

March 3, 2023

To: all Shareholders

Renesas Electronics Corporation

**Supplemental Explanation**  
**on the Introduction of a Tax-Advantaged Employee Share Purchase Plan for the U.S. Employees**

In order to introduce an Employee Share Purchase Plan for the U.S. employees (“U.S. ESPP”) of Renesas Electronics Corporation (we or the “Company”) and its subsidiaries with a tax-advantaged feature, the Company plans to propose “Proposal No. 2: Introduction of a tax-advantaged Employee Share Purchase Plan for the Company’s and its subsidiaries’ employees who are resident in the U.S.” (“Proposal”) at the 21st Annual General Meeting of Shareholders on March 30, 2023.

The purpose of the Proposal is to obtain shareholders’ approval that is required to provide a tax benefit to the participating employees of the U.S. ESPP under Section 423 of the U.S. Internal Revenue Code of 1986 (“U.S. Tax Code”), which approval is not required under Japanese law or Japanese practices.

Considering this, in order to contribute to our shareholders’ understanding, we would like to explain the merits of the tax-advantaged U.S. ESPP and how our U.S. ESPP addresses shareholders’ possible concerns and protects shareholders’ interests.

The content of and reasons for our Proposal are as described in the Reference Documents for the General Meeting of Shareholders of the Company's "Notice of the 21st Annual General Meeting of Shareholders", but we would like to elaborate further in this document. We appreciate your understanding regarding our Proposal.

**1. Advantages of the Tax-Advantaged U.S. ESPP for Shareholders**

The U.S. ESPP is a plan which provides our U.S. employees with opportunities to purchase the Company’s shares at a discounted price.

We believe that such U.S. ESPP will help the Company’s growth by attracting and retaining talented U.S. personnel and increasing their engagement for the reasons as described below. The growth of the Company and the enhancement of the corporate value will bring substantial benefits to our shareholders.

- ◇ Employees’ ownership of the Company’s shares strengthens alignment between the interests of the employees and the shareholders and increases the engagement of the employees, like the employees share ownership association (*Jugyoin Mochikabukai*) which we have introduced for employees in Japan.
- ◇ Moreover, in the U.S., there are plenty of global talented personnel but attracting and retaining such talented personnel has become increasingly challenging under severe competition with competitors. To attract talented U.S. personnel, it is essential to offer a competitive U.S. ESPP because many of the Company’s U.S. peers and competitors offers an ESPP (in 2022 more than 85% of technology companies in the S&P 500 offered an ESPP). In fact, the Company’s U.S. employees are increasingly enquiring about opportunities to actively acquire shares in the Company.

- ✧ Further, ESPPs in the U.S. are often provided by competitors in a ‘tax-advantaged’ manner, in accordance with U.S. Tax Code. By providing the same tax-advantaged feature, our U.S. ESPP will become competitive and attractive enough to encourage more employees’ participation. The benefit of a tax-advantaged ESPP in the U.S. is that, provided certain conditions are met, participating employees who purchase shares under the ESPP may receive favourable tax treatment, such as favourable tax rates and the deferral of taxation until the sale of the shares.

## **2. Protection of Shareholders’ Interests**

We have carefully considered the necessary framework to protect shareholders’ interests as much as possible. We have conducted research and analysis on potential concerns regarding the shareholders’ interests and necessary countermeasures to address those concerns including reviewing major proxy advisors’ voting guidelines regarding the U.S. ESPP.

We believe that our U.S. ESPP addresses shareholders’ possible concerns and protects shareholders’ interests as much as possible, as detailed below.

### **(1) No Concern of Dilution**

To directly address the concern of dilution of existing shareholders by issuance of treasury shares or new shares, unlike typical U.S. ESPPs, we clarify that our U.S. ESPP plans to use shares to be purchased on the open market as primary source of shares.

### **(2) Limited Scale of Potential Purchase under U.S. ESPP**

In addition to dilution, to also avoid excessive impact on the Company’s financials, we set a conservative limit to the scale of potential purchase under our U.S. ESPP.

- ✧ We set the maximum purchase price per year per employee as USD 25,000, as required under the U.S. Tax Code (but additionally limit employee contributions of up to 10% of base salary in any case).
- ✧ Consequently, even assuming that all of the eligible employees participate and purchase up to their respective purchase price limits, the total number of shares to be purchased per year at maximum is estimated to be approximately 8,500,000 shares, which is approximately 0.48% of the total number of outstanding shares as of January 31, 2023.
- ✧ Although this number does not mean the dilution impact on the Company’s shares and there should not be a substantial dilutive effect since shares will primarily be purchased on the open market under our U.S. ESPP, we will set (i) 8,500,000 shares as the maximum number of shares to be purchased per year under the U.S. ESPP as well as (ii) 85,000,000 shares (approximately 4.8% of the total number of outstanding shares as of January 31, 2023) as the maximum number of shares to be purchased for the entire 10 year effective period under the U.S. ESPP as required under U.S. Tax Code, and we will seek our shareholders’ approval if we need to increase these limits.

### **(3) Moderate Benefits to Employees (Purchase Price & Offer Period)**

To avoid resulting in giving excessive benefits to employees that are inappropriate and against shareholders’ interests, we set necessary limitations on the benefits of employees. These limitations are in

line with the U.S. Tax Code.

- ✧ We set the limitation that the purchase price per share shall not be less than 85% of the lower of (i) the fair market value of a share at the time of purchase or (ii) the fair market value of a share at the beginning of the offering period (the period from the grant of awards and until the share purchase). 85% of the fair market value is the lowest purchase price permitted by U.S. Tax Code, and is in line with the common U.S. practice. The Company will determine an appropriate price which may be higher than the price of the 85% lower limit.
- ✧ We also set a 12-month limitation on the offering period (the period from the grant of awards and until the share purchase) to avoid a situation where a longer offering period provides excessive benefit by a large share price increase over a long period. This 12-month limitation is substantially shorter than the maximum period permitted by the U.S. Tax Code (27 months), providing additional limitations on the potential benefit to employees. Further, the Company will determine an appropriate length of the offering period which may be shorter than the 12-month limitation.

#### **(4) Reasonable Effective Term**

To provide an opportunity for shareholders to review and approve the U.S. ESPP with an appropriate interval, we set a 10 year effective term for our U.S. ESPP. Such 10 year effective term is in line with the common U. S. practice.

We would like to ask our shareholders for the understanding of our Proposal to introduce the U.S. ESPP with a tax-advantaged feature based on the merits of shareholders and the protective measures for shareholders' interests as outlined above.

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