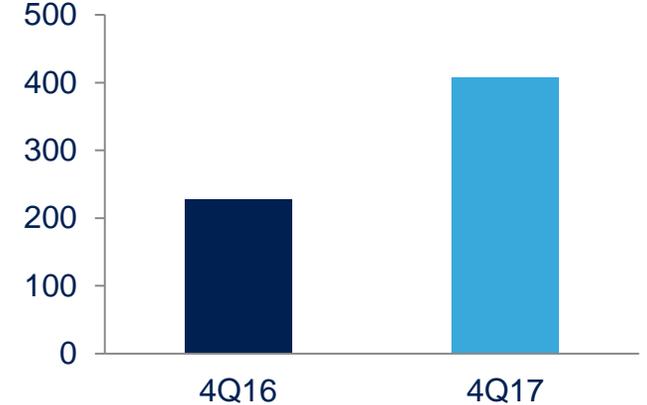
Revenues = \$2.47B



Operating Margin = 16.5%



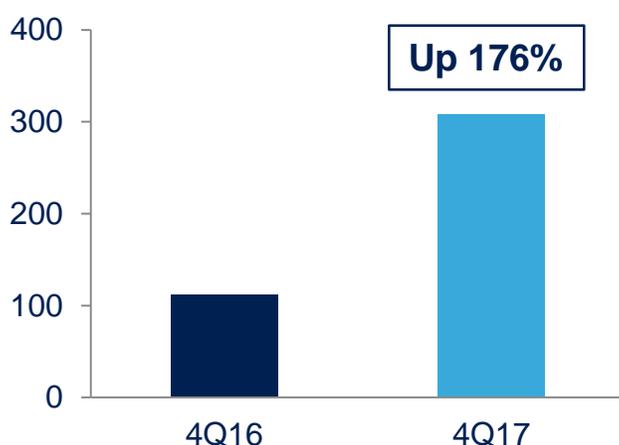
Capex = \$407M



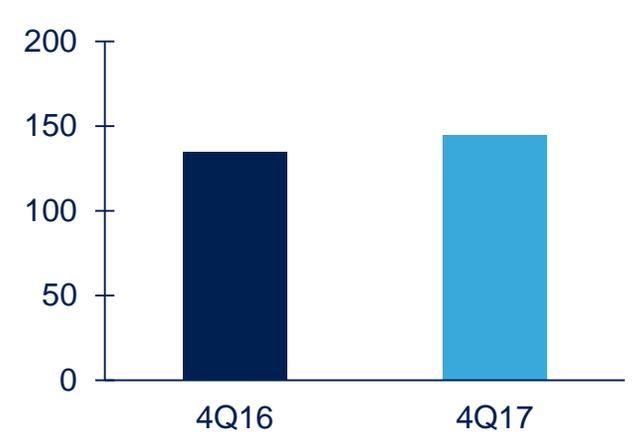
Gross Margin = 40.6%



Net Income = \$308M



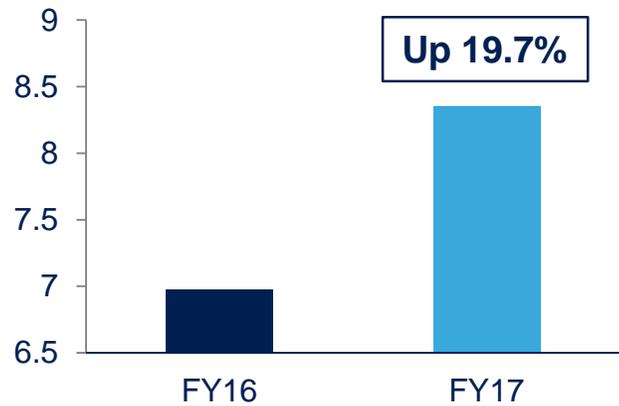
Free Cash Flow* = \$145M



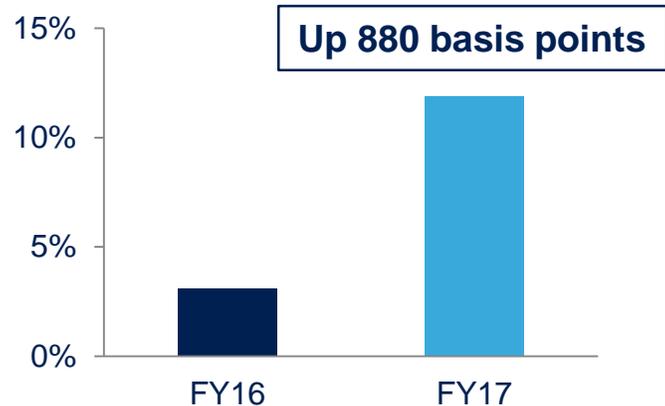
*Non-U.S. GAAP measure. See Appendix for additional information explaining why the Company believes these measures are important.

FY17 Financial Highlights

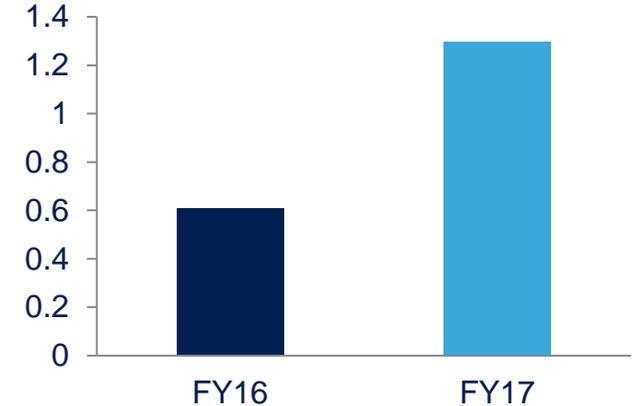
Revenues = \$8.35B



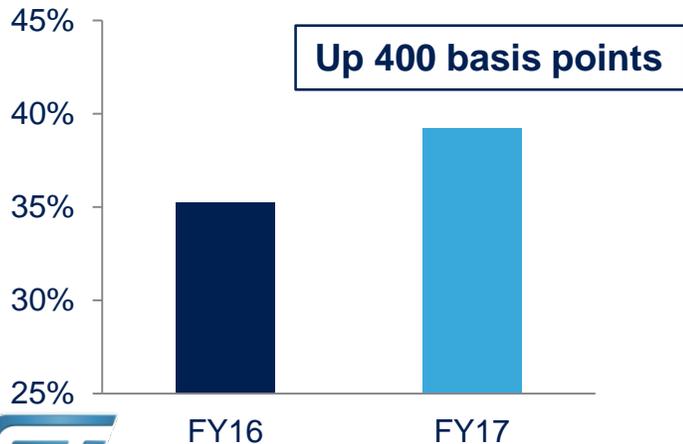
Operating Margin = 11.9%



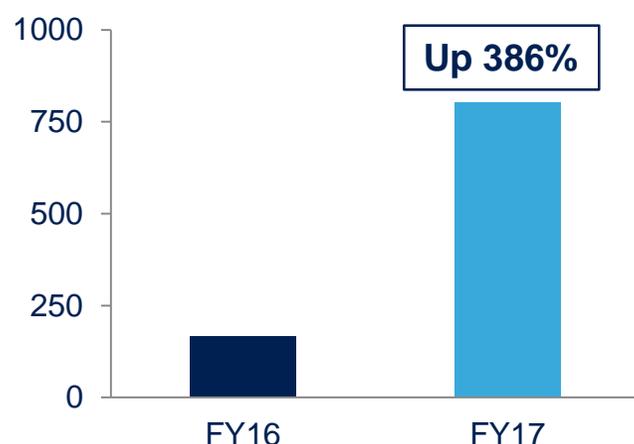
Capex = \$1.30B



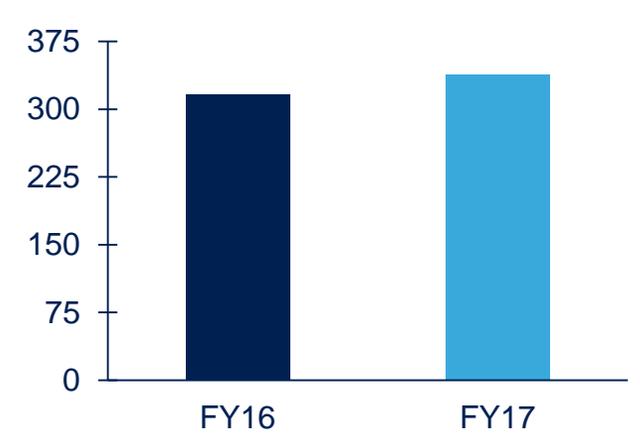
Gross Margin = 39.2%



Net Income = \$802M



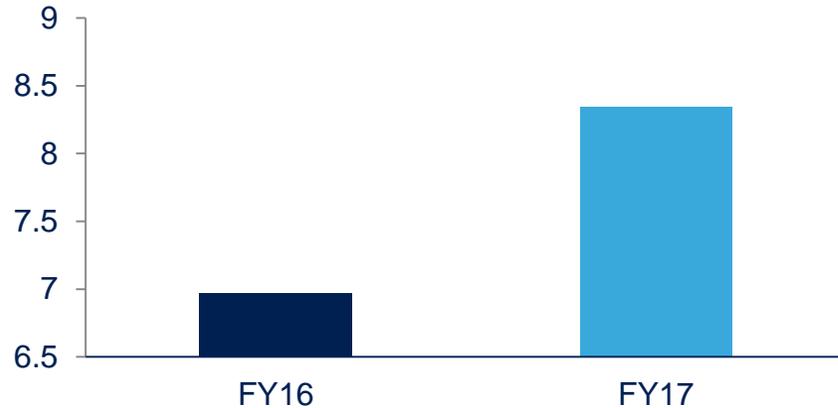
Free Cash Flow* = \$338M



*Non-U.S. GAAP measure. See Appendix for additional information explaining why the Company believes these measures are important.

ST Revenues: Synchronized Growth

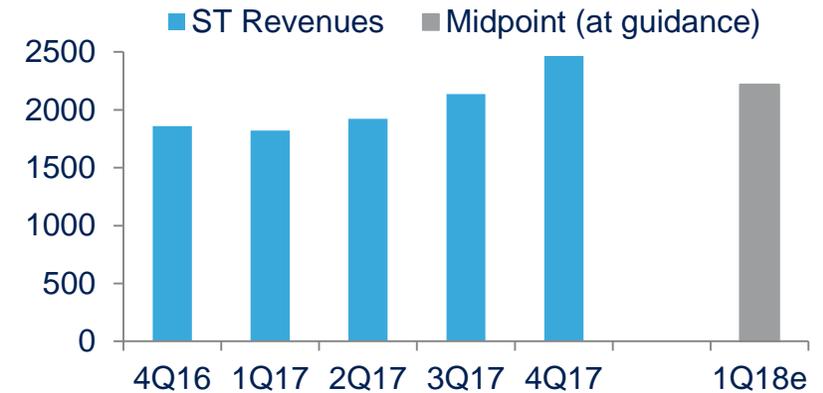
FY17 Revenues = \$8.35B



FY17 revenues up 19.7% y-o-y

- Strong growth across all product groups and geographies

4Q17 Revenues = \$2.47B



4Q17 up 32.6% y-o-y

- Double-digit growth across all product groups

4Q17 up 15.5% sequentially

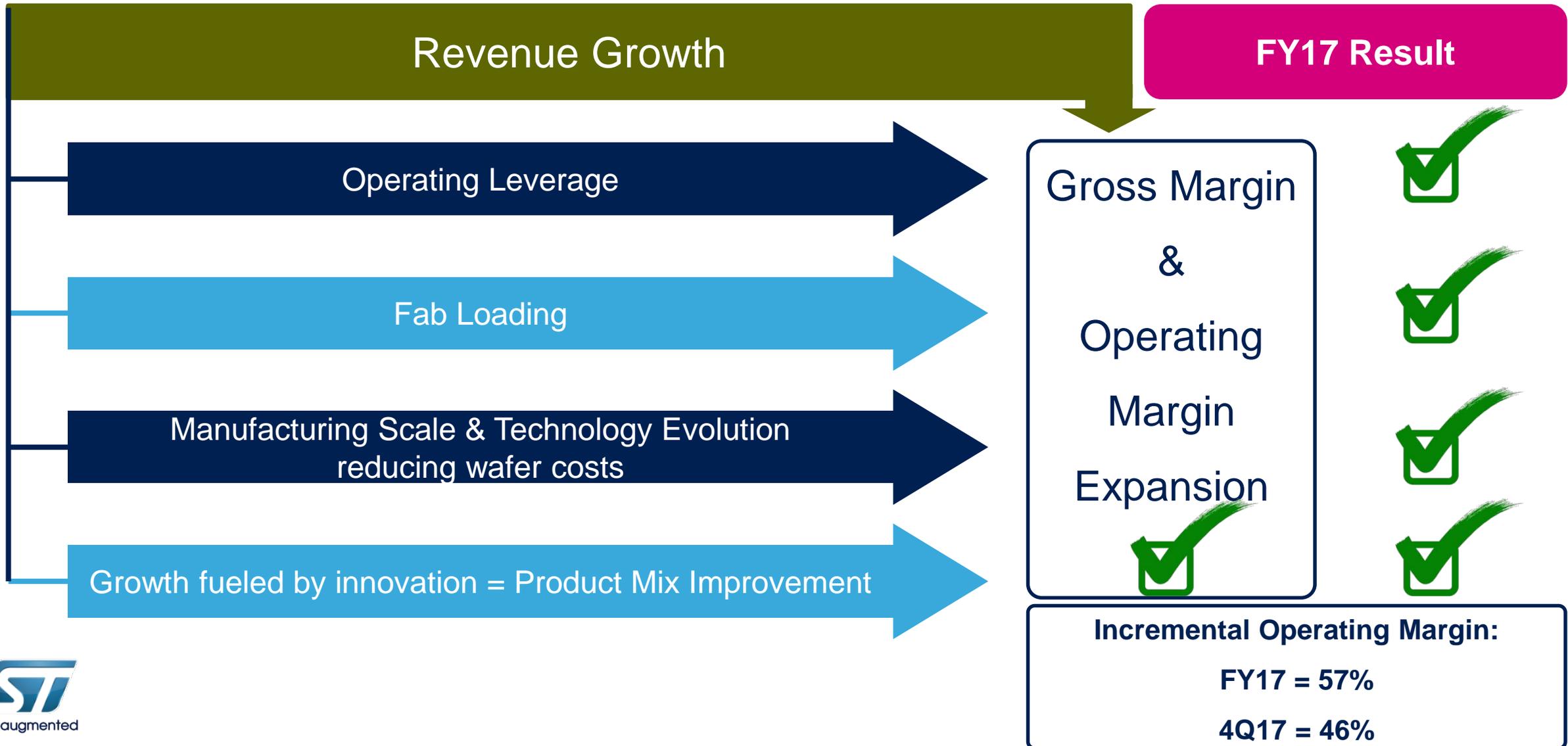
- 200 basis points above high-end of guidance
- Better than seasonal

1Q18 Revenue Outlook

Down sequentially by about 10.0% (+/- 3.5 %) representing y-o-y growth of about 22% at mid-point
Better than seasonal trend for Smart Driving and IoT applications
Unfavorable dynamics for smartphone applications

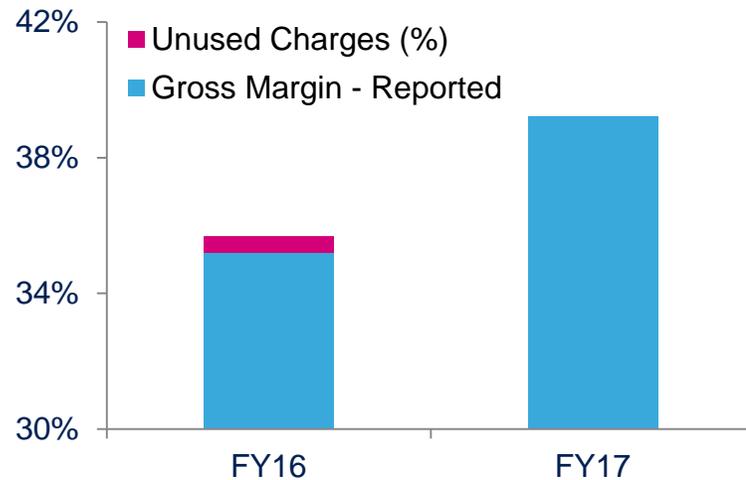
Revenue Growth to Improve Operating Margin

Four Drivers



Gross Margin Improvement

FY17 Gross Margin = 39.2%



FY17 Gross Margin up 400 basis points

- Benefiting from manufacturing efficiencies, better product mix and improved fab loading partially offset by normal price pressure

4Q17 Gross Margin = 40.6%



4Q17 Gross Margin better than mid-point of guidance

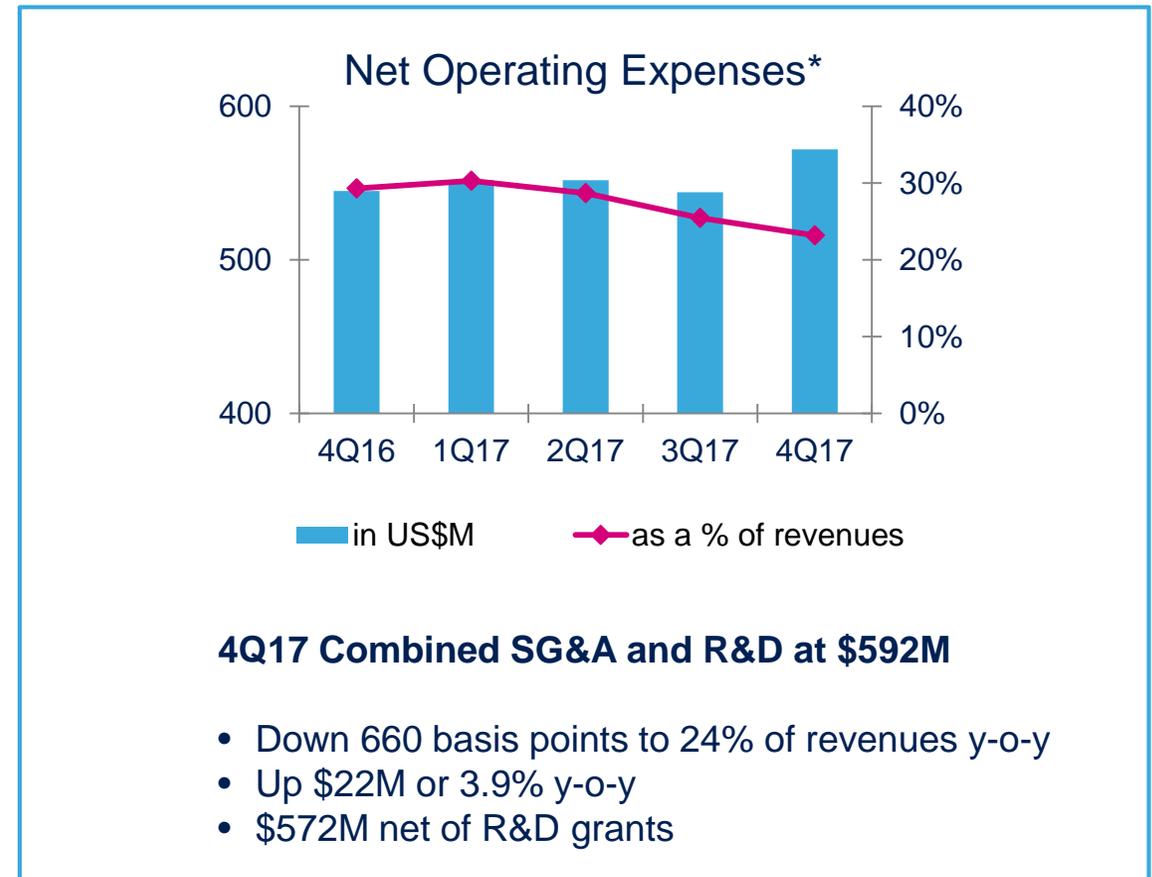
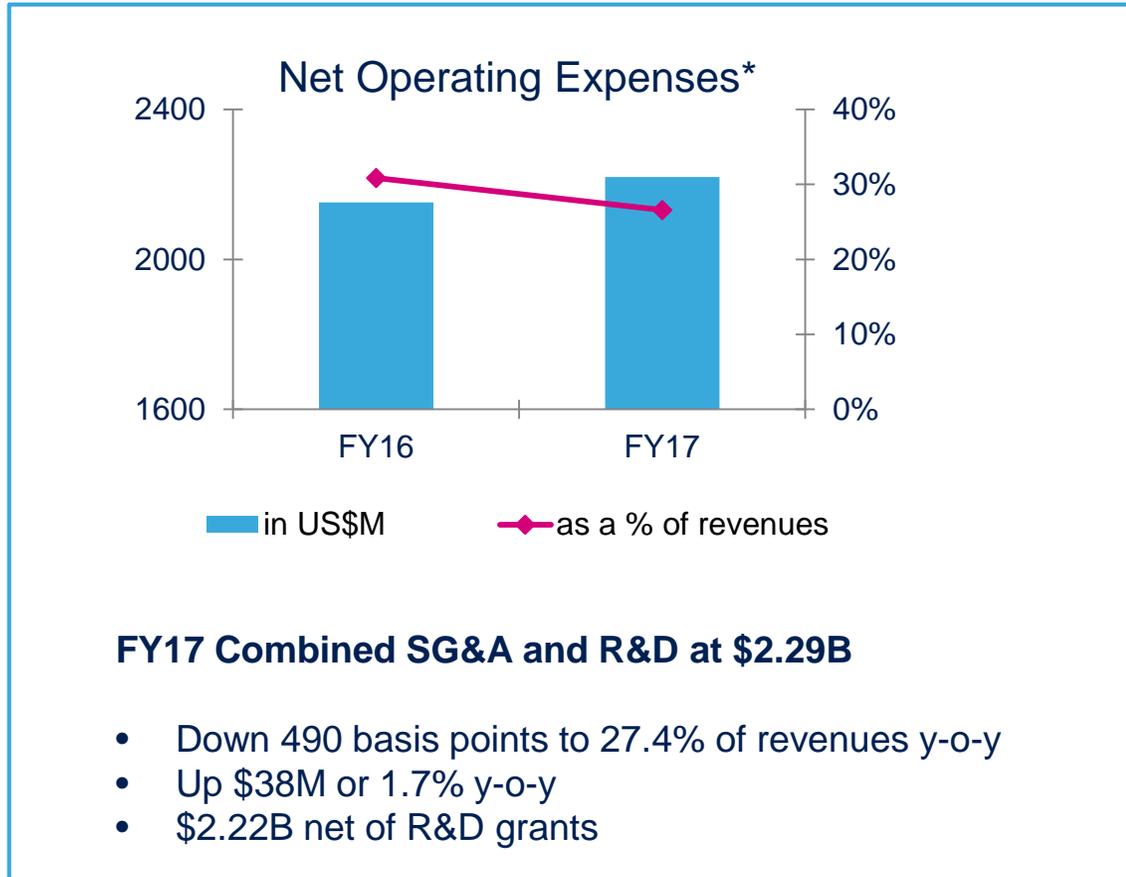
- Up 110 basis points sequentially; up 310 basis points y-o-y
- Mainly driven by improved product mix and manufacturing efficiencies partially offset by normal price pressure and negative currency effect, net of hedging



1Q18 Gross Margin Outlook
About 39.5% (+/-2.0%)

Operating Expenses Discipline

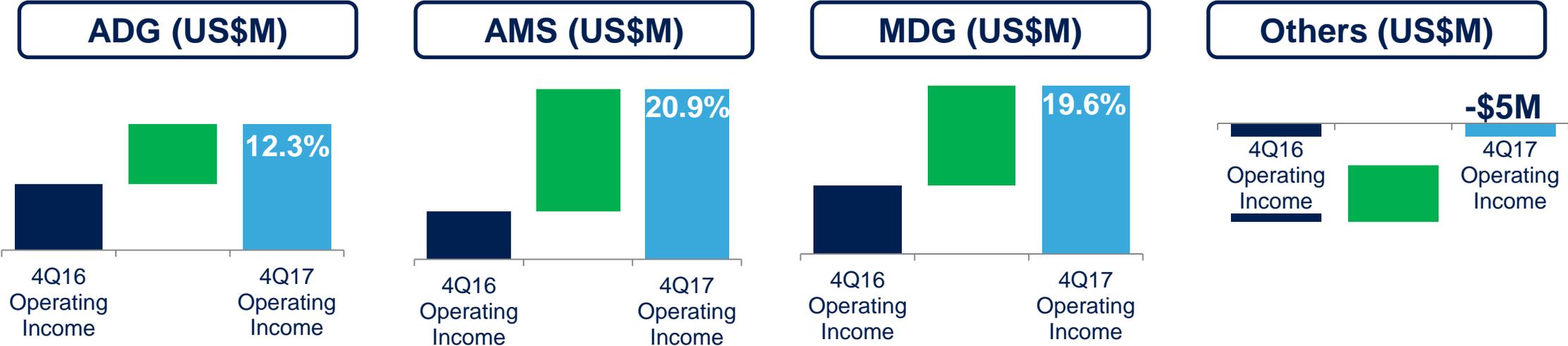
FY17 Average Net Operating Expenses* Per Quarter: \$555M



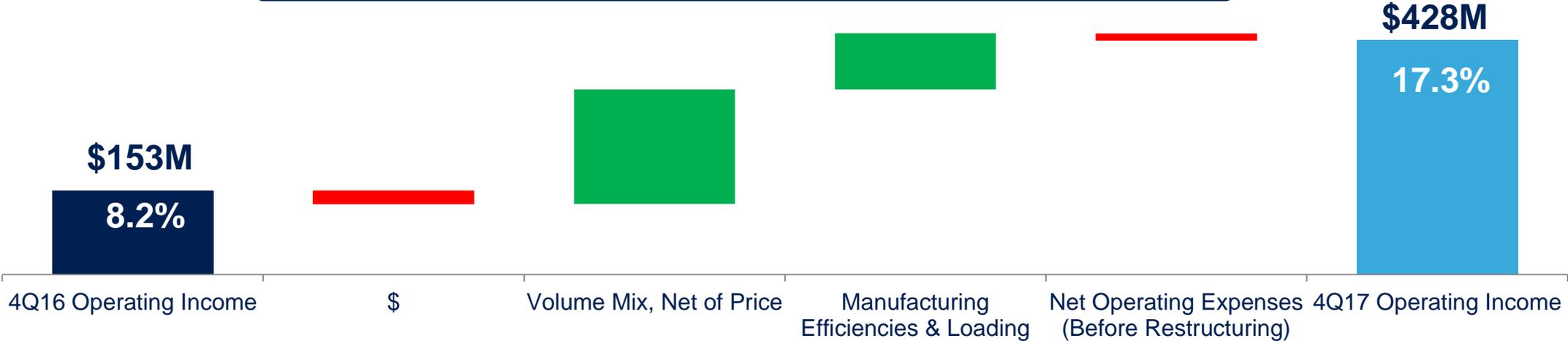
* Net Operating Expenses: R&D + SG&A – R&D Grants

Operating Income Improvement

4Q17 Y-o-Y Before Impairment and Restructuring*



Operating Income Evolution (US\$M): 4Q16 to 4Q17



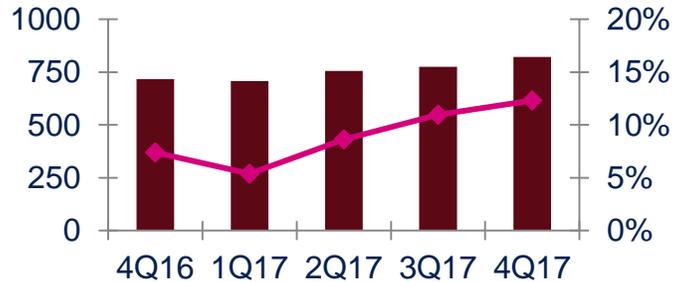
*Non-U.S. GAAP measure. See Appendix for additional information explaining why the Company believes these measures are important.

Product Group Results

Before Impairment and Restructuring*

Automotive & Discrete

Revenues = \$3,059M
 Operating Margin FY17 = 9.5%
 Operating Margin Q417 = 12.3%



■ Revenue (US\$M) ◆ Operating Margin (%)

Analog, MEMS & Sensors

Revenues = \$2,613M
 Operating Margin FY17 = 14.0%
 Operating Margin Q417 = 20.9%



■ Revenue (US\$M) ◆ Operating Margin (%)

Microcontrollers & Digital ICs

Revenues = \$2,646M
 Operating Margin FY17 = 15.2%
 Operating Margin Q417 = 19.6%



■ Revenue (US\$M) ◆ Operating Margin (%)

Commencing in the fourth quarter of 2017, the Company transferred the Imaging Product Division, previously reported in Others, into the Analog and MEMS Group (AMG) to create the new organization Analog, MEMS and Sensors Group (AMS). The Company has reclassified prior-period revenues.

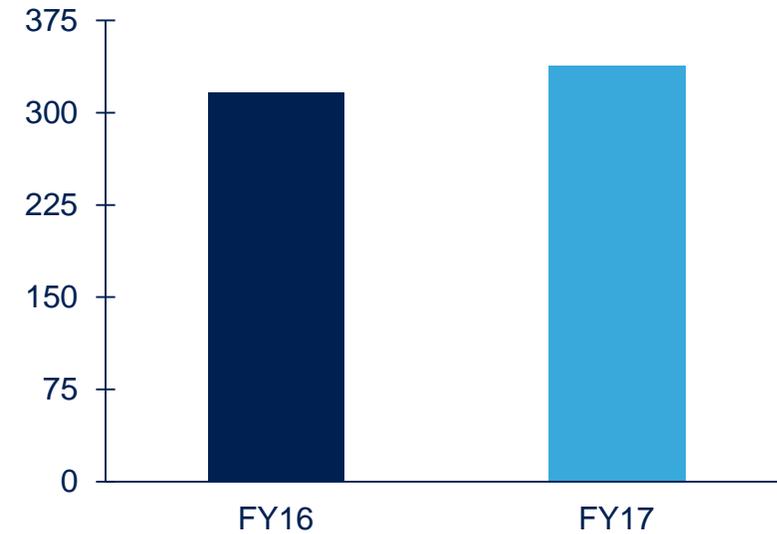
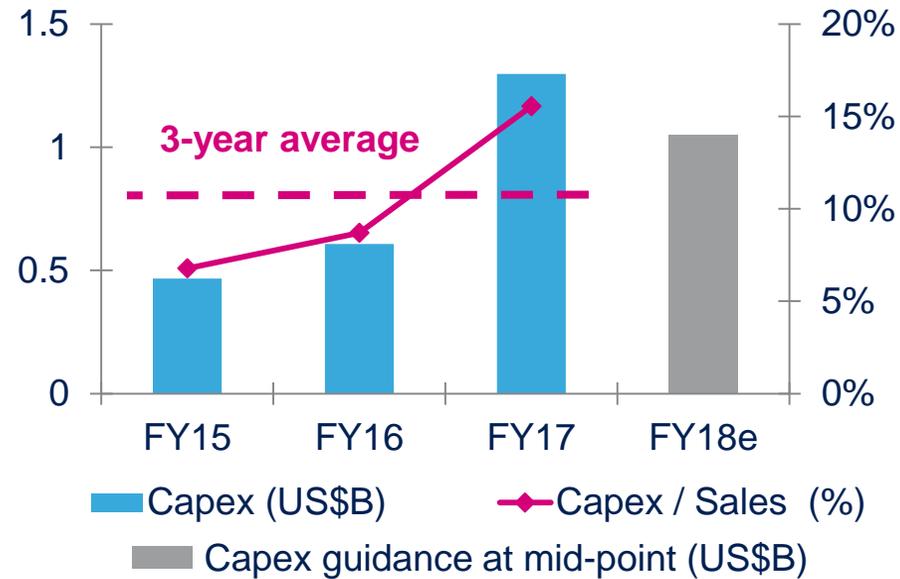
MDG includes set-top box business under phase-out.



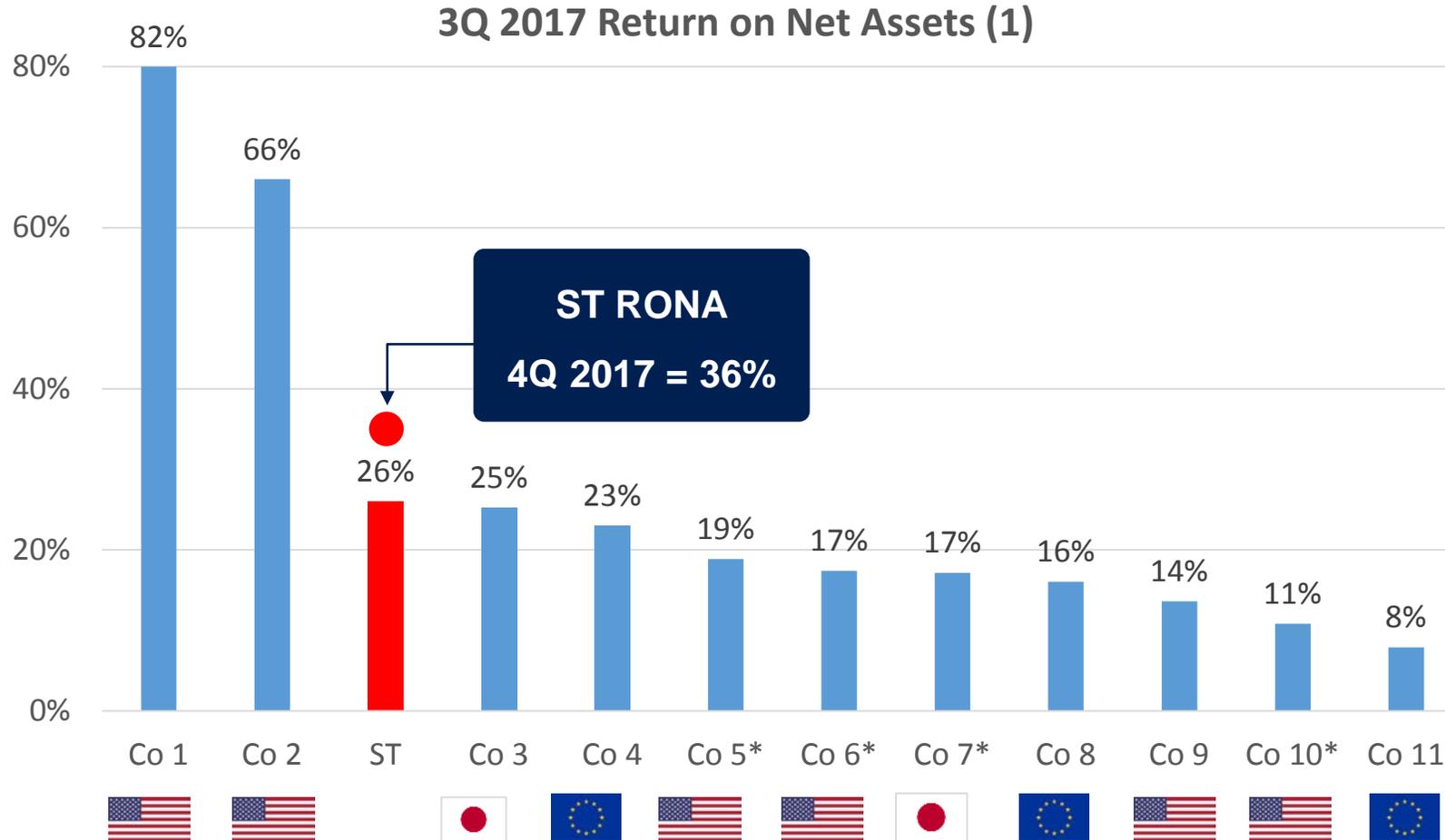
*Non-U.S. GAAP measure. See Appendix for additional information explaining why the Company believes these measures are important.

FY17 Capex = \$1.30B

FY17 Free Cash Flow* = \$338M



Turning Capital into Profits



(1) RONA: Annualised 3Q17 Operating Profit pre-exceptionals / Average Net Assets (Assets – Cash/ST Investments – Non-financial Liabilities) for 3Q17 and 2Q17, Peers: ADI, AMS, AVGO, IFX, MCHP, MXIM, NXP, ON, RSAS, ROHM, TI.

(*) Indicates companies that closed acquisitions in 2016 and 2017

\$1.5B Convertible Bond Offering at 0% in July 2017

- Dual-tranche offering (Tranche A and Tranche B for \$750M each) due 2022 and 2024
- ST can satisfy the conversion rights either in cash or shares or a combination of the two, at its selection

Simultaneous launch of a \$297M share buy-back program

- 18.6M shares for \$297M
- Launched and completed in 3Q17 at an average share price of \$15.99

About \$1.2B of financial flexibility with available undrawn committed credit facilities

- \$580M committed credit facilities
- €500M new medium-term credit facility signed with the EIB related to ST's R&D and Capex investments in Europe

Redemption of the \$1.0B 2019 and 2021 Convertible Bond issued in 2014

- ST elected to net share settle the bonds
- ST delivered \$1.0B in cash and 26.8 million shares from treasury shares

Overall cash cost of debt reduced significantly to 0.44%

Financial Flexibility

| End of period (US\$M) | December 31 2017 | September 30 2017 | December 31 2016 |
|--------------------------------|---------------------|----------------------|---------------------|
| Total Liquidity | 2,190 | 2,621 | 1,964 |
| Total Financial Debt | (1,701) | (2,175) | (1,451) |
| Net Financial Position* | 489 | 446 | 513 |

Cash dividends of \$0.06 per share per quarter
\$214M of dividends distributed in 2017

All rating agencies which report on ST on a solicited basis (Moody's, S&P and Fitch) are aligned in rating ST's credit profile within investment grade.



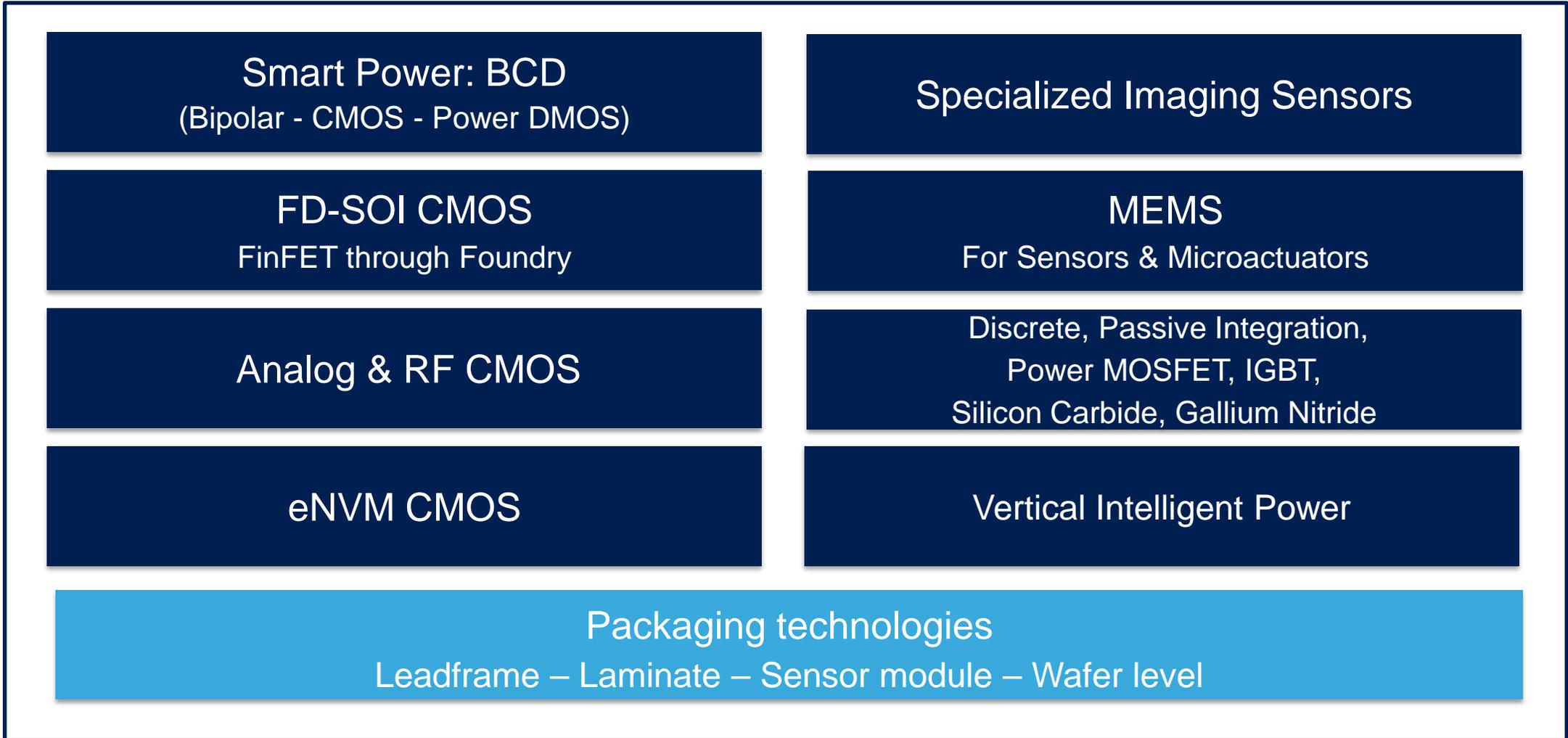
Agenda

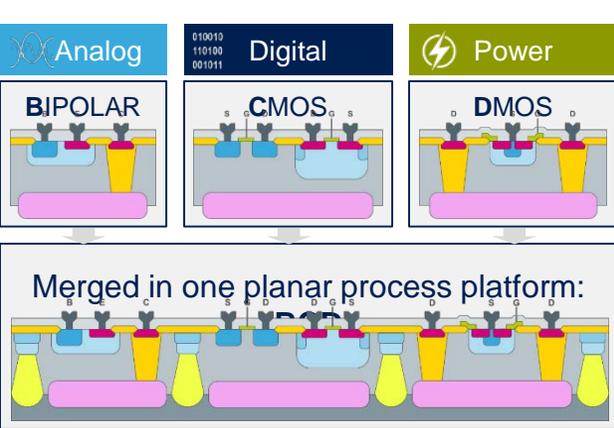
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Jean-Marc Chery
Designated President & CEO

ST Differentiated Technologies





More than 30 Billion BCD devices sold

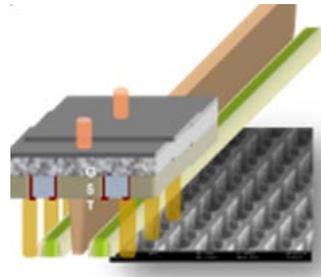
BCD

Focus for 2018



Increased Digital processing capability

BCD10 Enabling SoC Smart Power Solutions



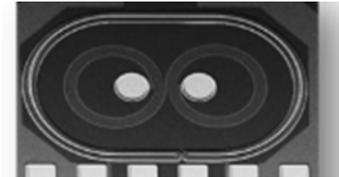
Advanced BCD

- BCD9s (110nm) 1.8V / 8V-60V (with ePCM option)
- BCD10 (90nm) 1.2V / 8V-60V (with ePCM option)



Power & High Voltage Evolution

Galvanic Isolation



High Voltage BCD

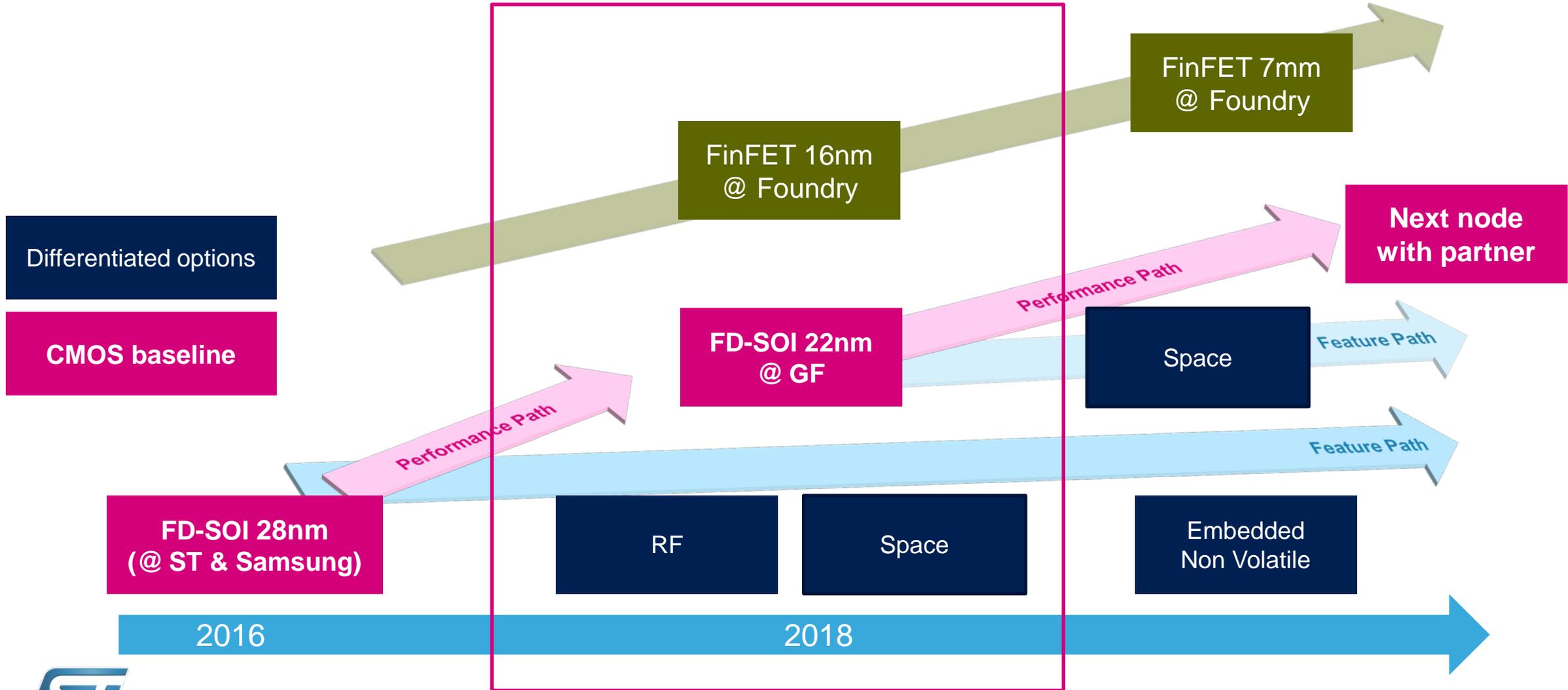
- BCD OFFLINE Up to 1200V
- BCD with galvanic isolation up to 6kV



Process customization by application

Advanced CMOS

Focus for 2018



Analog & RF CMOS

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Focus for 2018

55nm BiCMOS

- SiGe based, Bipolar f_T at 320GHz
- Optical Links up to 400Gbps
- High performance 5G Infrastructure Products

55nm BiCMOS >400GHz

- High performance evolution
- Bipolar performance with $f_T > 400\text{GHz}$
- Optical Links up to 1Tbps

28nm FD-SOI + RF

- Leveraging 28nm FD-SOI platform with RF devices operating up to mmW range
- Best performance for mixed signal products covering 5G and 60GHz applications

Focus for 2018

In production

CMOS M40
eFLASH
40nm

- High performance logic for 32-bit MCUs
- High robustness
- High reliability with extended temperature

In deployment

eSTM40
Proprietary Memory Cell
40nm

- Identical functionality to Split Gate Cell with size as small as Split gate 28nm
- Highly competitive solution
- Based on a ultra low power CMOS 40nm platform with analog and RF features

Next gen

ePCM
Phase Change Memory
28nm

- Leveraging on 28nm FD-SOI platform
- Above IC Phase Change Memory technology
- Compatibility with the most stringent automotive requirements

Proprietary Technologies & Differentiated Offering

Advanced pixel & Silicon process

Optical package/module & Imaging system expertise

Time-of-Flight & Specialized Image Sensors

Proximity – Ranging
Gesture – Depth map

Differentiated pixels, Visible & IR,
High Dynamic Range & Flicker Free Imaging

Imaging Focus for 2018

Time-of-Flight – Single Photon Avalanche Diode (SPAD)

40nm SPAD

- Smaller avalanche photodiode, larger array
- Multi-zone capability for spatial discrimination of scenes

3D SPAD

- Optimized SPAD array for improved resolution and signal detection
- Increased signal processing capability
- Towards LIDAR integrated systems

Global Shutter and Image Sensor Evolution

Global Shutter

- Near Infrared light detection
- Strong improvement of Quantum Efficiency for improved sensitivity and energy efficiency

Image Sensor

- Visible light detection
- Back Side Illuminated and 3D stacked with CMOS bottom-layer for readout
- Flicker-free capability

MEMS Sensors & Actuators

Focus for 2018

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Motion & Environmental MEMS

THELMA for Industrial

- Thicker MEMS Layer
- Vacuum package
- Industrial

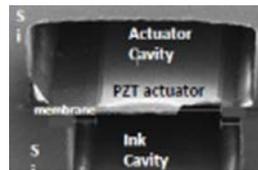
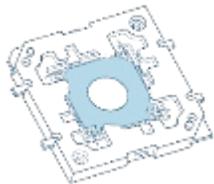
Next Generation THELMA

- Performance Improvement
- New application (magnetic, resonators)
- Consumer and Automotive

Pressure Sensor Technology

- Membrane mechanically decoupled
- ASIC integration with MEMS
- Size reduction
- Waterproofing

Piezo Actuators



Thin Film Piezoelectric (PεTRA)

- Innovative Piezoelectric materials
- Customization by application type:
 - Inkjet printing
 - Camera Autofocus
 - MEMS Speaker

Silicon Carbide

Focus for 2018

35

Vehicle Electrification

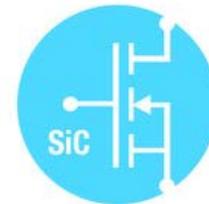


Industrial

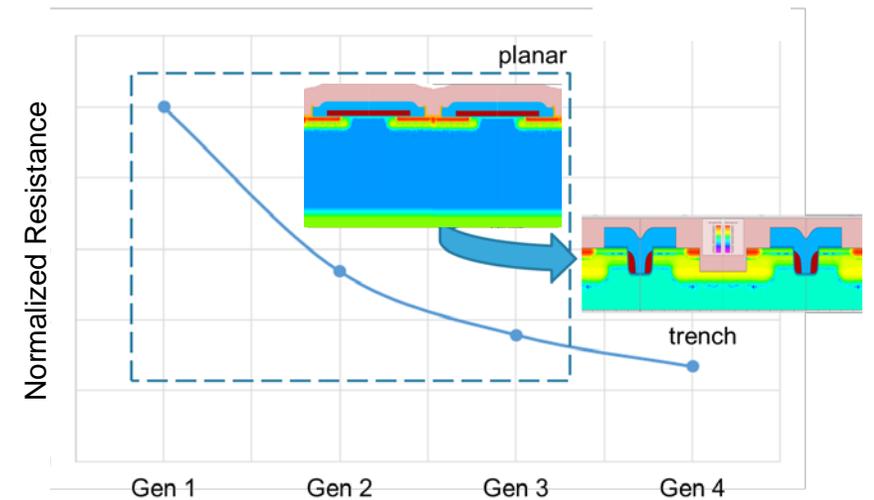


SiC MOSFET Generation 3 & 4

- Generation 3: Size reduction using 6" production line capabilities
- Generation 4: New structure moving from planar to trench



In volume production with 6" manufacturing

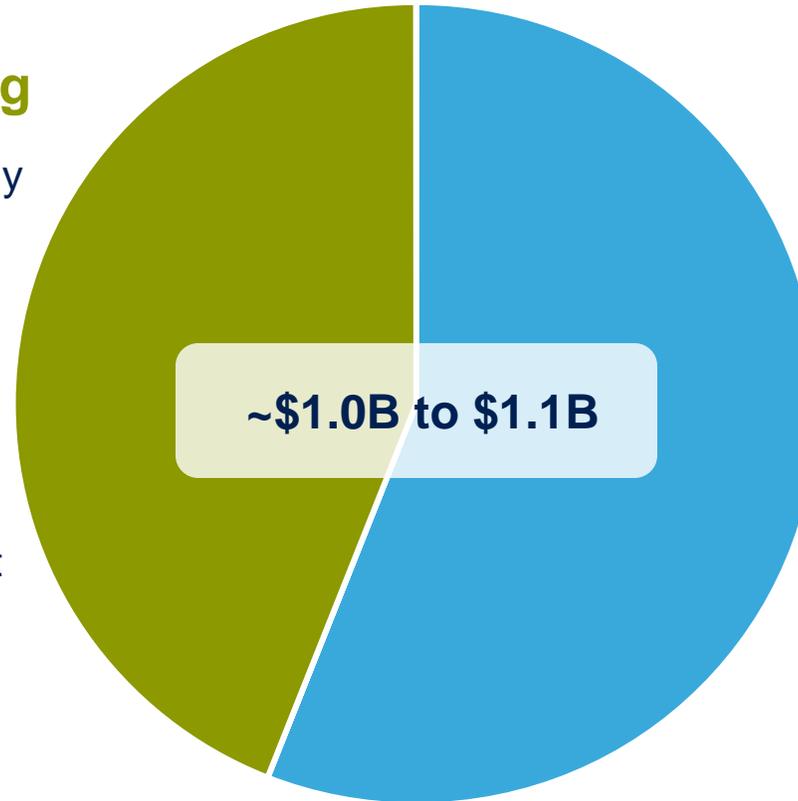


2018 Capital Spending

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Probing, Assembly & Testing

- Continued investment in Assembly and Test for Silicon Carbide
- Assembly and Test capacity expansion to support revenue growth and new products particularly for Automotive MCU and advanced BCD
- Increasing the pace of equipment modernization



Front-End Manufacturing/R&D

- Further capacity expansion with increased flexibility and new technologies in Crolles 12" within the current footprint
- Continued mix evolution to advanced BCD and preparing for 12" pilot line in Agrate
- 8" advanced BCD capacity growth and 6" SiC capacity expansion in Catania
- Continued 8" capacity expansion in Singapore for Power Discrete and BCD, widening technology capability

**Investments to support ST's innovative product portfolio
and prepare for future business growth**



Agenda

- Welcome
- 2017 Product & Application Review
- 4Q & FY17 Business & Financial performance
- Technology & Manufacturing
- Closing Remarks and Questions & Answers



Carlo Bozotti
President & CEO

Continue Sustainable Profitable Growth

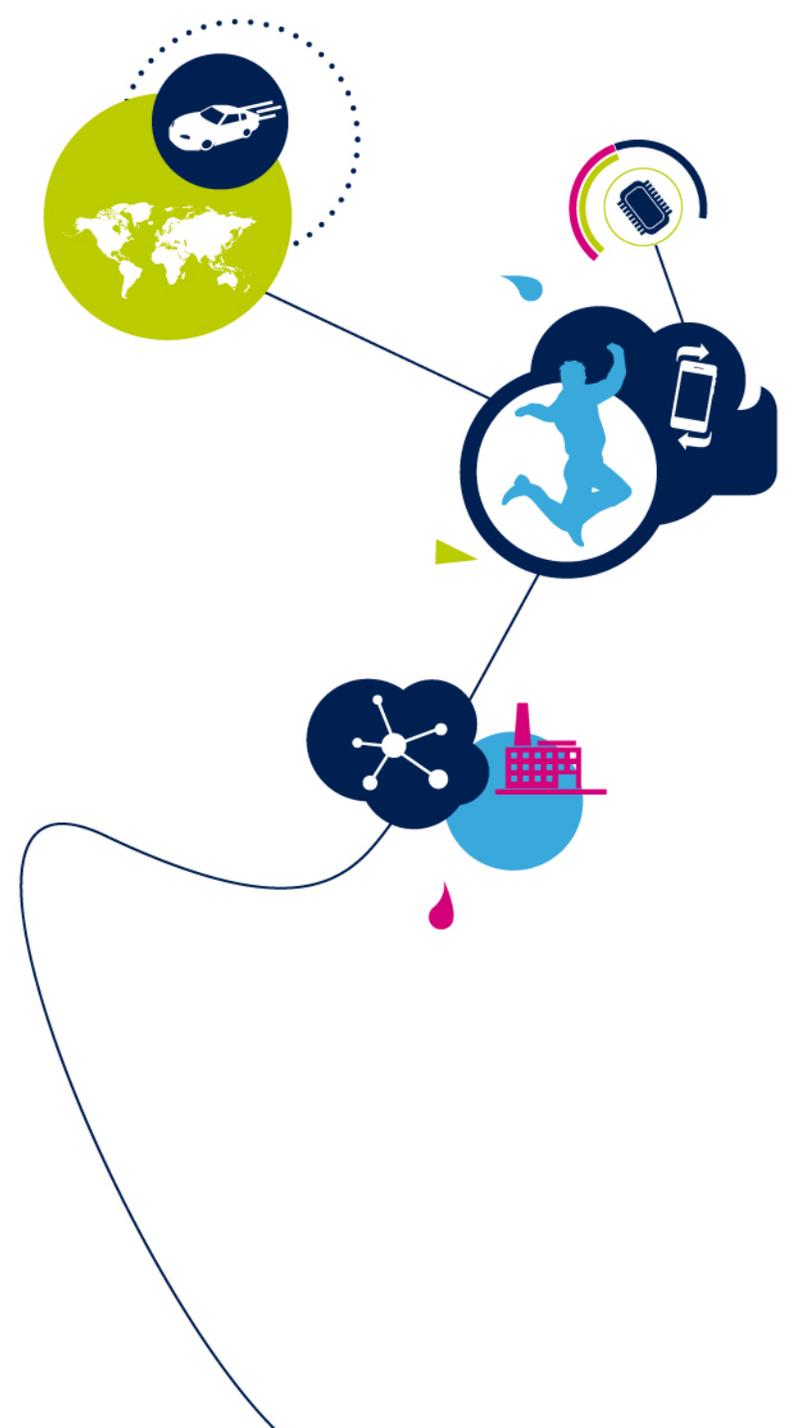
- Year-over-year sales growth across all products families, regions and customer groups
- Continued innovation leadership, supporting customers with industry-leading products and optimized application-oriented solutions
- Investment for growth, maximizing innovation with R&D spend and turning manufacturing investments into timely ramp-up of major programs
- Continued discipline on operating expenses
- Improvement in operating profitability as a result of all the above

Questions & Answers



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Appendix



Financial Performance

| <i>In US\$M, except EPS</i> | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | FY16 | FY17 |
|--|-------------|-------------|-------------|--------------|--------------|-------------|----------------|
| Net Revenues | 1,859 | 1,821 | 1,923 | 2,136 | 2,466 | 6,973 | 8,347 |
| Gross Margin | 37.5% | 37.6% | 38.3% | 39.5% | 40.6% | 35.2% | 39.2% |
| Operating Income (Loss) before impairment, restructuring* Operating Margin before impairment, restructuring* | 153 8.2% | 134 7.4% | 184 9.6% | 292 13.7% | 428 17.3% | 307 4.4% | 1,038 12.4% |
| Net Income – Reported | 112 | 108 | 151 | 236 | 308 | 165 | 802 |
| EPS Diluted | 0.13 | 0.12 | 0.17 | 0.26 | 0.34 | 0.19 | 0.89 |
| Adjusted EPS Diluted* | 0.15 | 0.12 | 0.17 | 0.28 | 0.36 | 0.28 | 0.93 |
| Free Cash Flow* | 135 | 62 | 52 | 80 | 145 | 316 | 338 |
| Net Financial Position* | 513 | 518 | 524 | 446 | 489 | 513 | 489 |
| Effective Exchange Rate €/\$ | 1.10 | 1.08 | 1.09 | 1.13 | 1.15 | 1.11 | 1.11 |

*Non-U.S. GAAP measure. See Appendix for additional information explaining why the Company believes these measures are important.

- **“We exited 2017 with very strong revenue growth, and significant improvement in our operating profitability and net income. In 2018, our objective is to leverage our achievements to continue to drive sustainable and profitable growth thanks to our product leadership.**
- **“We continue to see solid demand across product groups and geographies and in the first quarter we anticipate a better than seasonal trend for Smart Driving and Internet of Things applications, and the unfavorable seasonal dynamics for smartphone applications. Based upon that, as well as our much stronger than expected revenue growth in the previous quarter, we anticipate first quarter revenues to decrease by about 10% on a sequential basis, representing year-over-year growth of about 22% at the mid-point of our guidance range. We expect the gross margin to decrease to about 39.5% at the mid-point.**
- **“In order to support our anticipated product portfolio mix and to fuel strong revenue growth in the second half of 2018 compared to the first half, we expect to invest this year approximately \$1.0 to \$1.1 billion.”**
- 1Q18 revenues is expected to decrease about 10.0% on a sequential basis, plus or minus 3.5 percentage points
- 1Q18 gross margin is expected to be about 39.5% plus or minus 2.0 percentage points

Outlook based on an assumed effective currency exchange rate of approximately \$1.18= €1.00 for 1Q18 and includes the impact of existing hedging contracts. 1Q18 will close on March 31, 2018

Pre-Tax Items to Adjusted Earnings*

| OPERATING RESULT | <i>In US\$M</i> | 4Q16 | 3Q17 | 4Q17 |
|-------------------------------|-----------------|-------------------------------|------|------|
| | NET EARNINGS | U.S. GAAP Net Earnings | 112 | 236 |
| Impairment & Restructuring | | 24 | 14 | 20 |
| Estimated Income Tax Effect | | 1 | (1) | (1) |
| Adjusted Net Earnings* | | 137 | 249 | 327 |

- **Free cash flow** is defined as net cash from operating activities minus net cash from (used in) investing activities, excluding payment for purchases (proceeds from the sale of) marketable securities and short term deposits, restricted cash net cash variation for joint venture deconsolidation. We believe free cash flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operating activities. Free cash flow is not a U.S. GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. In addition, our definition of free cash flow may differ from definitions used by other companies.
- **Net financial position** resources (debt) represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities, short-term deposits and restricted cash, and our total financial debt includes short term borrowings, current portion of long-term debt and long-term debt, all as reported in our consolidated balance sheet. We believe our net financial position provides useful information for investors because it gives evidence of our global position either in terms of net indebtedness or net cash position by measuring our capital resources based on cash, cash equivalents and marketable securities and the total level of our financial indebtedness. Net financial position is not a U.S. GAAP measure.
- **Operating income before impairment and restructuring charges** excludes impairment, restructuring charges and other related closure costs. It is used by management to help enhance an understanding of ongoing operations and to communicate the impact of the excluded items.
- **Adjusted net earnings and earnings per share (EPS)** are used by our management to help enhance an understanding of ongoing operations and to communicate the impact of the excluded items like impairment, restructuring charges and other related closure costs, net of the relevant tax impact.
- **Net revenues of “Others”** includes revenues from sales of Subsystems, assembly services, and other revenue. **Operating income (loss) of “Others”** includes items such as unused capacity charges, impairment, restructuring charges and other related closure costs, phase out and start-up costs, and other unallocated expenses such as: strategic or special research and development programs, certain corporate-level operating expenses, patent claims and litigations, and other costs that are not allocated to product groups, as well as operating earnings of Subsystems and other products. “Others” includes:

| (Million US\$) | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | FY 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | FY 2016 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Unused Capacity Charges | 1 | 1 | 1 | 1 | 3 | 4 | 11 | 8 | 10 | 33 |
| Impairment & Restructuring Charges | 20 | 14 | 6 | 5 | 45 | 24 | 29 | 12 | 28 | 93 |