STMicroelectronics
4Q & FY2016 Financial Results

January 26, 2017
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, as each 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 laws, 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; and
- Industry changes resulting from vertical and horizontal consolidation among our suppliers, competitors, and customers.

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, 2015, as filed with the SEC on March 16, 2016. 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
4Q & FY16 Business & Financial performance
Technology & Manufacturing
2017 Focus
Questions & Answers

Speakers

Carlo Bozotti
President & CEO

Supported by

Jean-Marc Chery
Chief Operating Officer

Carlo Ferro
Chief Financial Officer

Georges Penalver
Chief Strategy Officer
Welcome
4Q & FY16 Business & Financial performance
Technology & Manufacturing
2017 Focus
Questions & Answers
Who We Are

- A global semiconductor leader
- 2016 revenues of $6.97B
- Listed: NYSE, Euronext Paris and Borsa Italiana, Milan

Approximately 43,500 employees worldwide
Approximately 7,500 people working in R&D
11 manufacturing sites
Over 75 sales & marketing offices
Application Strategic Focus

The leading provider of products and solutions for Smart Driving and the Internet of Things

Smart Driving
- Safer
- Greener
- More connected

Internet of Things
- Smart Industry
- Smart Home
- Smart City
- Smart Things
FY16 Revenues

% by product group

- Analog and MEMS Group (AMG): 40%
- Automotive and Discrete Group (ADG): 23%
- Microcontrollers and Digital ICs Group (MDG): 33%
- Others*: 4%

% by shipment location

- Americas: 27%
- Asia Pacific: 58%
- EMEA: 15%

% by region of origin

- Americas: 30%
- Asia Pacific: 37%
- EMEA: 33%

% by customer type

- Distribution: 33%
- Top 10 OEMs: 33%
- Other OEMs: 34%

* Others includes Imaging Product Division
Product Family Focus

The leading provider of products and solutions for Smart Driving and the Internet of Things

- Dedicated Automotive ICs
- Discrete & Power Transistors
- Analog, Industrial & Power Conversion ICs
- MEMS & Specialized Imaging Sensors
- Digital ASICs
- General Purpose & Secure MCUs EEPROM
Agenda

- Welcome
- 4Q & FY16 Business & Financial performance
- Technology & Manufacturing
- 2017 Focus
- Questions & Answers

Carlo Ferro
Chief Financial Officer
4Q16 Financial Highlights

**Revenues = $1.86B**

- **US$M**
  - 4Q15: 1500
  - 4Q16: 2000

  **Up 11.5%**

**Gross Margin = 37.5%**

- **US$M**
  - 4Q15: 3200
  - 4Q16: 3600

  **Up 400 basis points**

**Operating Income* = $153M**

- **US$M**
  - 4Q15: 1200
  - 4Q16: 1500

  **Up $124M**

**Free Cash Flow* = $135M**

- **US$M**
  - 4Q15: 1000
  - 4Q16: 870

  **Down $13M**

*Non-GAAP measure – see Appendix*
FY16 Financial Highlights

**Revenues = $6.97B**

US$M

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>6000</td>
<td>6000</td>
</tr>
</tbody>
</table>

Up 1.1%

**Operating Income* = $307M**

US$M

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income before impairment &amp; restructuring</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Operating Margin before impairment &amp; restructuring</td>
<td>80</td>
<td>180</td>
</tr>
</tbody>
</table>

Up 76%

**Net Income = $165M**

US$M

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>100</td>
<td>180</td>
</tr>
</tbody>
</table>

Up 58%

**Free Cash Flow* = $312M**

US$M

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>200</td>
<td>400</td>
</tr>
</tbody>
</table>

Up 19% excluding M&A

*Non-GAAP measure – see Appendix
**ST Revenues: Return to Growth**

**FY16 Revenues = $6.97B**

- **US$M**
  - FY15
  - FY16
  - Red: Discontinued Businesses
  - Blue: ST excluding Discontinued Businesses

**FY16 revenues up 1.1% y-o-y**
- Up 2.4% excluding discontinued businesses
- 2H16 up 6.5% y-o-y, with growth across all product groups excluding discontinued business

**4Q16 Revenues = $1.86B**

- **US$M**
  - 4Q15
  - 1Q16
  - 2Q16
  - 3Q16
  - 4Q16
  - 1Q17e
  - Blue: ST Revenues
  - Grey: Midpoint (at guidance)

**4Q16 up 3.5% sequentially and 11.5% y-o-y**
- Better than seasonal, beating mid-point of guidance
- Sequential growth driven by MEMS, Analog, MCUs, Digital ASICs, auto MCUs and power discrete
- Strong growth y-o-y across most product families

**1Q17 Revenue Outlook**
Down sequentially by about 2.4% (+/- 3.5 % points)

*Discontinued Businesses include set-top-box, camera modules and the former ST-Ericsson products*
Revenue Growth Dynamics

<table>
<thead>
<tr>
<th>Segment</th>
<th>4Q16/3Q16</th>
<th>2H16/2H15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>+1.6%</td>
<td>+6.0%</td>
</tr>
<tr>
<td>Power Discrete</td>
<td>+1.8%</td>
<td>+5.5%</td>
</tr>
<tr>
<td>Analog</td>
<td>+6.7%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>MEMS</td>
<td>+10.7%</td>
<td>+19.3%</td>
</tr>
<tr>
<td>Microcontrollers</td>
<td>+1.2%</td>
<td>+0.6%</td>
</tr>
<tr>
<td>Digital (including discontinued business)</td>
<td>+10.8%</td>
<td>+103%</td>
</tr>
<tr>
<td>Imaging</td>
<td>-5.3%</td>
<td>+6.5%</td>
</tr>
<tr>
<td><strong>TOTAL ST</strong></td>
<td><strong>+3.5%</strong></td>
<td><strong>+6.5%</strong></td>
</tr>
</tbody>
</table>
Gross Margin Improvement

**FY16 Gross Margin = 35.2%**

- **Gross Margin - Reported**
- **Unused Charges (%)**

**FY16 Gross Margin up 140 basis points**
- Combined favorable effect of manufacturing efficiencies, currency and better product mix on top of lower unused capacity charges
- Includes about 50 basis points of unused capacity charges

**4Q16 Gross Margin = 37.5%**

- **Guidance - At Midpoint**
- **Unused Capacity Charges**
- **Gross Margin - Reported**

**4Q16 Gross Margin: 37.5%**
- Beating mid-point of guidance
- Up 170 basis points sequentially
- Up 400 basis points year-over-year
- Includes about 20 basis points of unused capacity charges

**1Q17 Gross Margin Outlook**
About 37.0% (+/-2.0%)
Operating Expenses Discipline

FY16 Average Net Operating Expenses* Per Quarter: $538M

4Q16 combined SG&A and R&D at $570M
- Down $13M year-over-year benefiting from ongoing restructuring of set-top box
- $545M net of R&D grants

Set-Top-Box plan completion on track
- 65% of savings completed exiting 2016, 4Q16 savings annualized at $110M out of $170M targeted
- €352M of €400M Nano2017 grants already recognized exiting FY16

Net Operating Expenses* in 2016 well within anticipated $500-$550M range

2017 Net Operating Expenses* anticipated to average about $550M per quarter

* Net Operating Expenses: R&D + SG&A – R&D grants
FY16 Product Group Results
Before impairment and restructuring charges

Automotive & Discrete
Revenues = $2,813M
Operating Margin = 7.5%

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

Analytic & MEMS
Revenues = $1,584M
Operating Margin = 4.2%

Others
Revenues = $291M
Operating Loss* = ($79M)

Others includes sales from the Imaging Product Division and other revenues and items such as unused capacity charges and other unallocated expenses.
Revenue Growth to Improve Operating Margin

Four Drivers

1. Operating Leverage
2. Fab Loading
3. Manufacturing Scale & Technology Evolution reducing wafer costs
4. Growth fueled by innovation = Product Mix Improvement

Gross Margin & Operating Margin Expansion
FY16 Free Cash Flow* = $312M

Q416 Free Cash Flow* = $135M

End of period (US$M) | December 31 2016 | October 1 2016 | December 31 2015
--- | --- | --- | ---
Total Liquidity | 1,964 | 2,017 | 2,106
Total Financial Debt | (1,451) | (1,553) | (1,612)
Net Financial Position* | 513 | 464 | 494

Cash dividends of $0.06 per share per quarter; $251M of dividends distributed in 2016

*Non-U.S. GAAP measure. See Appendix for additional information explaining why the Company believes these measures are important.
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- 4Q & FY16 Business & Financial performance
- Technology & Manufacturing
- 2017 Focus
- Questions & Answers

Jean-Marc Chery
Chief Operating Officer
Technology Portfolio
aligned with strategic focus areas

The leading provider of technologies enabling solutions for Smart Driving and the Internet of Things

- Smart Power: BCD & VIP
- Power MOSFET & IGBT
  - SiC & GaN
  - Discrete
- Analog Mixed Signal
  - Silicon Photonics
- MEMS
  - Specialized Imaging Sensors
- FD-SOI
  - FinFET through Foundry
- CMOS eNVM

Package technologies
- Leadframe
- Sensors
- Laminate
- Wafer level
2016 Capital Spending

Probing, Assembly & Testing
- New packaging development
- Capacity growth in certain packages and testers
- Specific investment in factory automation and productivity improvement

Front-End Manufacturing/R&D
- New technologies in Crolles 12”
- Mix evolution to advanced BCD and new MEMS actuators in Agrate
- Expanding 8” advanced BCD, SiC in Catania
- Ramp-up 8” in Singapore for Power Discrete & BCD
- Investment in capacity for new passive integration devices in Tours

Investments focused on:
- Strategic business growth and key product ramps
- Proprietary technology and manufacturing

$607M
Technology & Manufacturing Focus 2017

- **embedded Non-Volatile Memory (eNVM) & FD-SOI**
  - Advanced General Purpose & Secure Microcontrollers for Consumer, Automotive, Industrial applications

- **Silicon Carbide**
  - MOSFETs and Diodes for Automotive & Industrial applications

- **Advanced BCD**
  - Smart Power devices for Automotive & Industrial applications

- **Imaging**
  - Time-of-Flight & specialized image sensors
embedded Non-Volatile Memory (eNVM)

40nm eFLASH technology for advanced MCUs
addressing a wide range of applications

Consumer
- High performance logic for 32-bit MCUs
- State of the art Flash technology
- Competitive solution

Secure
- High performance page Flash erasable
- High robustness
- Competitive solution

Automotive & Industrial
- High performance logic for 32-bit MCUs
- State of the art Flash technology
- High reliability with extended temperature

Secure MCU
**High Voltage BCD**
700V – 6KV
- BCD6s Offline (0.32µm)
- BCD6s HV Transformer (0.32µm)

**SOI BCD**
190V – 300V
- SOI-BCD6s (0.32µm)
- SOI-BCD8s (0.16µm)
- SOI-BCD9s (0.11µm)

**Advanced BCD**
7V – 100V
- BCD8As – BCD8sP (0.16µm)
- BCD8sAUTO (0.16µm)
- BCD9s – BCD9sL (0.11µm)
- BCD10 (90nm)
FlightSense™ Time of Flight

Smart Things
Camera assist, ranging, gesture

Smart Home & City
Robot cleaners, light control, toys

Smart Driving
Infotainment system control

Smart Industry
Detection, door control, robotics

True distance measurement
Independent of target size, color & reflectance

Measured distance = Photon travel time / 2 \times Speed of light
Increased Efficiency, Minimum Power Dissipation, Reduced Size

SiC Diodes

SiC MOSFETs
4X more efficient than IGBT

Vehicle Electrification

Industrial

Silicon Carbide
2017 Capital Spending

Probing, Assembly & Testing

- Assembly and Test for new program in Time-of-Flight technology
- Assembly and Test for Silicon Carbide
- Assembly and Test capacity to support revenue growth and new products particularly for Automotive

Front-End Manufacturing/R&D

- Capacity expansion and new technologies in the existing Crolles 12” shell
- Continued mix evolution to advanced BCD in Agrate
- 8” footprint and capacity extension and SiC 6” capacity in Catania
- 8” in Singapore for Power Discrete & BCD

Investments focused to support ST’s innovative product portfolio and fuel significant revenue growth in 2017 and beyond
Agenda

- Welcome
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Smart Driving

Key Applications
- Active Safety - Passive Safety
- Electric & Hybrid Vehicle Electrification
- Infotainment - Telematics
- Powertrain
  - Direct Injection Engine
  - Automatic Gearbox
  - Braking - Steering

Source: Strategy Analytics
Automotive Application Focus

Electric & Hybrid vehicle Electrification

Car Electrification

Hybrid Electric Vehicle as a % of total vehicle production

- Full Hybrid
- Mild Hybrid
- Plug-In Hybrid
- Pure Electric Vehicle
- HEV on total

Power & Smart Power
- Power MOSFET & IGBT
- Ultrafast & Schottky rectifiers
- Silicon Carbide Diodes & Transistors
- Power Management ICs
- Battery controllers
- Voltage regulators
- Galvanic Isolated ICs

8/32-bit MCU
Automotive EEPROM

Protection Devices

Source: Strategy Analytics
Automotive Application Focus
Silicon Pervasiveness in Car Electrification

500+ $ Silicon Content per Car

Si Content
Average Car
Batt. Mgmt
DC DC
Inverter
Charger
Si Content Full Electric Car

Higher Power Requirements
200kW
50kW
1kW
<4kW
Lighting, Braking, Infotainment, ADAS
Power steering, Air conditioning
Electric Full Traction
Hybrid plug-in

Higher Voltages Required
400-900V
48V
12V

Source: Strategy Analytics
Car Electrification
Growing market TAM for Silicon Carbide (SiC)

Greater freedom

Faster charging

SiC MOSFETs
4X more efficient than IGBT

SiC Diodes

2015
TAM* $140M

2020
TAM* $600M

(*) Pure EVs, Hybrid Plug-in

HV= High Voltage

Source: Strategy Analytics
Smart Industry

Key Applications

- Smart Manufacturing
- Factory Automation
- Smart Motion Control
- Industrial Robots
- Industrial Lighting
- Sensors for Industrial, Medical, Aerospace & Defense

Source: IHS
Automation - Industrial Robots

Annual Supply of Industrial Robots
000' units

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2019</th>
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<tbody>
<tr>
<td>America</td>
<td>40</td>
<td>51</td>
</tr>
<tr>
<td>Asia</td>
<td>190</td>
<td>286</td>
</tr>
<tr>
<td>Europe</td>
<td>54</td>
<td>68</td>
</tr>
</tbody>
</table>

Smart Home & City

Key Applications

- Smart Transportation
- Building & Home Automation
- Smart Metering
- Security & Surveillance
- Smart LED Lighting
- Heating & Energy Control

Source: IHS, ABI Research
Smart Home Application Focus

Smart Metering

20+ years proven partnership with key Smart Grid players
Over 60 Millions PLC and metering SoCs installed

ST SAM $B

<table>
<thead>
<tr>
<th>Year</th>
<th>Metering</th>
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<tbody>
<tr>
<td>2016</td>
<td>1.1</td>
</tr>
<tr>
<td>2019</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Processing
- STCOMET
  - Smart-Meter-on-chip
- STM32
  - 32-bit MCU

Smart Sensing
- MEMS

Connectivity
- STarGRID™ PLC
- RFID & NFC
- Sub-GHz SPIRIT1

Energy management
- Power management
- Energy harvesting ICs
Smart Things

Key Applications

- Smartphones
- Tablets
- Wearable
- Smart Things

Source: IHS
Smart Things for the IoT

ST positioning

Smart Thing

- Device-specific Application
  - e.g. Smart Thermostat app
- Application Enablers
  - e.g. Apple/Google Home Kits
- Middleware
  - e.g. Bluetooth, sensor management, cloud connectivity
- HW enablement Firmware
  - e.g. Hardware abstraction layer
- Plastics and Housing
- MMI element
  - e.g. Display, Keys
- Connectivity Services
- Cloud Applications
- Cloud Services

Module

ST providing

Product Development Tools
- PCB Computer Aided Design, application development and simulation tools, plastics and housing design tools

Evaluation and Prototype Development Tools
- e.g. Hardware development boards, SW development environment, sample applications
Smartphone Market Evolution
Market Share by Smartphone shipment volumes

Top ST Growth Opportunities

- Touch Controllers
- Power Management
- Wireless Charging
- Discrete, in particular Protection Devices
- STM32 in Accessories
- NFC + Secure Element
- Very small form factor EEPROM
- Time of Flight - Specialized Imaging Solutions
- 6-Axis Motion Sensors
- Gyroscopes for Optical Image Stabilization
- Environmental Sensors
- Micro-actuators for Autofocus

Source: IDC, Q3 2016
Closing Remarks

Carlo Bozotti
President and CEO
2017 Priorities

Sustainable Profitable Growth

• Year-over-year sales growth across all products families*, regions & 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

* Excluding discontinued businesses
Appendix
# Financial Performance

<table>
<thead>
<tr>
<th>In US$M, except EPS</th>
<th>4Q15</th>
<th>1Q16</th>
<th>2Q16</th>
<th>3Q16</th>
<th>4Q16</th>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Revenues</strong></td>
<td>1,668</td>
<td>1,613</td>
<td>1,703</td>
<td>1,797</td>
<td>1,859</td>
<td>6,897</td>
<td>6,973</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>33.5%</td>
<td>33.4%</td>
<td>33.9%</td>
<td>35.8%</td>
<td>37.5%</td>
<td>33.8%</td>
<td>35.2%</td>
</tr>
<tr>
<td><strong>Operating Income (Loss) before impairment, restructuring</strong></td>
<td>29</td>
<td>(5)</td>
<td>40</td>
<td>119</td>
<td>153</td>
<td>174</td>
<td>307</td>
</tr>
<tr>
<td>Operating Margin before impairment, restructuring**</td>
<td>1.7%</td>
<td>(0.3%)</td>
<td>2.3%</td>
<td>6.6%</td>
<td>8.2%</td>
<td>2.5%</td>
<td>4.4%</td>
</tr>
<tr>
<td><strong>Net Income – Reported</strong></td>
<td>2</td>
<td>(41)</td>
<td>23</td>
<td>71</td>
<td>112</td>
<td>104</td>
<td>165</td>
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<tr>
<td>EPS Diluted</td>
<td>0.00</td>
<td>(0.05)</td>
<td>0.03</td>
<td>0.08</td>
<td>0.13</td>
<td>0.12</td>
<td>0.19</td>
</tr>
<tr>
<td>Adjusted EPS Diluted*</td>
<td>0.00</td>
<td>(0.02)</td>
<td>0.04</td>
<td>0.11</td>
<td>0.15</td>
<td>0.19</td>
<td>0.28</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td>148</td>
<td>31</td>
<td>47</td>
<td>100</td>
<td>135</td>
<td>327</td>
<td>312</td>
</tr>
<tr>
<td>Net Financial Position*</td>
<td>494</td>
<td>439</td>
<td>426</td>
<td>464</td>
<td>513</td>
<td>494</td>
<td>513</td>
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<tr>
<td><strong>Effective Exchange Rate €/$</strong></td>
<td>1.11</td>
<td>1.10</td>
<td>1.12</td>
<td>1.12</td>
<td>1.10</td>
<td>1.17</td>
<td>1.11</td>
</tr>
</tbody>
</table>

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

** FY15 net income included an income tax benefit of about $46M
1Q17 Outlook

• Based on market forecasts, a positive booking trend, and a strong point-of-sales performance at our distributors, we see the momentum of 2H16 to continue entering 2017.

• Based on these factors, we expect 1Q17 to reflect better than normal seasonality, with a sequential net revenues decline of about 2.4% at the midpoint. On a year-over year basis, this would translate into a net revenues growth of about 12.5% at the mid-point. We expect a gross margin of about 37.0% at the midpoint.

• In order to support ST’s innovative product portfolio and to fuel significant revenue growth in 2017 and beyond, particularly from new specialized technologies and products, we expect to invest approximately $1B to $1.1B in 2017. Specifically, the Company is investing in 12” front-end manufacturing and in back-end assembly and test to support new products. In particular, we anticipate a newly won program to ramp with substantial revenues in 2H17.

• 1Q17 revenues is expected to decrease about 2.4% on a sequential basis, plus or minus 3.5 percentage points
• 1Q17 gross margin is expected to be about 37.0% plus or minus 2.0 percentage points

Outlook based on an assumed effective currency exchange rate of approximately $1.08=€1.00 for 1Q17 and includes the impact of existing hedging contracts. 1Q17 will close on April 1, 2017
## Pre-Tax Items to Adjusted Earnings*

<table>
<thead>
<tr>
<th>OPERATING RESULT</th>
<th>NET EARNINGS</th>
<th>4Q15</th>
<th>3Q16</th>
<th>4Q16</th>
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<tr>
<td>In US$M</td>
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<td>U.S. GAAP Net Earnings</td>
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<td>Impairment &amp; Restructuring</td>
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<td>24</td>
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<td>Estimated Income Tax Effect</td>
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<tr>
<td>Adjusted Net Earnings*</td>
<td></td>
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<td>96</td>
<td>137</td>
</tr>
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* See Appendix
• **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 Imaging Product Division, 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 the Imaging Product Division, Subsystems and other products. “Others” includes $11 million, $8 million, $10 million, $6 million, $9 million and $19 million of unused capacity charges in the third, second and first quarters of 2016 and 2015, respectively; and $29 million, $12 million, $28 million, $11 million, $21 million and $29 million of impairment, restructuring charges, and other related closure costs in the third, second and first quarters of 2016 and 2015, respectively.