

STMICROELECTRONICS NV  
Form 20-F  
March 04, 2013  
Table of Contents

As filed with the Securities and Exchange Commission on March 4, 2013

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 1-13546

## **STMicroelectronics N.V.**

(Exact name of registrant as specified in its charter)

**Not Applicable**  
(Translation of registrant's name into English)

**The Netherlands**  
(Jurisdiction of incorporation or organization)

**WTC Schiphol Airport**

**Schiphol Boulevard 265**

**1118 BH Schiphol Airport**

**The Netherlands**

(Address of principal executive offices)

**Carlo Bozotti**

**39, chemin du Champ des Filles**

**1228 Plan-Les-Ouates**

**Geneva**

**Switzerland**

**Tel: +41 22 929 29 29**

**Fax: +41 22 929 29 88**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:

Name of Each Exchange on Which Registered:

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Common shares, nominal value 1.04 per share

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**887,953,202 common shares at December 31, 2012**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company  (Do not check if a smaller reporting company)

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued  Other

by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

**Table of Contents**

**TABLE OF CONTENTS**

|  |     |
|--|-----|
| <u>PRESENTATION OF FINANCIAL AND OTHER INFORMATION</u>                                       | 2   |
| <u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>                                  | 2   |
| <u>PART I</u>  | 4   |
| <u>Item 1. Identity of Directors, Senior Management and Advisers</u>                         | 4   |
| <u>Item 2. Offer Statistics and Expected Timetable</u>                                       | 4   |
| <u>Item 3. Key Information</u>   | 4   |
| <u>Item 4. Information on the Company</u>  | 22  |
| <u>Item 5. Operating and Financial Review and Prospects</u>                                  | 42  |
| <u>Item 6. Directors, Senior Management and Employees</u>                                    | 79  |
| <u>Item 7. Major Shareholders and Related Party Transactions</u>                             | 103 |
| <u>Item 8. Financial Information</u>   | 108 |
| <u>Item 9. Listing</u>   | 111 |
| <u>Item 10. Additional Information</u>   | 113 |
| <u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>                   | 129 |
| <u>Item 12. Description of Securities Other than Equity Securities</u>                       | 132 |
| <u>PART II</u>   | 133 |
| <u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>                              | 133 |
| <u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u> | 133 |
| <u>Item 15. Controls and Procedures</u>  | 133 |
| <u>Item 16A. Audit Committee Financial Expert</u>  | 134 |
| <u>Item 16B. Code of Ethics</u>  | 134 |
| <u>Item 16C. Principal Accountant Fees and Services</u>                                      | 135 |
| <u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>                  | 136 |
| <u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>      | 136 |
| <u>Item 16F. Change in Registrant's Certifying Accountant</u>                                | 136 |
| <u>Item 16G. Corporate Governance</u>  | 136 |
| <u>PART III</u>  | 139 |
| <u>Item 17. Financial Statements</u>   | 139 |
| <u>Item 18. Financial Statements</u>   | 139 |
| <u>Item 19. Exhibits</u>   | 139 |

---

**Table of Contents**

**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this annual report or Form 20-F (the "Form 20-F"), references to "we", "us" and "Company" are to STMicroelectronics N.V. together with its consolidated subsidiaries, references to "EU" are to the European Union, references to "€" and the "Euro" are to the Euro currency of the EU, references to the "United States" and "U.S." are to the United States of America and references to "\$" or to "U.S. dollars" are to United States dollars. References to "mm" are to millimeters and references to "nm" are to nanometers.

We have compiled market size and ST market share data in this annual report using statistics and other information obtained from several third-party sources. Except as otherwise disclosed herein, all references to trade association data are references to World Semiconductor Trade Statistics ("WSTS"). Certain terms used in this annual report are defined in "Certain Terms".

We report our financial statements in U.S. dollars and prepare our Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). We also report certain non-U.S. GAAP financial measures (free cash flow and net financial position), which are derived from amounts presented in the financial statements prepared under U.S. GAAP. Furthermore, since 2005, we are required by Dutch law to report our Statutory and Consolidated Financial Statements, previously reported using generally accepted accounting principles in The Netherlands, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union. The IFRS financial statements are reported separately and can differ materially from the statements reported in U.S. GAAP.

Various amounts and percentages used in this Form 20-F have been rounded and, accordingly, they may not total 100%.

We and our affiliates own or otherwise have rights to the trademarks and trade names, including those mentioned in this annual report, used in conjunction with the marketing and sale of our products.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this Form 20-F that are not historical facts, particularly in "Item 3. Key Information - Risk Factors", "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects" and "Business Outlook" 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 in such statements due to, among other factors:

future risks to our core business, other potential write-offs of assets, our share of costs and the required cash resources that ensue from our decision to exit ST-Ericsson, and will depend on the chosen exit options;

our ability to competitively address market demand for the products which we design, manufacture and sell;

changes in the market for our products, including the actual demand for products where we have achieved design wins and/or demand for applications where we are targeting growth;

our customers' ability to successfully compete in the application markets they serve with our products;

our ability in periods of reduced market demand or visibility to reduce our expenses as required, as well as our ability to operate our manufacturing facilities at sufficient levels with existing process technologies to cover our fixed operating costs;

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

our ability, in an intensively competitive environment, to identify and allocate necessary design resources to successfully and timely develop and secure customer acceptance for new products meeting their expectations;

our ability to achieve our pricing expectations for high-volume supplies of new products in whose development we have been, or are currently, investing;

**Table of Contents**

the financial impact of obsolete or excess inventories if actual demand differs from our expectations;

our ability to maintain or improve our competitiveness especially in light of volatility in the foreign exchange markets and, more particularly, in 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;

restructuring charges and associated 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;

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;

changes in economic, social, political or infrastructure conditions in the locations where we, our customers or our suppliers operate including as a result of macroeconomic or regional events, military conflict, social unrest or terrorist activities;

availability and costs of raw materials, utilities, third-party manufacturing services, or other supplies required by our operations; and

the outcome of ongoing litigation as well as any new litigation to which we may become a defendant.

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 . 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 Form 20-F 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 Form 20-F to reflect subsequent events or circumstances.

Unfavorable changes in the above or other factors listed under Item 3. Key Information Risk Factors from time to time in our Securities and Exchange Commission ( SEC ) filings, could have a material adverse effect on our business and/or financial condition.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****Selected Financial Data**

The table below sets forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2012. Such data have been derived from our audited Consolidated Financial Statements. Audited Consolidated Financial Statements for each of the years in the three-year period ended December 31, 2012, including the Notes thereto (collectively, the Consolidated Financial Statements), are included elsewhere in this Form 20-F, while data for prior periods have been derived from our audited Consolidated Financial Statements used in such periods.

The following information should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the audited Consolidated Financial Statements and the related Notes thereto included in Item 18. Financial Statements in this Form 20-F.

|  | 2012     | Year Ended December 31,                       |           |          | 2008     |
|--|----------|---|-----------|----------|----------|
|  |          | 2011  | 2010      | 2009     |          |
|  |          | (In millions except per share and ratio data) |           |          |          |
| <b>Consolidated Statements of Income Data:</b>   |          |   |           |          |          |
| Net sales  | \$ 8,380 | \$ 9,630                                      | \$ 10,262 | \$ 8,465 | \$ 9,792 |
| Other revenues   | 113      | 105   | 84        | 45       | 50       |
| Net revenues   | 8,493    | 9,735   | 10,346    | 8,510    | 9,842    |
| Cost of sales  | (5,710)  | (6,161)                                       | (6,331)   | (5,884)  | (6,282)  |
| Gross profit   | 2,783    | 3,574   | 4,015     | 2,626    | 3,560    |
| Operating expenses:  |          |   |           |          |          |
| Selling, general and administrative  | (1,166)  | (1,210)                                       | (1,175)   | (1,159)  | (1,187)  |
| Research and development <sup>(1)</sup>  | (2,413)  | (2,352)                                       | (2,350)   | (2,365)  | (2,152)  |
| Other income and expenses, net <sup>(2)</sup>  | 91       | 109   | 90        | 166      | 62       |
| Impairment, restructuring charges and other related closure costs                      | (1,376)  | (75)  | (104)     | (291)    | (481)    |
| Total operating expenses   | (4,864)  | (3,528)                                       | (3,539)   | (3,649)  | (3,758)  |
| Operating income (loss)  | (2,081)  | 46  | 476       | (1,023)  | (198)    |
| Other-than-temporary impairment charge and realized gains (losses) on financial assets |          | 318   |           | (140)    | (138)    |
| Interest income (expense), net   | (35)     | (25)  | (3)       | 9        | 51       |
| Income (loss) on equity-method investments and gain on investment divestiture          | (24)     | (28)  | 242       | (337)    | (553)    |
| Gain (loss) on financial instruments, net  | 3        | 25  | (24)      | (5)      | 15       |
| Income (loss) before income taxes and noncontrolling interest                          | (2,137)  | 336   | 691       | (1,496)  | (823)    |



Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|  |         |       |       |         |        |
|--|---------|-------|-------|---------|--------|
| Income tax benefit (expense)   | (51)    | (181) | (149) | 95      | 43     |
| Net income (loss)  | (2,188) | 155   | 542   | (1,401) | (780)  |
| Net loss (income) attributable to noncontrolling interest                | 1,030   | 495   | 288   | 270     | (6)    |
| Net income (loss) attributable to parent company                         | (1,158) | 650   | 830   | (1,131) | (786)  |
| Earnings per share (basic) attributable to parent company stockholders   | (1.31)  | 0.74  | 0.94  | (1.29)  | (0.88) |
| Earnings per share (diluted) attributable to parent company stockholders | (1.31)  | 0.72  | 0.92  | (1.29)  | (0.88) |
| Number of shares used in calculating earnings per share (basic)          | 886.7   | 883.6 | 880.4 | 876.9   | 892.0  |
| Number of shares used in calculating earnings per share (diluted)        | 886.7   | 904.5 | 911.1 | 876.9   | 892.0  |

**Table of Contents**

|   | 2012    | Year Ended December 31, |         |         | 2008    |
|---|---------|-------------------------|---------|---------|---------|
|   |         | 2011                    | 2010    | 2009    |         |
| (In millions except per share and ratio data)             |         |                         |         |         |         |
| <b>Consolidated Balance Sheets Data (end of period):</b>  |         |                         |         |         |         |
| Cash and cash equivalents                                 | 2,250   | 1,912                   | 1,892   | 1,588   | 1,009   |
| Short-term deposits                                       | 1       |                         | 67      |         |         |
| Marketable securities                                     | 238     | 413                     | 1,052   | 1,032   | 651     |
| Restricted cash   | 4       | 8                       | 7       | 250     | 250     |
| Non-current marketable securities                         |         |                         | 72      | 42      | 242     |
| Total assets  | 10,434  | 12,094                  | 13,349  | 13,655  | 13,913  |
| Short-term debt   | 630     | 733                     | 720     | 176     | 143     |
| Long-term debt (excluding current portion) <sup>(3)</sup> | 671     | 826                     | 1,050   | 2,316   | 2,554   |
| Total parent company stockholders' equity <sup>(4)</sup>  | 6,225   | 7,603                   | 7,587   | 7,147   | 8,156   |
| Common stock and capital surplus                          | 3,711   | 3,700                   | 3,671   | 3,637   | 3,480   |
| <b>Other Data:</b>  |         |                         |         |         |         |
| Dividends per share <sup>(5)</sup>                        | 0.40    | 0.40                    | 0.28    | 0.12    | 0.36    |
| Capital expenditures <sup>(6)</sup>                       | 476     | 1,258                   | 1,034   | 451     | 983     |
| Net cash from operating activities                        | 612     | 880                     | 1,794   | 816     | 1,722   |
| Depreciation and amortization                             | 1,107   | 1,279                   | 1,240   | 1,367   | 1,366   |
| Debt-to-equity ratio <sup>(7)</sup>                       | \$ 0.21 | \$ 0.21                 | \$ 0.23 | \$ 0.35 | \$ 0.33 |

- (1) Our reported research and development expenses ( R&D ) are mainly in the areas of product design and technology development. They do not include marketing design center costs, which are accounted for as selling expenses, or process engineering, pre-production and process-transfer costs, which are accounted for as cost of sales. Our R&D expenses are net of certain tax credits.
- (2) Other income and expenses, net includes, among other things: funds received through government agencies for research and development programs; costs incurred for start-up and phase-out activities not involving saleable production; foreign currency gains and losses; gains on sales of tangible assets and non-current assets; and the costs of certain activities relating to IP protection.
- (3) We repurchased a portion of our 2016 convertible bonds ( 2016 Convertible Bonds ) during 2009 (98,000 bonds for a total cash consideration of \$103 million), 2010 (385,830 bonds for a total cash consideration of \$410 million), 2011 (289,768 bonds for a total cash consideration of \$314 million of which 41,123 convertible bonds were redeemed by certain holders on February 23, 2011) and 2012 (200,402 bonds for a total cash consideration of \$219 million of which 190,131 convertible bonds were redeemed by certain holders on February 23, 2012). Our 2016 Convertible Bonds were fully redeemed in the second quarter of 2012. We also repurchased a portion of our 2013 senior bonds ( 2013 Senior Bonds ) in 2010 and 2011 for an amount of \$98 million and \$107 million, respectively.
- (4) Following repurchases in earlier periods, we also repurchased 29,520,220 of our shares in 2008, for a total cost of \$313 million and we reflected this purchase at cost as a reduction of stockholders' equity. The repurchased shares have been designated for allocation under our share-based compensation programs as nonvested shares, including the plans as approved by the 2005 through 2012 annual general shareholders' meetings, and those which may be attributed in the future. As of December 31, 2012, 20,313,617 shares had been transferred to employees upon the vesting of such stock awards. As of December 31, 2012, we owned 22,606,603 treasury shares.
- (5) Dividend per share represents the yearly dividend as approved by our annual general meeting of shareholders, which relates to the prior year's accounts.
- (6) Capital expenditures are net of proceeds from sale and certain funds received through government agencies, the effect of which is to reduce our cash used in investing activities and to decrease depreciation.
- (7) Debt-to-equity ratio is the ratio between our total financial debt and our total parent company stockholders' equity.

**Risk Factors****Risks Related to the Semiconductor Industry which Impact Us**

*The semiconductor industry is cyclical and downturns in the semiconductor industry can negatively affect our results of operations and financial condition.*

The semiconductor industry is cyclical and has been subject to significant downturns at various times, impacted by global economic conditions. Downturns are typically characterized by reduction in overall demand, accelerated erosion of selling prices, reduced revenues and high inventory levels, which could result in a significant deterioration of our results of operations. Furthermore, downturns may be the result of industry-specific factors, such as built-in excess capacity, product obsolescence, price erosion and changes in



**Table of Contents**

end-customer demand. Such macroeconomic trends relate to the semiconductor industry as a whole and not necessarily to the individual semiconductor markets to which we sell our products. The negative effects on our business from industry downturns may also be increased to the extent that such downturns are concurrent with the timing of new increases in production capacity or the introduction of new advanced technologies in our industry. We have experienced revenue volatility and market downturns in the past and expect to experience them in the future, which could have a material adverse impact on our results of operations and financial condition.

In the event of a global or regional economic slowdown impacting business and consumer confidence, the demand for semiconductor products can decline precipitously. As a result, our business, financial conditions and results of operations have been affected in the past and could also be affected in the future. To the extent that the economic environment in which we conduct our operations worsens, our business, financial condition and results of operations could be significantly and adversely affected.

In particular, economic downturns affecting the semiconductor industry may result in a variety of risks that could significantly affect our business, including:

declines in revenues;

reductions in selling prices;

underutilization of manufacturing capacity;

deterioration of our gross margins, profitability and net cash flow;

increased volatility and/or declines in our share price;

increased volatility or adverse movements in foreign currency exchange rates;

delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of overall economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives or new product development;

closure of our wafer fabrication plants ( fabs ) and associated restructuring plans;

lower valuations of our equity-method investments and lower valuations on our divestitures or our exit from joint ventures;

downgrade of our corporate credit ratings / outlook from one or more independent rating agencies, which may negatively impact our ability to access additional liquidity;

increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by the economic downturn; and

impairment of goodwill or other assets associated with our product segments.

***We may not be able to match our production capacity to demand.***

As a result of the cyclical and volatility of the semiconductor industry, it is difficult to predict future developments in the markets we serve, making it hard to estimate requirements for production capacity. If markets, major customers or certain product designs or technologies do not perform as we have anticipated, we risk underutilization of our facilities or the manufacturing of excess inventories, in the event of overestimated demand or having insufficient capacity to meet customer demand in the event of underestimated demand.

The net increase of manufacturing capacity, defined as the difference between capacity additions and capacity reductions, may exceed demand requirements, leading to overcapacity and price erosion. If the semiconductor market or major customers do not grow as we anticipated when making investments in production capacity, we risk overcapacity and relevant unused capacity charges. In addition, if demand for our products is lower than expected, this may result in write-offs of inventories and losses on products, and could require us to undertake restructuring measures that may involve significant charges to our earnings. In the past, overcapacity for certain products or technologies and cost optimization have led us to close manufacturing facilities and, as a result, to incur significant impairment and restructuring charges and other related closure costs. Furthermore, during certain periods, we have also experienced an increasing demand in certain market segments and product technologies, which has led to a shortage of capacity and an increase in the lead times of our delivery to customers. See Item 5. Operating and Financial Review and Prospects Results of Operations Impairment, restructuring charges and other related closure costs .

**Table of Contents**

*Competition in the semiconductor industry is intense, and we may not be able to compete successfully if our product design technologies, process technologies and products do not meet market requirements or if we are unable to obtain the necessary IP.*

We compete in different product lines to various degrees on the following characteristics:

price;

technical performance;

product features;

product system compatibility;

product design and technology;

timely introduction of new products;

product availability;

process technology;

manufacturing capabilities; and

sales and technical support.

Given the intense competition in the semiconductor industry, if our products are not selected based on any of the above factors, our business, financial condition and results of operations will be materially adversely affected.

We face significant competition in each of our product lines. Similarly, many of our competitors also offer a large variety of products. Some of our competitors may have greater financial and/or more focused research and development ( R&D ) resources than we do. If these competitors substantially increase the resources they devote to developing and marketing products that compete with ours, we may not be able to compete successfully. Any consolidation among our competitors could also enhance their product offerings, manufacturing efficiency and financial resources, further strengthening their competitive position.

As we are a supplier of a broad range of products, we are required to make significant investments in R&D across our product portfolio in order to remain competitive. Many of the resulting products that we market have short life cycles, with some being one year or less. Economic conditions may impair our ability to maintain our current level of R&D investments and, therefore, we may need to become more focused in our R&D investments across our broad range of product lines. On December 10, 2012, we announced our new strategic plan, centered on leadership in Sense and Power and Automotive Products and in Embedded Processing Solutions, specifically focusing on five product areas: MEMS and sensors, smart power, automotive products, microcontrollers, and application processors including digital consumer. However, there can be no assurance that we will successfully compete in each product area when our competitors' R&D investments may be higher than ours.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

We regularly devote substantial resources to winning competitive selection processes, known as product design wins, to develop products for use in our customers' equipment and products. These selection processes can be lengthy and can require us to incur significant design and development expenditures, with no guarantee of winning or generating revenue. Delays in developing new products with anticipated technological advances or in commencing volume shipments of new products as well as failure to win new design projects for customers may have an adverse effect on our business. In addition, there can be no assurance that new products, if introduced, will gain market acceptance or will not be adversely affected by new technological changes or new product announcements from other competitors that may have greater efficiency, focus or financial resources. Because we typically focus on only a few customers in a product area, the loss of a design win can sometimes result in our failure to offer a generation of a product. This can result in lost sales and could hurt our position in future competitive selection processes because we may be perceived as not being a technology or industry leader. We recently experienced this in our Wireless business, which contributed to our decision to exit from our ST-Ericsson joint venture as part of our new strategic plan, leading to the impairment of our goodwill and intangible assets in ST-Ericsson. For additional information, see Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Using Significant Estimates Impairment of goodwill and Intangible assets subject to amortization.

Even after obtaining a product design win from one of our customers, we may still experience delays in generating revenue from our products as a result of our customers' or our lengthy development and design cycle. In

## **Table of Contents**

addition, a major change, delay or cancellation of a customer's plans could significantly adversely affect our financial results, as we may have incurred significant expense and generated no revenue at the time of such change, delay or cancellation. Finally, if our customers fail to successfully market and sell their own products, it could materially adversely affect our business, financial condition and results of operations as the demand for our products falls.

We also regularly incur costs to develop IP internally or acquire it from third parties without any guarantee of realizing the anticipated value of such expenditures if our competitors develop technologies that are more accepted than ours, or if market demand does not materialize as anticipated. In addition to amortization expenses relating to purchased IP, the value of these assets may be subject to impairment with associated charges being made to our Consolidated Financial Statements. There is no assurance that our IP purchases will be successful and will not lead to impairments and associated charges.

*The competitive environment of the semiconductor industry as well as the resulting consolidation and vertical integration at the customer level may lead to erosion of our market share, impact our capacity to compete and require us to restructure.*

The intensely competitive environment of the semiconductor industry and the high costs associated with developing marketable products and manufacturing technologies as well as investing in production capabilities may lead to further changes, including consolidation and vertical integration, in the industry. Consolidation can allow a company to further benefit from economies of scale, provide improved or more diverse product portfolios and increase the size of its serviceable market. In addition, the Wireless market has recently experienced polarization and vertical integration at leading telephone manufacturers.

Our sales have, at times, increased at a slower pace than the semiconductor industry as a whole and our market share has declined, even in relation to the markets we served and in particular in the Wireless market. There is no assurance that we will be able to maintain or grow our market share if we are unable to accelerate product innovation, identify new applications for our products, further penetrate and extend our customer base and realize manufacturing improvements. In recent years the major growth of the semiconductor industry has been in Asia, supported also by more competitive production costs, resulting in a more competitive environment. We may also incur losses of market share if we are unable to take the required measures to improve our cost structure and competitiveness in the semiconductor market, such as seeking more competitive sources of production, discontinuing certain product families or performing additional restructurings, which in turn may result in loss of revenues, asset impairments and/or capital losses.

*The semiconductor industry may also be impacted by changes in the political, social or economic environment, including as a result of military conflict, social unrest and/or terrorist activities, as well as natural events such as severe weather, health risks, epidemics or earthquakes in the countries in which we, our key customers and our suppliers, operate.*

We may face greater risks due to the international nature of our business, including in the countries where we, our customers or our suppliers operate, such as:

negative economic developments in global economies and instability of foreign governments, including the threat of war, terrorist attacks or civil unrest;

epidemics such as disease outbreaks, pandemics and other health related issues;

changes in laws and policies affecting trade and investment, including through the imposition of new constraints on investment and trade; and

varying practices of the regulatory, tax, judicial and administrative bodies.

### **Risks Related to Our Operations**

*Market dynamics have driven, and continue to drive us, to a strategic repositioning.*



## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

In recent years, we have undertaken several new initiatives to reposition our business, both through divestitures and new investments. Our strategies to improve our results of operations and financial condition led us, and may in the future lead us, to acquire businesses that we believe to be complementary to our own, or to divest ourselves of activities that we believe do not serve our longer term business plans. Our potential acquisition strategies depend in part on our ability to identify suitable acquisition targets, finance their acquisition and obtain required regulatory and other approvals. Our potential divestiture strategies depend in part on our ability to compete and to identify the activities in which we should no longer engage, and then determine and execute appropriate methods to divest of them.

---

**Table of Contents**

In 2008, we established the Numonyx joint venture by contributing our Flash memory business. We ultimately sold this business in 2010, and as a result of the negative developments in this sector, incurred significant losses and recognized impairment charges and restructuring charges, partially offset by a gain realized upon the sale of the joint venture.

After having established in August 2008 a wireless joint venture with NXP, in 2009, we contributed this joint venture to the newly established ST-Ericsson wireless joint venture. The integration process was long and complex, compounded by a rapidly changing market moving from chipsets to platforms, combining advanced solutions with both hardware and software features, and has required significant cash funding from Ericsson and us. Furthermore, the joint venture business has faced more challenges than anticipated as a result of major changes in the business of one of its largest customers, the polarization of the smartphone market and the evolution of the top players in the wireless sector towards a more vertically integrated structure. In December 2012, we announced our new strategic plan and took the decision to exit ST-Ericsson after a transition period expected to end during the third quarter of 2013. We are currently finalizing our decision regarding available strategic options, which could have a negative impact on our results in terms of additional provisions for restructuring charges and write-downs of assets. At the end of 2012, we also recognized significant impairments on the goodwill and intangible assets of ST-Ericsson and abandoned significant cash advances made together with Ericsson to support the funding requirements of our joint venture.

We are constantly monitoring our product portfolio and cannot exclude that additional steps in this repositioning process may be required; further, we cannot assure that any strategic repositioning of our business, including executed and possible future acquisitions, dispositions or joint ventures, will be successful and may not result in further impairment and associated charges.

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results, including the risk that we may be unable to successfully integrate businesses or teams we acquire with our culture and strategies on a timely basis or at all, and the risk that we may be required to record charges related to the goodwill or other long-term assets associated with the acquired businesses. As illustrated by the aforementioned examples of Numonyx and ST-Ericsson, changes in our expectations due to changes in market developments that we cannot foresee have in the past resulted in our writing off amounts associated with the goodwill of acquired companies, and future changes may require similar further write-offs in future periods. We cannot be certain that we will be able to achieve the full scope of the benefits we expect from a particular acquisition, divestiture or investment. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any acquired businesses. In addition, the financing of future acquisitions or divestitures may negatively impact our financial position and could require us to raise additional funding.

Other risks associated with acquisitions or joint ventures include:

in the case of joint ventures, our ability to effectively control the joint venture, when management acts independently pursuant to the joint ventures rules of governance;

also in the case of joint ventures, our ability to plan and anticipate business and financial results which relies, for that portion of our business, on the joint venture's management ability to plan and anticipate business and financial results and their timely and accurate reporting to us;

the diversion of management's attention;

insufficient IP rights or issues concerning ownership of key IP;

assumption of potential liabilities, disclosed or undisclosed, associated with the business acquired, which liabilities may exceed the amount of indemnification available from the seller;

potential inaccuracies in the financials of the business acquired;

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

the ability for businesses acquired or contributed to a joint venture to maintain the quality of products and services that we have historically provided;

our ability to attract and retain qualified management for the acquired business or business contributed to a joint venture;

our ability to retain customers of an acquired entity or business;

employment issues and costs linked to restructuring plans; and

---

**Table of Contents**

the ability of the joint venture to succeed in a new business not associated with our core business such as the ability of our 3Sun joint venture, which we hold as an equity interest and which we have set up in Italy together with Enel and Sharp, to successfully compete in the market for photovoltaic products.

Identified risks associated with divestitures, and in particular, our decision to exit the ST-Ericsson joint venture, include:

diversion of management's attention;

loss of activities and technologies that may have complemented our remaining businesses or operations;

loss of important services provided by key employees that are assigned to divested activities;

impairment of goodwill and other assets associated with the business to be divested;

issues that may arise between ST-Ericsson and customers or suppliers of ST-Ericsson; and

employment issues and restructuring costs linked to divestitures and closures.

These and other factors may cause a materially adverse effect on our results of operations and financial condition.

***ST-Ericsson experienced greater than anticipated declining revenues and an increase in operating losses in 2012 leading to our decision to exit the ST-Ericsson joint venture.***

During 2012, we continuously monitored ST-Ericsson's business evolution and evaluated their progress on a regular basis. ST-Ericsson continued to suffer in 2012 from extremely difficult conditions as well as reduced demand. Our Wireless segment revenues decreased in 2012 to \$1,345 million or approximately 13% less than the \$1,552 million registered in 2011. This significant decline in revenues led to an increase in operating losses, which reached \$885 million in 2012 compared to \$812 million in 2011, as well as a continuing negative cash flow, which reached approximately \$700 million in 2012. This negative trend and the realization that a return to profitability could no longer be anticipated in a reasonable time period without further requirements by the joint venture for financial support from us ultimately led us to decide in December 2012 to exit the ST-Ericsson joint venture. As a result, we have written off the carrying value of our goodwill and other intangible assets, recognizing an impairment charge of \$1.2 billion in 2012. We anticipate that we will complete our exit from ST-Ericsson after a transition period expected to end during the third quarter of 2013, and we are finalizing our decision regarding available strategic options, which could have a negative impact on our results in terms of additional provisions for restructuring charges and write-downs of assets. Our current best estimate is that we could have funding requirements, including the ongoing operations of ST-Ericsson during the transition period and restructuring costs, in the range of approximately \$300 million to \$500 million during 2013.

***Our new strategic plan may be unsuccessful if we cannot respond to significant changes in the semiconductor market.***

On December 10, 2012, we announced our new strategic plan centered on leadership in Sense and Power and Automotive Products and in Embedded Processing Solutions, which included, as part of this new plan, our decision to exit ST-Ericsson after a transition period and established a targeted operating margin of 10% or more. There can be no assurance that we will successfully implement our new strategic plan and achieve our new financial model, which is dependent upon solid revenue growth and our objective of reducing our operating costs. Our success is contingent upon our ability to respond to the following significant changes currently characterizing the semiconductor market: the long-term structural growth of the overall market for semiconductor products, which has moved from double digit average annual growth rate to a mid-single digit average growth rate over the last several years and which has become more strongly correlated with the global macroeconomic environment; the acceleration of new product innovation and the strong development of new applications in areas such as smart consumer devices, trust and data security, healthcare & wellness, and energy and power management savings; the growing importance of the Asia Pacific region, particularly Greater China and other emerging countries, which represent the fastest growing regional markets; the evolving customer demand to seek new system level, turnkey solutions from semiconductor suppliers; the evolution of the customer base, which also includes polarization and vertical integration at leading manufacturers; the expansion of available manufacturing capacity through third party

providers; and the evolution of advanced process development R&D partnerships.

---

**Table of Contents*****In difficult market conditions, our high fixed costs adversely impact our results.***

In less favorable industry environments, we are driven to reduce prices in response to competitive pressures and we are also faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. Reduced average selling prices and demand for our products both adversely affect our results of operations. Since the semiconductor industry is characterized by high fixed costs, we are not always able to cut our total costs in line with revenue declines. Furthermore, in periods of lower customer demand for our products, our fabs do not operate at full capacity and the costs associated with the excess capacity are charged directly to cost of sales as unused capacity charges. Additionally, a significant number of our manufacturing facilities are located in France and Italy and their cost of operation could be significantly affected by the rise of the Euro against the U.S. dollar, our reporting currency. See Item 5. Operating and Financial Review and Prospects Impact of Changes in Exchange Rates. The difficult conditions experienced in 2011 and 2012 had a significant effect on the capacity utilization and related manufacturing efficiencies of our fabs, generating significant unused capacity charges in the second half of 2011 and in 2012, which led to a significant decline in our gross margin. We cannot guarantee that such market conditions, and increased competition in our core product markets, will not lead to further price erosion, lower revenue growth rates and lower margins.

***Our financial results can be adversely affected by fluctuations in exchange rates, principally in the value of the U.S. dollar.***

A significant variation of the value of the U.S. dollar against the principal currencies that have a material impact on us (primarily the Euro, but also certain other currencies of countries where we have operations, such as the Swedish Krona and the Singapore dollar) could result in a favorable impact on our net income in the case of an appreciation of the U.S. dollar, or a negative impact on our net income if the U.S. dollar depreciates relative to these currencies, in particular with respect to the Euro. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major portion of our revenues, while, more importantly, we incur a significant portion of our costs in currencies other than the U.S. dollar. Certain significant costs incurred by us, such as a significant part of our manufacturing costs, selling, general and administrative ( SG&A ) expenses, and R&D expenses, and in certain jurisdictions depreciation charges are incurred in the currencies of the jurisdictions in which our operations are located, which mainly includes the Euro zone. Our effective average exchange rate, which reflects actual exchange rate levels combined with the impact of cash flow hedging programs, was \$1.31 to 1.00 in 2012, compared to \$1.37 to 1.00 in 2011.

In order to reduce the exposure of our financial results to the fluctuations in exchange rates, our principal strategy has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of purchases from our suppliers denominated in U.S. dollars and to reduce the weight of the other costs, including labor costs and depreciation, denominated in Euros and in other currencies. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have hedged certain line items on our consolidated statements of income, in particular with respect to a portion of the cost of goods sold, most of the R&D expenses and certain SG&A expenses located in the Euro zone and in Sweden. During the second quarter of 2012, we started to hedge certain manufacturing costs denominated in Singapore dollars. No assurance can be given that our hedging transactions will prevent us from incurring higher Euro-denominated manufacturing costs when translated into our U.S. dollar-based accounts in the event of a weakening of the U.S. dollar. See Item 5. Operating and Financial Review and Prospects Impact of Changes in Exchange Rates and Item 11. Quantitative and Qualitative Disclosures About Market Risk.

***Our results of operations and financial condition could be adversely impacted by a negative resolution of the economic and sovereign debt crisis in Europe.***

The financial markets and global economic conditions have been negatively impacted by the European sovereign debt crisis that began in 2010 and has spread to several Euro zone countries, in particular Greece, Ireland, Italy, Portugal and Spain. This resulted in a sovereign liquidity crisis, with a significant increase in the interest rates on the national debt of several Euro zone countries and the downgrading of several sovereign debt ratings, which has contributed to a general slowdown of economic growth and higher debt levels. While it appears that the financial crisis in the Euro zone may be beginning to ease, we cannot exclude a potential further deterioration of economic conditions, in particular in the event of a default by certain countries. It cannot be ruled out that the default of a Euro zone member could eventually even lead to its exit from the Euro and the readoption of a national currency.

---

**Table of Contents**

We have significant operations in Europe, in particular our manufacturing activities in France, Italy and Malta, where our total net assets, equivalent to total assets less total liabilities, were approximately \$4 billion as of December 31, 2012. In the event of the re-denomination of currencies of these countries, the most significant potential impact could be a material devaluation of their values against the U.S. dollar, which could lead to a significant reduction of the value of our assets when expressed in U.S. dollars.

We generate significant cash flows in the ordinary course of our business and, as a result, maintain significant cash and cash equivalents with European financial institutions. As of December 31, 2012, our cash and cash equivalents held by financial institutions in the Euro zone totaled \$829 million. While we follow internal treasury guidelines to minimize concentration and the resulting risk, in the event of a major default of European sovereign debt, particularly in France or Italy, we could suffer a negative impact on our liquidity and/or be required to recognize significant losses.

Furthermore, we have a significant amount of receivables relating to tax credits, refunds and funding from the governments of certain countries in the Euro zone. As of December 31, 2012, we had \$470 million of long-term government receivables almost entirely from France and Italy. See Note 12 to our Consolidated Financial Statements. In the event of budgetary constraints imposed to meet deficit reduction targets in these countries, governments may not meet their prior commitments, which could require us to recognize a significant loss.

Finally, in the event of a further deterioration of the sovereign financial situation, we may face difficulties obtaining sufficient financing or we may experience higher borrowing costs than those which we currently pay on our borrowings from the European Investment Bank, which is currently our major lender.

***Because we own manufacturing facilities, our capital needs are high compared to those competitors who do not produce their own products.***

As a result of our choice to maintain control of a certain portion of our advanced and proprietary manufacturing technologies to better serve our customer base, significant amounts of capital to maintain or upgrade our facilities could be required in the future. We monitor our capital expenditures taking into consideration factors such as trends in the semiconductor market and capacity utilization. While our capital expenditures decreased in 2012 to \$476 million, net of proceeds from sales, compared to \$1.26 billion in 2011, these expenditures may increase in the future and if we are required to upgrade or expand the capacity of our manufacturing facilities in order to respond to customer demand for increased quantities or for new more advanced products in certain segments we serve. There is no assurance that future market demand and products required by our customers will meet our expectations. Failure to invest appropriately or in a timely manner could have a material adverse effect on our business, and results of operations. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources .

***We may also need additional funding in the coming years to finance our investments, to purchase other companies or technologies developed by third parties or to refinance our maturing indebtedness.***

In an increasingly complex and competitive environment, we may need to invest in other companies, in IP and/or in technology developed either by us or by third parties to maintain or improve our position in the market or to complement or expand our existing business. In addition, a portion of the outstanding cash is devoted to redeem maturing indebtedness and will also be required to support restructuring costs linked to our decision to exit ST-Ericsson. Although there are no current plans to issue new debt or equity, the foregoing may also require us to secure additional financing, including through the issuance of debt, equity, or both; the timing and the size of any new share or bond offering would depend upon market conditions as well as a variety of factors, and any such transaction or any announcement concerning such a transaction could materially impact the market price of our common shares. If we are unable to access such capital on acceptable terms, this may adversely affect our business and results of operations.

***Our R&D efforts are expensive and dependent on technology alliances, and our business, results of operations and prospects could be materially adversely affected by the failure or termination of such alliances.***

We are dependent on alliances to develop or access new technologies, particularly in light of the high levels of investment required for R&D activities, and there can be no assurance that these alliances will be successful.

---

## **Table of Contents**

Since 2009, we have been a member of the International Semiconductor Development Alliance ( ISDA ), a technology alliance led by IBM and in which Samsung and Global Foundries are our main co-development partners, to develop complementary metal on silicon oxide semiconductor ( CMOS ) process technology used in semiconductor development and manufacturing up to 20nm node. This alliance also includes collaboration with IBM on IP development and platforms to speed the design of System on Chip ( SoC ) devices in CMOS process technologies. We recently extended and amended our participation in this alliance to cover further developments up to 7nm node. See Item 4. Information on the Company Research and Development .

To support our proprietary R&D investments for derivative technology investments and investments in cooperative R&D ventures such as the ISDA alliance, we have benefited from state funding, such as Crolles Nano-2012 frame agreement (the Nano-2012 agreement ) signed by us with the French government in 2009, covering the period from 2009 to 2012. We are currently negotiating with the French government to establish a new Crolles Nano frame agreement for the period 2013 to 2017. There can be no assurance that our discussions for a new frame agreement will provide for a continuation of a program funded by the French government or that any such funding will ultimately be received. If no agreement is reached, we could experience a material adverse effect on our business and financial results and may not be able to continue our participation in certain technology alliances.

Our R&D alliances provide us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. In addition, they contribute to the fast acceleration of semiconductor process technology development while allowing us to lower our development and manufacturing costs. However, there can be no assurance that alliances will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. Certain companies develop their own process technologies, which may be more advanced than the technologies we develop through our cooperative alliances. Furthermore, if these alliances terminate before our intended goals are accomplished we may lose our investment, or incur additional unforeseen costs, and our business, results of operations and prospects could be materially adversely affected. In addition, if we are unable to develop or otherwise access new technologies independently, we may fail to keep pace with the rapid technology advances in the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share in the markets addressed by our products.

We also receive a material amount of R&D tax credits in France, which are directly linked to the amount spent for our R&D activities. In 2012, we booked \$152 million, which reflected amounts relating to our R&D activities in France during 2012. In 2011 and 2010, the amounts were \$159 and \$146 million, respectively. In the event of a change in the French R&D tax credit regime, this could affect our continued ability to invest in R&D as we currently do and we could experience a material adverse effect on our business and financial results.

***If we fail to meet the condition and approval requirements applicable to public funding we have received in the past, we may face demands for repayment, which may increase our costs and impact our results of operations.***

Like many other manufacturers operating in Europe, we have benefited from governmental funding for R&D expenses and certain industrialization costs. We have entered into public funding agreements in France and Italy, which set forth the parameters for state support to us under selected programs. These funding agreements require compliance with EU regulations and approval by EU authorities. These agreements also set forth certain conditions relating to the nature and amount of the investments, as well as employment. See Item 4. Information on the Company Public Funding .

The application for and implementation of such grants often involves compliance with extensive regulatory requirements including, in the case of subsidies to be granted within the EU, notification to the European Commission by the member state making the contemplated grant prior to disbursement and receipt of required EU approval. In addition, compliance with project-related ceilings on aggregate subsidies defined under EU law often involves highly complex economic evaluations. Furthermore, public funding arrangements are generally subject to annual and project-by-project reviews and approvals. If we fail to meet applicable formal or other requirements, we may under certain circumstances be required to refund previously received amounts, which could have a material adverse effect on our results of operations. In addition, if we do not complete projects for which public funding has been approved, or meet certain objectives set forth in funding programs, which may include certain conditions of employment and manufacturing capacity to be met, we may be required to repay any advances received for ongoing milestones, which may lead to a material adverse effect on our results of operations and our financial position. See Item 4. Information on the Company Public Funding .



**Table of Contents**

*Our operating results may vary significantly from quarter to quarter and annually and may differ significantly from our expectations or guidance.*

Our operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability or lead to significant variability of operating results. These factors include, among others, the cyclical nature of the semiconductor and electronic systems industries, capital requirements, inventory management, availability of funding, competition, new product developments, technological changes and manufacturing problems. For example, if anticipated sales or shipments do not occur when expected, expenses and inventory levels in a given quarter can be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, may be adversely affected. In addition, our effective tax rate currently takes into consideration certain favorable tax rates and incentives, which, in the future, may not be available to us. See Note 21 to our Consolidated Financial Statements.

A number of other factors could lead to fluctuations in quarterly and annual operating results, including:

performance of our key customers in the markets they serve;

order cancellations or reschedulings by customers;

excess inventory held by customers leading to reduced bookings or product returns by key customers;

manufacturing capacity and utilization rates;

restructuring and impairment charges;

losses on equity-method investments;

fluctuations in currency exchange rates, particularly between the U.S. dollar and other currencies in jurisdictions where we have activities;

IP developments;

receipt of governmental funding;

changes in distribution and sales arrangements;

failure to win new design projects;

manufacturing performance and yields;

product liability or warranty claims;

litigation;

taxation;

acquisitions or divestitures;

problems in obtaining adequate raw materials or production equipment on a timely basis;

property loss or damage or interruptions to our business, including as a result of fire, natural disasters or other disturbances at our facilities or those of our customers and suppliers that may exceed the amounts recoverable under our insurance policies; and

changes in the market value or yield of the financial instruments in which we invest our liquidity.

Unfavorable changes in any of the above factors have in the past and may in the future adversely affect our operating results. Furthermore, in periods of industry overcapacity or when our key customers encounter difficulties in their end markets, orders are more exposed to cancellations, reductions, price renegotiation or postponements, which in turn reduce our management's ability to forecast the next quarter or full year production levels, revenues and margins. For these reasons and others that we may not yet have identified, our revenues and operating results may differ materially from our expectations or guidance as visibility is reduced. See Item 4. Information on the Company Backlog .

## **Table of Contents**

*Our business is dependent in large part on continued growth in the industries and segments into which our products are sold and on our ability to attract and retain new customers. A market decline in any of these industries or our inability to attract new customers could have a material adverse effect on our results of operations.*

We derive and expect to continue to derive significant sales from the telecommunications, consumer, computer peripherals, automotive and industrial markets. Growth of demand in these market segments has fluctuated significantly in the past, and may in the future, based on numerous factors, including:

spending levels of the market segment participants;

reduced demand resulting from a drop in consumer confidence and/or a deterioration of general economic conditions;

development of new consumer products or applications requiring high semiconductor content;

evolving industry standards; and

the rate of adoption of new or alternative technologies.

We cannot predict the rate, or the extent to which, the telecommunications, consumer, computer peripherals, automotive and industrial markets will grow. Changes in these markets, coupled with a lower penetration of certain of our customers, in particular in Wireless, resulted in slower growth and a decline in demand for our products, which had a material adverse effect on our business, financial condition and results of operations.

In addition, our spending on process and product development well ahead of market acceptance could have a material adverse effect on our business, financial condition and results of operations if projected industry growth rates do not materialize as forecasted.

Our business is dependent upon our ability to attract and retain new customers who are successful in identifying and serving new potential, fast-growing markets. The competition for such new customers or new markets is intense. There can be no assurance that we will be successful in attracting and retaining new customers or be able to identify early on any new market prospects. Our failure to do so could materially adversely affect our business, financial position and results of operations.

Our business is also dependent upon continuing to supply existing large customers, their business success and the fit of our product offering with their products road-map. Our customers' products strategy may change from time to time and we have no certainty that our business, financial position and results of operations will not be affected.

***Disruptions in our relationships with any one of our key customers, and/or material changes in their strategy or financial condition, could adversely affect our results of operations.***

A substantial portion of our sales is derived from several large customers, some of whom have entered into strategic agreements with us. However, in 2012, none of our customers represented 10% or more of our revenues. We cannot guarantee that our largest customers will continue to book the same level of sales with us that they have in the past, or will not solicit alternative suppliers or will continue to succeed in the markets they serve. Many of our key customers operate in cyclical businesses that are also highly competitive, and their own demands and market positions may vary considerably. In recent years, certain customers of the semiconductor industry have experienced consolidation and have vertically integrated their businesses. Such consolidations and vertical integrations may impact our business in the sense that our relationships with the new entities could be either reinforced or jeopardized pursuant thereto. Our customers have in the past, and may in the future, vary order levels significantly from period to period, request postponements to scheduled delivery dates or modify their bookings. We cannot guarantee that we will be able to maintain or enhance our market share with our key customers or distributors. If we were to lose important design wins for our products with our key customers, or if any key customer or distributor were to reduce or change its bookings, seek alternate suppliers, increase its product returns or become unable or fail to meet its payment obligations, our business, financial condition and results of operations could be materially adversely affected. If customers do not purchase products made specifically for them, we may not be

able to resell such products to other customers or require the customers who have ordered these products to pay a cancellation fee. Furthermore, developing industry trends, including customers' use of outsourcing and new and revised supply chain models, may reduce our ability to forecast the purchase date for our products and understand evolving customer demand, thereby affecting our revenues and working capital requirements. For example, pursuant to industry developments, some of our products are required to be delivered on consignment to customer sites with recognition of revenue delayed until the earlier of such moment when the customer chooses to take delivery of our products from our consignment stock and the expiry of a defined period of time.

**Table of Contents**

***Our operating results can also vary significantly due to impairment of goodwill and other intangible assets incurred in the course of acquisitions and equity investments, as well as to impairment of tangible assets due to changes in the business environment.***

Our operating results can also vary significantly due to impairment of goodwill, other intangible assets and equity investments booked pursuant to acquisitions, joint venture agreements and the purchase of technologies and licenses from third parties. Because the market for our products is characterized by rapidly changing technologies, significant changes in the semiconductor industry, and the potential failure of our business initiatives, our future cash flows may not support the value of goodwill and other intangibles registered in our consolidated balance sheet. We are required to perform an impairment test of our goodwill on an annual basis, which is done in the third quarter. In addition, we are also required to assess the carrying values of intangible and tangible assets when impairment indicators exist. As a result of such tests, we could be required to book an impairment charge in our consolidated statement of income if the carrying value in our consolidated balance sheet is in excess of the fair value. The amount of any potential impairment is not predictable as it depends on our estimates of projected market trends, results of operations and cash flows. Any potential impairment, if required, could have a material adverse impact on our results of operations.

We performed our annual impairment test in the third quarter of 2012 and, with the exception of our Wireless business discussed below, incurred no charge as the value generated by those reporting units exceeded the carrying value of their assets. We also performed an impairment test of our Wireless assets on a quarterly basis as a result of the ongoing losses suffered in that segment, and booked an impairment charge in the third quarter of \$690 million. As part of our new strategic plan announced on December 10, 2012, we decided to exit the ST-Ericsson joint venture. Following this decision, we performed an additional impairment test and booked an additional impairment charge of \$544 million, leading to a total impairment charge in 2012 in the amount of \$1,234 million relating to our goodwill and other intangible assets in the Wireless business. See [ST-Ericsson experienced declining revenues and an increase in operating losses in 2012 leading to our decision to exit the ST-Ericsson joint venture](#) and [Item 5. Operating and Financial Review and Prospects Overview Critical Accounting Policies Using Significant Estimates Impairment of goodwill](#) , [Intangible assets subject to amortization](#) and [Income \(loss\) on Equity method Investments](#) .

***Because we depend on a limited number of suppliers for raw materials and certain equipment, we may experience supply disruptions if suppliers interrupt supply, increase prices or experience material adverse changes in their financial condition.***

Our ability to meet our customers' demand to manufacture our products depends upon obtaining adequate supplies of quality raw materials on a timely basis. A number of materials are available only from a limited number of suppliers, or only from a limited number of suppliers in a particular region. In addition, we purchase raw materials such as silicon wafers, lead frames, mold compounds, ceramic packages and chemicals and gases from a number of suppliers on a just-in-time basis, as well as other materials such as copper and gold whose prices on the world markets have fluctuated significantly during recent periods. Although supplies for the raw materials we currently use are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. In addition, the costs of certain materials, such as copper and gold, have increased due to market pressures and we may not be able to pass on such cost increases to the prices we charge to our customers. We also purchase semiconductor manufacturing equipment from a limited number of suppliers and, because such equipment is complex, it is difficult to replace one supplier with another or to substitute one piece of equipment for another. In addition, suppliers may extend lead times, limit our supply or increase prices due to capacity constraints or other factors. Furthermore, suppliers tend to focus their investments on providing the most technologically advanced equipment and materials and may not be in a position to address our requirements for equipment or materials of older generations. Shortages of supplies have in the past impacted and may in the future impact the semiconductor industry, in particular with respect to silicon wafers due to increased demand and decreased production, which we experienced as a result of certain natural disasters that have occurred in recent years. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurance that we will not encounter these problems in the future. Our quarterly or annual results of operations would be adversely affected if we were unable to obtain adequate supplies of raw materials or equipment in a timely manner or if there were significant increases in the costs of raw materials or problems with the quality of these raw materials.

***If our outside contractors fail to perform, this could adversely affect our ability to exploit growth opportunities.***

We currently use outside contractors, both for front and back-end activities, and we will increasingly rely on foundries for a portion of our needs. The foundries we contract with are primarily manufacturers of high-speed

---

**Table of Contents**

complementary metal-on silicon oxide semiconductor ( HCMOS ) wafers, while our back-end subcontractors engage in the assembly and testing of a wide variety of packaged devices. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. Our internal manufacturing costs include depreciation and other fixed costs, while costs for products outsourced are based on market conditions. Prices for these services also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter to quarter and, in cases of industry shortages, they can increase significantly further, negatively impacting our gross margin and our results of operations.

***Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities, disruptions or inefficient implementation of production changes that can significantly increase our costs and delay product shipments to our customers.***

Our manufacturing processes are highly complex, require advanced and increasingly costly equipment and are continuously being modified or maintained in an effort to improve yields and product performance. Impurities or other difficulties in the manufacturing process can lower yields, interrupt production or result in losses of products in process. As system complexity and production changes have increased and sub-micron technology has become more advanced using ever finer geometries, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. Although in the past few years we have significantly enhanced our manufacturing capability in terms of efficiency, precision and capacity, we have from time to time experienced bottlenecks and production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. We cannot guarantee that we will not experience bottlenecks, production or transition difficulties in the future. In addition, during past periods of high demand for our products, our manufacturing facilities have operated at high capacity, which has led to production constraints. Furthermore, if production at a manufacturing facility is interrupted, we may not be able to shift production to other facilities on a timely basis, or customers may purchase products from other suppliers. In either case, the loss of revenue and damage to the relationship with our customer could be significant.

***We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others.***

We depend on our ability to obtain patents and other IP rights covering our products and their design and manufacturing processes. We intend to continue to seek patents on our inventions relating to product designs and manufacturing processes. However, the process of seeking patent protection can be long and expensive, and we cannot guarantee that we will receive patents from currently pending or future applications. Even if patents are issued, they may not be of sufficient scope or strength to provide meaningful protection or any commercial advantage. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in some countries. Competitors may also develop technologies that are protected by patents and other IP and therefore either be unavailable to us or be made available to us subject to adverse terms and conditions. We have in the past used our patent portfolio to negotiate broad patent cross-licenses with many of our competitors enabling us to design, manufacture and sell semiconductor products, without fear of infringing patents held by such competitors. We may not, however, in the future be able to obtain such licenses or other rights to protect necessary IP on favorable terms for the conduct of our business, and such failure may adversely impact our results of operations.

We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other IP rights. Some of those claims are made by so called non-practicing entities against which we are unable to assert our own broad patent portfolio to lever licensing terms and conditions. Competitors with whom we do not have patent cross-license agreements may also develop technologies that are protected by patents and other IP rights and which may be unavailable to us or only made available on unfavorable terms and conditions. We may therefore become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. We are currently involved in several lawsuits. See Item 8. Financial Information Legal Proceedings . IP litigation and specifically litigation in the U.S. International Trade Commission ( ITC ) may also involve our customers who in turn may seek indemnification from us should we not prevail and/or who may decide to curtail their orders for those of our products over which claims have been asserted before the ITC. Such lawsuits may therefore have a material adverse effect on our business. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third party IP and/or face an injunction.

## **Table of Contents**

The outcome of IP litigation, given the complex technical issues it involves, is inherently uncertain and may divert the efforts and attention of our management and other specialized technical personnel. Furthermore, litigation can result in significant costs and, if not resolved in our favor, could materially and adversely affect our business, financial condition and results of operations.

### ***We may be faced with product liability or warranty claims.***

Despite our corporate quality programs and commitment, our products may not in each case comply with specifications or customer requirements. We may face product liability or warranty claims based on epidemic, security or delivery failures. Although our general practice, in line with industry standards, is to contractually limit our liability to the repair, replacement or refund of defective products, warranty or product liability claims could result in significant expenses relating to compensation payments or other indemnification to maintain good customer relationships if a customer threatens to terminate or suspend our relationship pursuant to a defective product supplied by us. No assurance can be made that we will be successful in maintaining our relationships with customers with whom we incur quality problems, which could have a material adverse effect on our business. Furthermore, we could incur significant costs and liabilities if litigation occurs to defend against such claims and if damages are awarded against us. In addition, it is possible for one of our customers to recall a product containing one of our parts. Costs or payments we may make in connection with warranty claims or product recalls may adversely affect our results of operations. There is no guarantee that our insurance policies will be available or adequate to protect us against such claims.

### ***Our information technology systems are subject to security breaches and other cybersecurity incidents.***

We may face attempts by others to penetrate our information technology systems and networks to misappropriate our proprietary information and technology or interrupt our business. To the extent that any disruptions or security breaches, which are not addressed by the preventative measures we consistently seek to implement, result in a loss or damage to our data, or inappropriate disclosure of proprietary information, this could ultimately harm our business.

### ***Some of our production processes and materials are environmentally sensitive, which could expose us to liability and increase our costs due to environmental regulations and laws or because of damage to the environment.***

We are subject to many environmental laws and regulations wherever we operate that govern, among other things, the use, storage, discharge and disposal of chemicals, gases and other hazardous substances used in our manufacturing processes, air emissions, waste water discharges, waste disposal, as well as the investigation and remediation of soil and ground water contamination.

A number of environmental requirements in the European Union, including some that have only recently come into force, affect our business. See Item 4. Information on the Company Environmental Matters . These requirements are partly under revision by the European Union and their potential impacts cannot currently be determined in detail. Such regulations, however, could adversely affect our manufacturing costs or product sales by requiring us to acquire costly equipment, materials or greenhouse gas allowances, or to incur other significant expenses in adapting our manufacturing processes or waste and emission disposal processes. We are not in a position to quantify specific costs, in part because these costs are part of our business process. Furthermore, environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. As with other companies engaged in similar activities, any failure by us to control the use of, or adequately restrict the discharge of, chemicals or hazardous substances could subject us to future liabilities. Any specific liabilities we identify as probable would be reflected in our consolidated balance sheet. To date, we have not identified any such probable liabilities and have therefore not booked reserves for any environmental risks.

### ***Loss of key employees could hurt our competitive position.***

As is common in the semiconductor industry, success depends to a significant extent upon our key senior executives and R&D, engineering, marketing, sales, manufacturing, support and other personnel. Our success also depends upon our ability to continue to attract, retain and motivate qualified personnel. The competition for such employees is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on us.

---

## **Table of Contents**

***We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules or the outcome of tax assessments and audits could cause a material adverse effect on our results.***

We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules or the outcome of tax assessments and audits could have a material adverse effect on our results in any particular quarter. Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. We currently receive certain tax benefits in some countries, and these benefits may not be available in the future due to changes in the local jurisdictions. As a result, our effective tax rate could increase in the coming years.

In line with our strategic repositioning of our product portfolio, the acquisition or divestiture of businesses in different jurisdictions could materially affect our effective tax rate.

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. This assessment requires the exercise of judgment on the part of our management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income that is sufficient to utilize loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. The recorded amount of total deferred tax assets could be reduced, resulting in a loss in our consolidated income statement, a decrease in our total assets and, consequently, in our stockholders' equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in management's assessment or due to other factors, such as divestitures, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize tax loss and credit carry-forwards in the future. For example, our decision to exit the ST-Ericsson joint venture led to additional valuation allowances recorded on certain deferred tax assets related to ST-Ericsson, which are no longer supported by tax planning strategies. See Item 5. Operating and Financial Review and Prospects Results of Operations Income tax expense. A change in the estimated amounts and the character of the future result may require additional valuation allowances, resulting in a negative impact on our consolidated income statement.

We are subject to the possibility of loss contingencies arising out of tax claims, assessment of uncertain tax positions and provisions for specifically identified income tax exposures. There are currently tax audits ongoing in certain of our jurisdictions, which could result in material adjustments in our tax position. There can be no assurance that we will be successful in resolving potential tax claims that arose or can arise from these audits. We have booked provisions on the basis of the best current understanding; however, we could be required to book additional provisions in future periods for amounts that cannot be assessed at this stage. Our failure to do so and/or the need to increase our provisions for such claims could have a material adverse effect on our consolidated income statement and our financial position.

***We are required to prepare financial statements under IFRS in addition to Consolidated Financial Statements under U.S. GAAP, and such dual reporting may impair the clarity of our financial reporting.***

We use U.S. GAAP as our primary set of reporting standards. Applying U.S. GAAP in our financial reporting is designed to ensure the comparability of our results to those of our competitors, as well as the continuity of our reporting, thereby providing our stakeholders and potential investors with a clear understanding of our financial performance. As we are incorporated in The Netherlands and our shares are listed on Euronext Paris and on the Borsa Italiana, we are subject to EU regulations requiring us to also report our results of operations and financial statements using IFRS.

As a result of the obligation to report our financial statements under IFRS, we prepare our results of operations using both U.S. GAAP and IFRS, which are currently not consistent. Such dual reporting can materially increase the complexity of our financial communications. Our financial condition and results of operations reported in accordance with IFRS will differ from our financial condition and results of operations reported in accordance with U.S. GAAP, which could give rise to confusion in the marketplace.

***If our internal control over financial reporting fails to meet the requirements of Section 404 of the Sarbanes-Oxley Act, it may have a materially adverse effect on our stock price.***

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules that require us to include a management report assessing the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. In addition, we must also include an attestation by our independent registered public





**Table of Contents**

accounting firm regarding the effectiveness of our internal control over financial reporting. We have successfully completed our Section 404 assessment and received the auditors' attestation as of December 31, 2012. However, in the future, if we fail to complete a favorable assessment from our management or to obtain an unqualified auditors' attestation, we may be subject to regulatory sanctions or may suffer a loss of investor confidence in the reliability of our financial statements, which could lead to an adverse effect on our stock price.

***The interests of our controlling shareholders, which are in turn controlled respectively by the French and Italian governments, may conflict with investors' interests.***

We have been informed that as of December 31, 2012, STMicroelectronics Holding N.V. ( "ST Holding" ), owned 250,704,754 shares, or approximately 27.5%, of our issued common shares. ST Holding is therefore effectively in a position to control actions that require shareholder approval, including corporate actions, the election of our Supervisory Board and our Managing Board and the issuance of new shares or other securities. On June 1, 2012, STMicroelectronics Holding II B.V. ( "ST Holding II" ) merged with ST Holding, as a result of which, ST Holding acquired all of the assets and liabilities of ST Holding II, including our common shares held by ST Holding II, by universal transfer of title, and ST Holding II ceased to exist.

We have also been informed that the shareholders' agreement among ST Holding's shareholders (the "STH Shareholders' Agreement" ), to which we are not a party, governs relations between our current indirect shareholders, *Commissariat à l'Énergie Atomique et aux Énergies Alternatives* ( "CEA" ), *Fonds Stratégique d'Investissement* ( "FSI" ), FT1CI, a company jointly controlled by CEA and FSI, and the Italian *Ministero dell'Economia e delle Finanze* (the "Ministry of the Economy and Finance" ). Each of these shareholders is ultimately controlled by the French or Italian government. See Item 7. Major Shareholders and Related Party Transactions - Major Shareholders. The STH Shareholders' Agreement includes provisions requiring the unanimous approval by shareholders of ST Holding before ST Holding can make any decision with respect to certain actions to be taken by us. Furthermore, as permitted by our Articles of Association, the Supervisory Board has specified selected actions by the Managing Board that require the approval of the Supervisory Board. See Item 6. Directors, Senior Management and Employees. These requirements for the prior approval of various actions to be taken by us and our subsidiaries may give rise to a conflict of interest between our interests and investors' interests, on the one hand, and the interests of the individual shareholders approving such actions, on the other. Our ability to issue new shares or other securities may be limited by the existing shareholders' desire to maintain their proportionate shareholding at a certain minimum level and our ability to buy back shares may be limited by our existing shareholders due to a Dutch law that may require shareholders that own 30% or more of our voting rights to launch a tender offer for our outstanding shares. Dutch law, however, requires members of our Supervisory Board to act independently in supervising our management and to comply with applicable corporate governance standards.

***Our shareholder structure and our preference shares may deter a change of control.***

We have an option agreement (the "Option Agreement" ) with an independent foundation, Stichting Continuïteit ST (the "Stichting" ), whereby we could issue a maximum of 540,000,000 preference shares in the event of actions considered hostile by our Managing Board and Supervisory Board, such as a creeping acquisition or an unsolicited offer for our common shares, which are unsupported by our Managing Board and Supervisory Board and which the board of the Stichting determines would be contrary to the interests of our Company, our shareholders and our other stakeholders. See Item 7. Major Shareholders and Related Party Transactions - Major Shareholders - Shareholders' Agreement - Preference Shares.

No preference shares have been issued to date. The effect of the issuance of preference shares pursuant to the Option Agreement may be to deter potential acquirers from effecting an unsolicited acquisition resulting in a change of control or otherwise taking actions considered hostile by our Managing Board and Supervisory Board. In addition, our shareholders have authorized us to issue additional capital within the limits of the authorization by our shareholders' meeting, subject to the requirements of our Articles of Association, without the need to seek a specific shareholder resolution for each capital increase. See Item 7. Major Shareholders and Related Party Transactions - Major Shareholders - Shareholders' Agreement - Preference Shares.

***Our direct or indirect shareholders may sell our existing common shares or issue financial instruments exchangeable into our common shares at any time. In addition, substantial issuances by us of new common shares or convertible bonds could cause our common share price to drop significantly.***

The STH Shareholders' Agreement, to which we are not a party, between respectively CEA, FSI, FT1CI, our French Shareholder controlled by FSI and CEA, and the Ministry of the Economy and Finance, our Italian

**Table of Contents**

Shareholder, permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at any time from their current level, thereby reducing the current level of their respective indirect interests in our common shares. Such disposals could be made by way of sales of our shares or through issuance of financial instruments exchangeable for our shares, equity swaps or structured finance transactions. The details of the STH Shareholders Agreement, as reported by its parties, are further explained in Item 7. Major Shareholders and Related Party Transactions Major Shareholders . An announcement with respect to one or more of such dispositions could be made at any time without our advance knowledge.

Sales of our common shares or the issuance of financial instruments exchangeable into our common shares or any announcements concerning a potential sale by ST Holding, FT1CI, FSI, CEA or the Ministry of the Economy and Finance, could materially impact the market price of our common shares depending on the timing and size of such sale, market conditions as well as a variety of factors.

In addition, substantial issuances by us of new common shares or convertible bonds could cause our common share price to drop significantly as a result of substantial dilution in the percentage of our shares held by our then existing shareholders. The issuance of common stock for acquisitions or other corporate actions may have the effect of diluting the value of the shares held by our shareholders, and might have an adverse effect on any trading market for our common stock.

***Because we are subject to the corporate law of The Netherlands, U.S. investors might have more difficulty protecting their interests in a court of law or otherwise than if we were a U.S. company.***

Our corporate affairs are governed by our Articles of Association and by the laws governing corporations incorporated in The Netherlands. The corporate affairs of each of our consolidated subsidiaries are governed by the Articles of Association and by the laws governing such corporations in the jurisdiction in which such consolidated subsidiary is incorporated. The rights of the investors and the responsibilities of members of our Managing and Supervisory Boards under Dutch law are not as clearly established as under the rules of some U.S. jurisdictions. Therefore, U.S. investors may have more difficulty in protecting their interests in the face of actions by our management, members of our Supervisory Board or our controlling shareholders than U.S. investors would have if we were incorporated in the United States.

Our executive offices and a substantial portion of our assets are located outside the United States. In addition, ST Holding and most members of our Managing and Supervisory Boards are residents of jurisdictions other than the United States and Canada. As a result, it may be difficult or impossible for shareholders to effect service within the United States or Canada upon us, ST Holding, or members of our Managing or Supervisory Boards. It may also be difficult or impossible for shareholders to enforce outside the United States or Canada judgments obtained against such persons in U.S. or Canadian courts, or to enforce in U.S. or Canadian courts judgments obtained against such persons in courts in jurisdictions outside the United States or Canada. This could be true in any legal action, including actions predicated upon the civil liability provisions of U.S. securities laws. In addition, it may be difficult or impossible for shareholders to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon U.S. securities laws.

We have been advised by Dutch counsel that the United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a consequence, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, will not be enforceable in The Netherlands. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to The Netherlands court the final judgment that has been rendered in the United States. If The Netherlands court finds that the jurisdiction of the federal or state court in the United States has been based on grounds that are internationally acceptable and that proper legal procedures have been observed, the court in The Netherlands would, under current practice, give binding effect to the final judgment that has been rendered in the United States unless such judgment contradicts The Netherlands public policy.

***Removal of our common shares from the CAC 40 on Euronext Paris, the FTSE MIB on the Borsa Italiana or the PHLX Semiconductor Sector Index ( SOX ) with respect to the U.S. markets could cause the market price of our common shares to drop.***

Our common shares have been included in the CAC 40 index on Euronext Paris since November 12, 1997; the FTSE MIB index (which replaced the S&P/MIB on June 1, 2009), on the Italian Stock Exchange, since March 18, 2002; and the SOX since June 23, 2003. However, our common shares could be removed from the

---

## **Table of Contents**

CAC 40, the FTSE MIB or the SOX at any time if, for a sustained period of time, our market capitalization, liquidity or trading volume were to fall below the required thresholds for the respective indices or our shares were to trade below a certain price. In addition, we could be removed from one or more of these indices in the event of a delisting of our shares from one or more of the stock exchanges where we are currently listed or if we were to decide to pursue a delisting on one of the three stock exchanges on which we maintain a listing as part of the measures we may from time to time consider to simplify our administrative and overhead expenses. Certain investors will only invest funds in companies that are included in one of these indexes. Any such removal or the announcement thereof could cause the market price of our common shares to drop.

### **Item 4. Information on the Company History and Development of the Company**

STMicroelectronics N.V. was formed and incorporated in 1987 and resulted from the combination of the semiconductor business of SGS Microelettronica (then owned by Società Finanziaria Telefonica (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by the former Thomson-CSF, now Thales, a French corporation). We completed our initial public offering in December 1994 with simultaneous listings on the Bourse de Paris (now known as Euronext Paris) and the New York Stock Exchange ( NYSE ). In 1998, we listed our shares on the Borsa Italiana S.p.A. ( Borsa Italiana ). Until 1998, we operated as SGS-Thomson Microelectronics N.V. We are organized under the laws of The Netherlands. We have our corporate legal seat in Amsterdam, The Netherlands, and our head offices at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol Airport, The Netherlands. Our telephone number there is +31-20-654-3210. Our headquarters and operational offices are managed through our wholly owned subsidiary, STMicroelectronics International N.V., and are located at 39 Chemin du Champ des Filles, 1228 Plan-Les-Ouates, Geneva, Switzerland. Our main telephone number there is +41-22-929-2929. Our agent for service of process in the United States related to our registration under the U.S. Securities Exchange Act of 1934, as amended, is Corporation Service Company (CSC), 80 State Street, Albany, New York, 12207. Our operations are also conducted through our various subsidiaries, which are organized and operated according to the laws of their country of incorporation, and consolidated by STMicroelectronics N.V.

### **Business Overview**

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor products used in a wide variety of applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Semiconductors are the basic building blocks used to create an increasing variety of electronic products and systems. Since the invention of the transistor in 1948, continuous improvements in semiconductor process and design technologies have led to smaller, more complex and more reliable devices at a lower cost per function. As performance has increased and size and unitary cost have decreased, semiconductors have expanded beyond their original primary applications (i.e. computer systems) to applications such as telecommunication systems, consumer goods, automotive products and industrial automation and control systems. In addition, system users and designers have demanded systems with more functionality, higher levels of performance, greater reliability and shorter design cycle times, all in smaller packages at lower costs.

Our major customers include Apple, Blackberry, Bosch, Cisco, Continental, Delphi, Delta, Denso, Ericsson, Hewlett Packard, Hitachi, HTC, Marelli, Motorola Mobility, Nokia, Philips, Samsung, Seagate, Sony and Western Digital. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Tomen and Yosun. The semiconductor industry has historically been cyclical and we have responded by emphasizing balance in our product portfolio, in the applications we serve and in the regional markets we address.

Although cyclical changes in production capacity in the semiconductor industry and demand for electronic systems have resulted in pronounced cyclical changes in the level of semiconductor sales and fluctuations in prices and margins for semiconductor products from time to time, the semiconductor industry has experienced substantial growth over the long-term. Factors that contribute to long-term growth include the development of new semiconductor applications, increased semiconductor content as a percentage of total system cost, emerging strategic partnerships and growth in the electronic systems industry.

We offer a broad and diversified product portfolio and develop products for a wide range of market applications to reduce our dependence on any single product, application or end market. Within our diversified portfolio, we have focused on developing products that leverage our technological strengths in creating

---

## **Table of Contents**

customized, system-level solutions with high-growth digital and mixed-signal content. Our product families are comprised of differentiated application-specific products (we define as being our dedicated analog, mixed-signal and digital application-specific integrated circuits ( ASICs ) and application-specific standard products ( ASSP ) offerings and semi-custom devices) that were organized under our Automotive ( APG ), Analog, MEMS and Microcontrollers ( AMM ), Digital ( Digital ), Power Discrete Products ( PDP ) and Wireless ( Wireless ) segments.

Our products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods. We use all of the prevalent function-oriented process technologies, including CMOS, bipolar and nonvolatile memory technologies. In addition, by combining basic processes, we have developed advanced systems-oriented technologies that enable us to produce differentiated and application-specific products, including bipolar CMOS technologies ( BiCMOS ) for mixed-signal applications, and diffused metal-on silicon oxide semiconductor ( DMOS ) technology and bipolar, CMOS and DMOS ( BCD technologies ) for intelligent power applications, MEMS and embedded memory technologies. This broad technology portfolio, a cornerstone of our strategy for many years, enables us to meet the increasing demand for System-on-Chip ( SoC ) and System-in-Package ( SiP ) solutions. Complementing this depth and diversity of process and design technology is our broad IP portfolio that we also use to enter into broad patent cross-licensing agreements with other major semiconductor companies.

Our principal investment and resource allocation decisions in the semiconductor business area are for expenditures on technology R&D as well as capital investments in front-end and back-end manufacturing facilities, which are planned at the corporate level; therefore, our product segments share common R&D for process technology and manufacturing capacity for most of their products.

For information on our segments and product lines, see Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information .

## **Results of Operations**

For our 2012 Results of Operations, see Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information .

## **Strategy**

We finalized our new strategic plan and announced it on December 10, 2012, setting forth our new vision and strategy, focusing on five growth drivers where ST leads or intends to lead.

Our new strategy takes into account the evolution of the markets we are in and the environment we see in the years ahead. Our new strategy is based on leadership in our two product segments, which were effective January 1, 2013: (i) Sense & Power and Automotive Products ( SPA ) comprised of MEMS and Sensors, Power Discrete and Modules, Advanced Analog, Power Management and Standard ICs, and Automotive products; and (ii) Embedded Processing Solutions ( EPS ) comprised of General Purpose and Secure MCUs, EEPROMs, Imaging ICs and Modules, Digital ASICs and Application Processors and Digital Consumer products. Each segment will be supported by a new Sales & Marketing organization with a particular focus on our major accounts, as well as expanding our penetration of the mass market.

Going forward we will focus on five growth drivers: (i) Automotive Products, (ii) Application Processors, including Digital Consumer Products, (iii) MEMS and Sensors, (iv) Microcontrollers and (v) Smart Power. These product families are expected to experience solid growth rates driven by secular trends and are aligned with our market-leading positions and competitive advantages. Our innovative products in these areas, combined with our competitive technology and flexible and independent manufacturing capabilities, bring us even more opportunities to significantly grow and gain market share.

We intend to be more focused, leaner and better positioned to achieve our new financial model. We are targeting an operating margin of 10% or more. Our ability to meet this financial model is based upon our objective of achieving solid revenue growth and reducing our quarterly net operating expenses to the range of \$600 million to \$650 million by the beginning of 2014, assuming an exchange rate of \$1.30 per Euro. Our decision to exit the ST-Ericsson joint venture is part of our new strategy. We believe that our strong capital structure enables us to operate as a long-term, viable supplier of semiconductor products and participate as a global leader in the industry.

## **Table of Contents**

### **Product Segments**

We design, develop, manufacture and market a broad range of products used in a wide variety of microelectronic applications, including telecommunications systems, computer systems, consumer goods, automotive products and industrial automation and control systems. Our products include discretes, microcontrollers, Smartcard products, standard commodity components, MEMS and advanced analog products, ASICs (full-custom devices and semi-custom devices) and ASSPs for analog, digital, and mixed-signal applications.

In 2012, we ran our business along product lines and managed our revenues and internal operating performance based on the following product segments:

Automotive Segment ( APG );

Digital Segment, consisting of two product lines:

Digital Convergence Group ( DCG ); and

Imaging, Bi-CMOS ASIC and Silicon Photonics ( IBP ).

Analog, MEMS and Microcontrollers Sector ( AMM ), comprised of three product lines:

Analog, MEMS & Sensors ( AMS );

Industrial & Power Conversion ( IPC ); and

Microcontrollers, Memories & Secure MCUs ( MMS ).

Power Discrete Product Segment ( PDP );

Wireless Segment comprised of the following product lines:

Connectivity ( COS );

Smartphone and Tablet Solutions ( STS );

Modems ( MOD ); and

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Other Wireless, in which we report other revenues, gross margin and other items related to the Wireless business but outside the ST-Ericsson JVS.

We also design, develop, manufacture and market subsystems and modules for a wide variety of products in the telecommunications, automotive and industrial markets in our Subsystems division. Based on its immateriality, we do not report information separately for Subsystems. For a description of the main categories of products sold and/or services performed for each of the last three fiscal years, see Note 26 to our Consolidated Financial Statements.

Please refer to Item 5. Operating and Financial Review and Prospects Overview Other Developments and Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information for a description of the changes effective January 1, 2013.

### ***Automotive Segment (APG)***

Our automotive products include digital and mixed signal devices that enable features like airbag controls, anti skid braking systems, vehicle stability control, ignition and injection circuits, multiplex wiring, RF and power management for body and chassis electronics, engine management, advanced safety, instrumentation, car radio and infotainment. We hold a leading position in the global IC market for automotive semiconductor products. In addition to our own products and technologies, we also work with Freescale Semiconductor on 90nm and 55nm embedded Flash Technology and other common products based on cost effective 32-bit microcontrollers for use in many automotive applications.

(i) *Power Train and Safety Division.* We design and manufacture smart power products to enhance performance, safety and comfort while reducing the environmental impact of the automobile. For powertrain and safety, our products are used for engine emissions and fuel economy improvements, passive and active safety systems and powertrain electrification with mixed signal power management power driver and analog signal processing. In this area, we are clearly a market leader thanks to continuous process innovation, such as the recently introduced 110nm.

**Table of Contents**

(ii) *Body and Audio Division.* We design and manufacture power and smart power products addressing applications like air conditioning, lighting (including Xenon), car connectivity, dashboard, body and comfort. In addition, in 2012, we introduced the new generation class D power audio amplifier in both the analog and digital domains.

(iii) *Micro and RF Division.* We design and produce products to provide a full solution in the digital area of automotive applications. We provide a full range of 32-bit microcontrollers to cover all the different applications of the Automotive industry, from power train to passive and active safety, to body and convenience. All these products are based on Power Architecture™ and foster our leadership in manufacturing embedded flash processes. The 55nm was introduced in production and the 40nm is currently used for new products. We also create full solutions for automotive infotainment analog including tolling, navigation and telematics applications. The increasingly complex requirements of the car/driver interface continue to create market opportunities for us to use the company's media processing and global positioning ( GPS ) capabilities in car multimedia applications. We have the skills and competence to provide a total solution, including GPS navigation, media processing, audio amplification and signal processing. We also supply components to satellite radio applications, including base band products to market leaders in this area.

***Digital Segment***

The Digital Segment is comprised of two product lines: Digital Convergence Group ( DCG ) and Imaging, Bi-CMOS ASIC and Silicon Photonics Group ( IBP ).

***DCG***

We provide a complete and flexible solution across a broad range of applications for delivering high-definition content and rich services to end users, from complex ASICs for network infrastructure and gaming to ASSPs for digital set-top boxes, monitors, and digital TV. We plan to focus our efforts on application processors including digital consumer products. A key objective is to offer application processors to serve many markets through a unified processing platform. During 2012, we saw fast adoption of our 40nm Set-Top box families for cable, terrestrial & IPTV; we earned significant design wins for Orly, a powerful set-top box system-on-chip, in both 32nm and 28nm; and we introduced our DOCSIS 3.0 products for new high-speed cable networks. We also increased traction for high-resolution multimedia-monitor controllers in premium monitors and public displays with major manufacturers. In addition, we were awarded a 32nm ASIC with a major networking company and have started to work on innovative ASICs for various applications using our FD-SOI technology.

***IBP***

The IBP Group's activities focus on developing innovative, competitive and low power solutions and systems for Bi-CMOS ASIC & Silicon Photonics as well as Imaging products.

(i) *Bi-CMOS ASIC & Silicon Photonics.* We are focused on developing products for RF, Optical ICs and Silicon Photonics. In 2012, our Bi-CMOS process family for communications infrastructure included RF ICs for base stations and ICs for optical interconnect. In 2012, following our partnership agreement signed in December 2011 with Luxtera, a world leader in Silicon Photonics, we began setting up the process to design, manufacture and sell Silicon Photonics products based on our CMOS 65nm produced on our 12" Crolles line.

(ii) *Imaging.* We address image capture and processing product requirements for various segments of the industry, thanks to four product families, CMOS image sensors, CMOS photonic sensors, Imaging modules and Imaging processors. In the mobile imaging segment, wireless handset and tablets, we produce CMOS-based camera modules, CMOS image sensors and processors for low and high density pixel resolutions, which also meet the autofocus, advanced fixed focus and miniaturization requirements of this market. In 2012, we began the expansion and rebalance of our business portfolio, both by enlarging our customer base in mobile imaging, and by pursuing new opportunities beyond wireless such as automotive, consumer and health applications. We also offer customers and partners the capability to jointly develop innovative and system optimized solutions for their image capture and processing needs. We utilize our expertise and knowledge of the imaging ecosystem, advanced technologies and IP, to provide best in class differentiated products for a select base of customers who are leaders in their markets. Technology wise, customers have adopted new image sensors based on our proprietary BSI (Back Side Illumination) process. In addition, the innovative ToF (Time of Flight) technologies we have developed are being deployed in unique CMOS photonic sensors and highly integrated modules.



## **Table of Contents**

### ***Analog, MEMS and Microcontrollers Sector (AMM)***

AMM is comprised of three product lines: Analog, MEMS and Sensors ( AMS ), Industrial & Power Conversion ( IPC ) and Microcontrollers, Memories & Secure MCUs ( MMS ).

We are positioning AMM in the High End Analog world that comprises MEMS, many kinds of Sensors, Interfaces, low power RF Transceivers and Analog front-end. AMM also comprises High Voltage Smart Power Controllers for main Industrial and Power Conversion applications such as Metering and Lighting, which leverages our leadership in MEMS and our system expertise built around ARM based microcontrollers, representing the core of many applications today.

### ***AMS***

We design and manufacture a wide variety of MEMS products for many different applications and all market segments. We are a leader of the overall MEMS Market with the ability to produce and sell micro-actuators, like the thermal ones utilized in the Thermal Ink Jet and micromachined sensors, such as accelerometers, gyroscopes, altimeters, compasses and microphones, in billions of pieces per year. Our original product line of three axis accelerometers designed to be used for user interfaces was expanded in 2010 to include a complete family of very successful high performance multi axis gyroscopes. In 2012, the sales of gyroscopes exceeded the sales of accelerometers. We have a family of products under the trademark of iNEMO™, which results from the combination of accelerometers, gyroscopes, compasses, pressure sensors and microcontrollers. Sales of iNEMO™ and standalone pressure sensors grew substantially in 2012. Standalone sensors and iNEMO™ enable accurate motion tracking in 3D to enhance motion controlled user interfaces in gaming, smartphones, tablets, remote controllers, portable navigation devices and multimedia players. Motion sensors are also widely employed in laptops, automobiles, PCs, hard disk drives and digital still cameras. In 2012, we also began volume production of high performance bottom-port and top-port microphones for better audio quality in portable devices. The current most important developments in the MEMS field include:

miniaturized high accuracy pressure sensors;

fast response-time miniaturized low cost humidity sensors;

lower power consumption magnetic sensors;

lower noise, higher stability motion sensors for optical image stabilization, indoor navigation and wearable devices;

new generation microphones;

micro mirrors, Analog and digital ICs for complete portable projectors (in 2012 we acquired a startup in Israel called bTendo, specialized in portable projectors);

piezoelectric actuators faster than thermal actuators for inkjet print-head in the commercial drive; and

miniaturized Lab-On-Chips for the Molecular Diagnostics market segment.

The Group also develops innovative, differentiated and value added analog products such as:

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Audio Amplifiers ICs, used in a variety of end-products from portable to professional audio systems;

Touch Screen controllers, named FingerTip Chips, for in-cell and on-cell LCD and AMOLED panel technology for smartphones and tablets applications;

Low power InfraRed sensors;

Battery-less low power wireless sensor nodes for applications in healthcare, industrial and consumer applications;

Gas Flow sensors for next generation fully electronic gas-meters;

High-resolution ICs for 3D and 4D ultrasound imaging; and

High Performance Standard Products like Operational Amplifiers and comparators, current sensors, real time clock chips, smart resets, supervisors and new generation Interface chips.

**Table of Contents***IPC*

We design and manufacture products for industrial applications, such as those relating to lighting and power-line communication; power supply and power management ICs for computer, industrial, consumer, and telecom applications along with power over Ethernet powered devices. In the industrial market segment, our key products are power ICs for motor control, including monolithic DMOS solutions and high-voltage gate drivers, for a broad range of systems; intelligent power switches for factory automation and process control. We offer also a broad product portfolio of linear and switching voltage regulators, addressing various applications, from general purpose point of load, for most of the market segments (consumer, computer and data storage, mobile phones, industrial, medical, automotive, aerospace), to specific functions such as camera flash LED, LCD backlighting and organic LED power supply, for the mobile handset and other portable device markets; Low Noise Block supply and control for set top box; and multiple channels DC-DC for motherboards are also featured.

*MMS*

(i) *Memory Division.* Memories (EEPROM, EPROM) are used for parameter storage in various electronic devices used in all market segments.

(ii) *Microcontroller Division.* We offer a wide range of 8-bit and 32-bit microcontrollers suitable for a wide variety of applications from those where a minimum cost is a primary requirement to those that need powerful real-time performance and high-level language support. These products are manufactured in processes capable of embedding nonvolatile memories as appropriate.

(iii) *Secure Microcontroller Division.* Secure Microcontrollers are 8-bit and 32-bit microcontrollers that securely store data and provide an array of security capabilities including advanced data encryption. Our expertise in security is a key to our leadership in the banking, pay-TV, mobile communication, identity, and transport fields. We also actively contribute to the emergence of new applications such as secure mobile transactions on near field communication (NFC) mobile phones, trusted computing, brand protection, etc. In addition under the Incard brand, the division develops, manufactures and sells smartcards for banking, identification and telecom applications.

**Power Discrete Product Segment (PDP)**

(i) *ASD and IPAD Division.* This division offers a full range of rectifiers, protection devices, thyristors and Integrated Passive and Active Devices (IPAD). These components are used in various applications, including telecommunications systems (telephone sets, modems and line cards), household appliances and industrial systems (motor-control and power-control devices). More specifically, rectifiers (both Silicon and Silicon carbide) are used in voltage converters and regulators, while thyristors control current flows through a variety of electrical devices, including lamps and household appliances. New areas of development are Tunable capacitors, which are very important in mobile phones, and thin film flexible rechargeable batteries.

(ii) *Transistor Division.* We design, manufacture and sell Power MOSFET, IGBT and Bipolar Transistors ranging from 20 to 2200 volts for most of the switching and linear applications on the market today. Our products are particularly well suited for high voltage switch-mode power supplies, lighting, motor control and consumer applications. The Division also produces RF power transistors for specific markets such as factory automation, medical and avionics with particular attention paid to developing new composite materials like SiC and GaN, which look to be the new promising areas of growth for automotive and alternative energies, where high switching performance, low conduction losses and high operating temperature are required.

During 2012 we announced a new family of products, the Advanced Power MOSFET Family, that enables customers to satisfy stricter power and efficiency targets set by eco-design standards and green-energy applications such as solar micro-inverters, photovoltaic string inverters and electric vehicles. The new family includes the industry's first super-junction transistors (SuperMESH 5 technology) capable of withstanding peak voltages up to 950V, as well as 900V devices offering best-in-class energy efficiency and the world's only 850V devices to be offered in the ultra-thin and space-saving PowerFLAT 8x8 HV package.

For IGBT, we received various design wins in Solar & Welding applications in Europe and Greater China with our new IGBT series in Trench Gate Field Stop technology, beginning with a 650V 60A device.

## **Table of Contents**

In Power-Supply Chips for Advanced Smartphone Displays, we extended our leadership with the new chip, STOD13AS. This chip is produced using our innovative Silicon On Insulator (SOI) process technology, which ensures remarkable energy efficiency and results in longer battery life. In addition, high immunity to cellphone-communication noise produces a consistent, flicker-free display.

We also developed the cSPIN series, the first controller family with the ability to provide full digital control of motion with speed profile generation and positioning, integrating a dual full bridge gate driver for external MOSFETs with embedded non-dissipative over-current protection.

In addition, we expanded our portfolio addressing LED lamp applications with the new members of the High Voltage LED family (HVLED807PF and HVLED815PF) and added two miniaturized motor drivers to our range of SLLIMM (Small Low-Loss intelligent Molded Modules) to enable domestic appliances to have better energy ratings. SLLIMM -nano modules integrate complete motor-control power stage plus optional sensing and safety features, saving over 30 components to cut design time, cost and size.

### ***Wireless Segment***

The Wireless Segment resulted from the combination of our wireless business with NXP s to create ST-NXP Wireless as of August 2, 2008. Subsequently, we combined that business with Ericsson s mobile platform business to form a joint venture, ST-Ericsson, which began operations on February 1, 2009.

The Wireless Segment is responsible for the design, development and manufacture of semiconductors and platforms for mobile applications. The Wireless Segment is comprised of four product lines: Connectivity ( COS ), Smartphone and Tablet Solutions ( STS ), Modems ( MOD ), in which since February 3, 2009, we report the portion of sales and operating results of ST-Ericsson JVS as consolidated in our revenue and operating results, and Other Wireless, in which we report other revenues, gross margin and other items related to our Wireless business outside the ST-Ericsson JVS. For the definition of ST-Ericsson JVS, see Item 5. Operating and Financial Review and Prospects Overview Critical Accounting Policies Using Significant Estimates .

ST-Ericsson focuses on developing and delivering a complete portfolio of innovative mobile platforms and cutting-edge wireless semiconductor solutions across the broad spectrum of mobile technologies.

### **Alliances with Customers and Industry Partnerships**

We believe that alliances with customers and industry partnerships are critical to success in the semiconductor industry. Customer alliances provide us with valuable systems and application know-how and access to markets for key products, while allowing our customers to share some of the risks of product development with us and to gain access to our process technologies and manufacturing infrastructure. We are actively working to expand the number of our customer alliances, targeting OEMs in the United States, in Europe and in Asia.

Partnerships with other semiconductor industry manufacturers permit costly R&D and manufacturing resources to be shared to mutual advantage for joint technology development. For example, we belong to the International Semiconductor Development Alliance to co-develop 32/28nm and below process technologies. In addition, we have joint development programs with leading suppliers such as Air Liquide, ASM Lithography, Hewlett-Packard, PACKTEC, JSR, SOITEC, Statchip, Teradyne and with electronic design automation ( EDA ) tool producers, including Apache, Atrenta, Cadence, Mentor and Synopsys. We also participate in joint European research programs, such as the ITEA, the Cluster for Application and Technology Research in Europe on NanoElectronics ( CATRENE ), ARTEMIS and the European Nanoelectronics Initiative Advisory ( ENIAC ) programs.

### **Customers and Applications**

We design, develop, manufacture and market thousands of products that we sell to thousands of customers. Our top 20 customers include Apple, Blackberry, Bosch, Cisco, Continental, Delphi, Delta, Denso, Ericsson, Hewlett-Packard, Hitachi, HTC, Marelli, Motorola Mobility, Nokia, Philips, Samsung, Seagate, Sony and Western Digital. To many of our key customers we provide a wide range of products, including application-specific products, discrete devices, memory products and programmable products. Our broad range portfolio helps foster close relationships with customers, which provides opportunities to supply such customers requirements for multiple products, including discrete devices, programmable products and memory products. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Tomen, Wintech and Yosun.



## **Table of Contents**

As of December 31, 2012, no single customer accounted for 10% or more of our 2012 net revenues. The Nokia group of companies accounted for 10.4% of net revenues in 2011 and 13.9% in 2010. There can be no assurance that our customers or distributors will continue to place orders with us in the future at the same levels as in prior periods. See Item 3. Key Information Risk Factors Risks Related to Our Operations Disruptions in our relationships with any one of our key customers, and/or material changes in their strategy or financial condition, could adversely affect our results of operations .

### **Sales, Marketing and Distribution**

In 2012, we reorganized our Sales & Marketing organization with the primary objectives of accelerating sales growth and gaining market share. The changes were designed along three key drivers: strengthening the effectiveness of the development of our global accounts; boosting demand creation through an enhanced focus on geographical coverage; and establishing marketing organizations in our regional sales organizations that are fully aligned with the Product Groups.

Following this reorganization, the previous sales organization structured by market segment was replaced by a new sales organization organized by a combination of country/area coverage and key accounts coverage. Our Sales & Marketing organization is now structured into six units: four regional sales organizations and two major accounts units.

#### *Regional Sales Organizations*

Our four regional sales organizations, a description of which follows below, have a similar structure to enhance coordination in the go-to-market activities. They are also strongly focused on accelerated growth.

(i) *EMEA* The EMEA region is divided into four business units: automotive, convergence EMS, industrial and multimarket and also integrates the global business unit covering Nokia and the wireless platform accounts. Each business unit is dedicated to customers operating mainly in its market segment, actively promoting a broad range of products, including commodities and dedicated ICs, as well as proposing solutions through its sales force, field application engineers, supply-chain management, customer service and technical competence center for system solutions, with support functions provided locally or centrally (through central labs).

(ii) *Americas* In the Americas region, the sales and marketing team is organized into seven major accounts: Global Key Accounts, Four New Major Accounts, Sales by Geography consisting of the West Coast, Central South, North Central and East Coast Sales. We also have a sales team supporting Latin America based in two centers in Mexico and Brazil. Our Marketing teams that support and promote specific products are organized in line with our product segments for which there are six: APG, AMS, DCG, IBP, Industrial and Power Discrete ( IPD ), MMS. We also have an organization that manages our distribution network and supports EMS customers mostly for manufacturing on behalf of our OEM customers.

(iii) *Greater China-South Asia* Since January 2012, the Greater China & South Asia region now comprises six geographical sales units with offices covering North China (Beijing), Central China (Shanghai), South China (Hong Kong), Taiwan (Taipei), India (New Delhi) and ASEAN/Australia & New Zealand (Singapore). It is further supported by a centralized Channel coordination function, as well as four key Marketing and Application functions, namely, DCG/IBP, APG, IPD/AMS and MMS, and four new major accounts. Certain major highlights from 2012 include: the establishment of a joint R&D laboratory to drive innovation in automotive with the FAW Group, the longest and largest automobile group operating in China; the opening of a joint laboratory with the Harbin Institute of Technology, one of China's most renowned universities, to nurture the next generation of engineering talent in China; and the launch of VereMTB using ST's Lab-on-Chip technology, a new molecular diagnostic kit, to test for Multi-Drug Resistant Tuberculosis.

(iv) *Japan-Korea* The Japan-Korea region sales and marketing team is divided into four business units (automotive, consumer, industrial, communications) in each country, plus a comprehensive distribution business unit that provides products and sales support for the regional distribution network. Each business unit sells each product from our portfolio that fits the applications covered by the unit. A central product-marketing organization provides product support and training for standard products for the region. In addition, five central support functions (business management, field quality, human resources, finance and corporate communications) allow the region to run all of the necessary tasks smoothly. Our sales and marketing activities are performed through sales offices in Tokyo, Osaka, Nagoya and Seoul.

---

## **Table of Contents**

The sales and marketing activities performed by our regional sales organizations are supported by product marketing that is carried out by each product division, which also includes product development functions. This matrix system reinforces our sales and marketing activities and our broader strategic objectives. An important component of our regional sales and marketing efforts is to expand our customer base, which we seek to do by adding sales representatives, regional competence centers and new generations of electronic tools for customer support.

Most of our regional sales organizations operate dedicated distribution organizations. To support the distribution network, we operate logistic centers in Saint Genis, France and Singapore. We also engage distributors and representatives to distribute our products around the world. Typically, distributors handle a wide variety of products, including products that compete with our products, and fill orders for many customers. Most of our sales to distributors are made under agreements allowing for price protection and/or the right of return on unsold merchandise. We generally recognize revenues upon the transfer of ownership of the goods at the contractual point of delivery. Sales representatives generally do not offer products that compete directly with our products, but may carry complementary items manufactured by others. Representatives do not maintain a product inventory. Their customers place large quantity orders directly with us and are referred to distributors for smaller orders.

At the request of certain of our customers, we also sell and deliver our products to EMS, which, on a contractual basis with our customers, incorporate our products into the application specific products they manufacture for our customers. Certain customers require us to hold inventory on consignment in their hubs and only purchase inventory when they require it for their own production. This may lead to delays in recognizing revenues, as revenue recognition will occur, within a specific period of time, at the actual withdrawal of the products from the consignment inventory, at the customer's option.

### *Major Accounts Units*

Our Sales & Marketing organization includes two major accounts units, Europe Major Accounts and Americas Major Accounts, for our established global customers, aimed at enhancing the development of our business relationships with such clients.

In addition to the aforementioned major accounts, approximately forty accounts are managed globally by key account managers who are responsible for total sales generated worldwide, irrespective of the channel and the geography. The main criteria for the selection of these accounts are their growth potential, the size of their transnational business and the geographical dispersion of their R&D activities.

For a breakdown of net revenues by product segment and geographic region for the last three fiscal years, see Item 5. Operating and Financial Review and Prospects .

## **Research and Development**

We believe that market driven R&D founded on leading edge products and technologies is critical to our success. The main R&D challenge we face is continually increasing the functionality, speed and cost-effectiveness of our semiconductor devices, while ensuring that technological developments translate into profitable commercial products as quickly as possible.

We combine front-end manufacturing and technology R&D under the same organization to ensure a smooth flow of information between the R&D and manufacturing organizations. We manage our R&D projects by technology and by product segment. The relevant technology R&D expenses are allocated to the product segments on the basis of the estimated efforts. The total amount of R&D expenses in the past three fiscal years was \$2,413 million, \$2,352 million and \$2,350 million in 2012, 2011 and 2010, respectively.

We devote significant effort to R&D because we believe such investment can be leveraged into competitive advantages. New developments in semiconductor technology can make end products significantly cheaper, smaller, faster, more reliable and embedded with more functionalities than their predecessors. They also enable, through their timely appearance on the market, significant value creation opportunities. For a description of our R&D expenses, see Item 5. Operating and Financial Review and Prospects Results of Operations Research and Development Expenses .

With the core CMOS and analog technologies in our portfolio, we are aggressively proceeding to miniaturization in line with industry requirements. To differentiate our offering for higher value systems, we also seek to combine our core technologies with our specific knowhow and expertise, in particular in the area of System-in-Package.

## Table of Contents

Our R&D design centers offer a significant advantage for us in quickly and cost effectively introducing products. In addition, we have advanced R&D centers strategically located around the world, including in France, Italy, Belgium, Canada, China, India, Singapore, Sweden, the United Kingdom and the United States. We have a technology council comprised of fifteen leading experts to review, evaluate and advise us on the competitive landscape. Our R&D center in Greater Noida, India provides necessary support to the Group's design activities worldwide and hosts R&D activities focused on software development and core libraries development, with a strong emphasis on system solutions.

In 2008, we entered into an R&D alliance with the International Semiconductor Development Alliance ( ISDA ) led by IBM, whose other core members are Samsung and Global Foundries, to develop leading edge core CMOS technologies at 32/28nm and 22/20nm nodes. In 2013, we extended our participation in ISDA to cover the next nodes. We are also working with the CEA Leti and IBM to develop in Crolles our FD-SOI derivative technology, which is now ready for production.

In 2009, we also entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the Nano-2012 Research and Development program. This alliance expired at the end of 2012 and we are currently in discussions concerning a new program, Nano-2017 , for an additional five-year period, with the goal of reaching an agreement on content and budget before the end of 2013. For more information, see Public Funding .

Furthermore, our manufacturing facility in Crolles, France houses a R&D center, Centre Commun de Microelectronique de Crolles . Laboratoire d Electronique de Technologie d Instrumentation, a research laboratory of CEA (one of our indirect shareholders), is our partner in this center. In 2012, a new structure, Institut de Recherche Technologique ( IRT ), was set up by CEA in the frame of the French initiative Investissements d Avenir . We participate in this program, which takes place on CEA's premises, through investment and by contributing the expertise of some of our researchers.

There can be no assurance that we will be able to generate the necessary funding to support the ongoing costs of our R&D programs, or that we will be able to develop future technologies and commercially implement them on satisfactory terms, or that our alliances will allow the successful development of state-of-the-art core CMOS or FD-SOI technologies on satisfactory terms and in line with market requirements. See Item 3. Key Information Risk Factors Risks Related to Our Operations Our R&D efforts are increasingly expensive and dependent on technology alliances, and our business, results of operations and prospects could be materially adversely affected by the failure or termination of such alliances .

In Italy, our technology R&D development activities occur principally in Agrate and Catania. In Agrate, such activities encompass prototyping, pilot and volume production of newly developed technologies with the objective of accelerating process industrialization and time to market for Smart Power affiliation (BCD), including on SOI, High Voltage CMOS and MEMS. We also run a joint operation under a consortium agreement with Micron Technologies ( Micron ) in which we and Micron each manage our respective technology R&D programs. In Catania, we develop new technologies for power discretes, SICs and gallium arsenide.

Our Advanced Systems Technology ( AST ) organization, primarily located in Agrate, creates system knowledge that supports our SoC development. AST's objective is to develop the advanced architectures that will drive key strategic applications, including health care, wireless and data security. AST's challenge is to combine the expertise and expectations of our customers, industrial and academic partners, our central R&D teams and product segments to create a cohesive, practical vision that defines the hardware, software and system integration knowledge that we will need in the next three to five years and the strategies required to master them.

We play leadership roles in numerous projects running under the European Union's IST (Information Society Technologies) programs. We also participate in joint European research programs, such as the ITEA, the Cluster for Application and Technology Research in Europe on NanoElectronics ( CATRENE ), ARTEMIS and the European Nanoelectronics Initiative Advisory ( ENIAC ) programs.



**Table of Contents****Property, Plants and Equipment**

We currently operate 14 main manufacturing sites around the world. The table below sets forth certain information with respect to our current manufacturing facilities, products and technologies. Front-end manufacturing facilities are fabs and back-end facilities are assembly, packaging and final testing plants.

| <b>Location</b>                                 | <b>Products</b>  | <b>Technologies</b>   |
|---|--|---|
| <b>Front-end facilities</b><br>Crolles1, France | Application-specific products  | Fab: 200mm CMOS and BiCMOS, Analog/RF   |
| Crolles2, France                                | Application-specific products and leading edge logic products  | Fab: 300mm research and development on deep sub micron (20nm bulk and FD-SOI 14nm) CMOS and differentiated SoC technology and manufacturing on advanced CMOS and imaging technologies |
| Agrate, Italy                                   | Nonvolatile memories, microcontrollers and application-specific products   | Fab 1: 200mm BCD, MEMS, Microfluidics   |
|   | MEMS   | Fab 2: 200mm, embedded Flash, research and development on nonvolatile memories and BCD technologies and Flash (operating in consortium with Micron)                                   |
| Rousset, France                                 | Microcontrollers, nonvolatile memories and Smartcard ICs, application-specific products                                  | Fab 1: 200mm CMOS, Smartcard, embedded Flash, Analog/RF   |
| Catania, Italy                                  | Power transistors, Smart Power and analog ICs and application-specific products, MEMS                                    | Fab 1: 150mm Power metal-on silicon oxide semiconductor process technology ( MOS ), VIPpowerMO-3, MO-5 and Pilot Line RF  |
|   |  | Fab 2: 200mm, Microcontrollers, BCD, power MOS  |
| Tours, France                                   | Protection thyristors, diodes and ASD power transistors, IPAD  | Fab: 125mm, 150mm and 200mm pilot line discrete   |
| Ang Mo Kio, Singapore                           | Analog, microcontrollers, power transistors, commodity products, nonvolatile memories, and application-specific products | Fab 1: 125mm, (150mm conversion ongoing) power MOS, bipolar, power  |
|   |  | Fab 2: 150mm-bipolar, power MOS and BCD, EEPROM, Smartcard, Micros, CMOS logic  |
|   |  | Fab 3: 150mm Microfluidics, MEMS, power MOS, BiCMOS, CMOS   |
| <b>Back-end facilities</b><br>Muar, Malaysia    | Application-specific and standard products, microcontrollers   | Ball Grid Array, Power Automotive, SOIC, QFP  |

Kirkop, Malta

Application-specific products, MEMS, Ball Grid Array, QFP, Land Grid Array  
Embedded Flash for Automotive

**Table of Contents**

| <b>Location</b>                     | <b>Products</b>  | <b>Technologies</b>                                 |
|-------------------------------------|--|---|
| Toa Payoh, Singapore                | Optical packages research and development, EWS and Testing Center                            |   |
| Bouskoura, Morocco                  | Nonvolatile memories, discrete and standard products, micromodules, RF and subsystems        | Power, SOIC, Micromodules                           |
| Shenzhen, China <sup>(1)</sup>      | Nonvolatile memories, optical packages, discrete, application-specific and standard products | Ball Grid Array, Camera Module, SOIC, Power         |
| Longgang, China                     | Discrete and standard products   | Power, PDIP   |
| Calamba, Philippines <sup>(2)</sup> | Application specific products and standard products, MEMS                                    | Ball Grid Array, QFN, Micromodules, Land Grid Array |

(1) Jointly operated with SHIC, a subsidiary of Shenzhen Electronics Group.

(2) Operated by ST but owned by ST-Ericsson.

At the end of 2012, our front-end facilities had a total maximum capacity of approximately 135,000 200mm equivalent wafer starts per week. The number of wafer starts per week varies from facility to facility and from period to period as a result of changes in product mix. Our advanced 300mm wafer pilot-line fabrication facility in Crolles, France had an installed capacity of 3,600 wafers per week at the end of 2012, and we plan to increase production to up to approximately 6,000 wafers per week as required by market conditions and within the framework of our R&D Nano 2017 program.

We own all of our manufacturing facilities, except Crolles2 in France and Shenzhen and Longgang in China, which are the subject of long-term leases that represent overall a small percentage of total assets.

We have historically subcontracted a portion of total manufacturing volumes to external suppliers. In 2012 we purchased approximately 11% from external foundries of our total silicon production. Our plan is to extend sourcing of silicon from external foundries up to above 20% of our total needs.

At December 31, 2012, we had approximately \$175 million in outstanding commitments for purchases of equipment and other assets for delivery in 2013. In 2012, our capital spending, net of proceeds, decreased to \$476 million from \$1,258 million registered in 2011. In the 2010-2012 period the ratio of capital investment spending to revenues was about 9.5%. The high level of capital spending in 2011 was designed to respond to market demand growth in the first half of the year while optimizing in parallel opportunities between internal and external front-end production. For more information, see Item 5. Operating and Financial Review and Prospects Financial Outlook .

Our manufacturing processes are highly complex, require technologically advanced and costly equipment and are continuously being modified in an effort to improve yields and product performance. Impurities or other difficulties in the manufacturing process can lower yields, interrupt production or result in losses of products in process. As system complexity has increased and sub-micron technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision and excellence have become even more demanding. Although our increased manufacturing efficiency has been an important factor in our improved results of operations, we have from time to time experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry.

In the second part of 2012, we experienced a slowing down of demand driven by inventory correction dynamics common to all market segments. As a consequence, our fabs and plants underwent an important reduction of their loading with respect to the capacity, and capital expenditures were reduced to match the new profile of the business in the second half of 2012. No assurance can be given that we will be able to increase manufacturing efficiencies in the future to the same extent as in the past, or that we will not experience production difficulties and/or unsaturation in the future.

In addition, as is common in the semiconductor industry, we have from time to time experienced difficulty in ramping up production at new facilities or effecting transitions to new manufacturing processes and, consequently, have suffered delays in product deliveries or reduced yields. There can be no assurance that we



**Table of Contents**

will not experience manufacturing problems in achieving acceptable yields, product delivery delays or interruptions in production in the future as a result of, among other things, capacity constraints, production bottlenecks, construction delays, equipment failure or maintenance, ramping up production at new facilities, upgrading or expanding existing facilities, changing our process technologies, or contamination or fires, storms, earthquakes or other acts of nature, any of which could result in a loss of future revenues. In addition, the development of larger fabrication facilities that require state-of-the-art sub-micron technology and larger-sized wafers has increased the potential for losses associated with production difficulties, imperfections or other causes of defects. In the event of an incident leading to an interruption of production at a fab, we may not be able to shift production to other facilities on a timely basis, or our customers may decide to purchase products from other suppliers, and, in either case, the loss of revenues and the impact on our relationship with our customers could be significant. Our operating results could also be adversely affected by the increase in our fixed costs and operating expenses related to increases in production capacity if revenues do not increase commensurately. Finally, in periods of high demand, we increase our reliance on external contractors for foundry and back-end service. Any failure to perform by such subcontractors could impact our relationship with our customers and could materially affect our results of operations.

**Intellectual Property (IP)**

IP rights that apply to our various products include patents, copyrights, trade secrets, trademarks and mask work rights. A mask work is the two- or three-dimensional layout of an integrated circuit. We currently own approximately 16,000 patents and pending patent applications, corresponding to approximately 9,000 patent families (each patent family containing all patents originating from the same invention), including 515 original new patent applications filed in 2012.

Our success depends in part on our ability to obtain patents, licenses and other IP rights covering our products and their design and manufacturing processes. To that end, we intend to continue to seek patents on our innovations in our circuit designs, manufacturing processes, packaging technology and system applications as well as on industry standards and other inventions. The process of seeking patent protection can be long and expensive, and there can be no assurance that patents will issue from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. In addition, effective copyright and trade secret protection may be unavailable or limited in certain countries. Competitors may also develop technologies that are protected by patents and other IP rights and therefore such technologies may be unavailable to us or available to us subject to adverse terms and conditions. Management believes that our IP represents valuable assets and intends to protect our investment in technology by enforcing all of our IP rights. We have also set up a dedicated team actively seeking to optimize the value from our IP portfolio by the licensing of our design technology and other IP, including patents. We have used our patent portfolio to enter into several broad patent cross-licenses with several major semiconductor companies enabling us to design, manufacture and sell semiconductor products without fear of infringing patents held by such companies, and intend to continue to use our patent portfolio to enter into such patent cross-licensing agreements with industry participants on favorable terms and conditions. As our sales increase compared to those of our competitors, the strength of our patent portfolio may not be sufficient to guarantee the conclusion or renewal of broad patent cross-licenses on terms that do not affect our results of operations. Furthermore, as a result of litigation, or to address our business needs, we may be required to take a license to third party IP rights upon economically unfavorable terms and conditions, and possibly pay damages for prior use, and/or face an injunction or exclusion order, all of which could have a material adverse effect on our results of operations and ability to compete.

From time to time, we are involved in IP litigation and infringement claims. See [Item 8. Financial Information – Legal Proceedings](#) . In the event a third party IP claim were to prevail, our operations may be interrupted and we may incur costs and damages, which could have a material adverse effect on our results of operations, cash flow and financial condition.

Finally, we have received from time to time, and may in the future receive communications from competitors or other third parties alleging infringement of certain patents and other IP rights of others, which have been and may in the future be followed by litigation. Regardless of the validity or the successful assertion of such claims, we may incur significant costs with respect to the defense thereof, which could have a material adverse effect on our results of operations, cash flow or financial condition. See [Item 3. Key Information – Risk Factors – Risks Related to Our Operations](#) . We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others .

## **Table of Contents**

### **Backlog**

Our sales are made primarily pursuant to standard purchase orders that are generally booked from one to twelve months in advance of delivery. Quantities actually purchased by customers, as well as prices, are subject to variations between booking and delivery and, in some cases, to cancellation due to changes in customer needs or industry conditions. During periods of economic slowdown and/or industry overcapacity and/or declining selling prices, customer orders are not generally made far in advance of the scheduled shipment date. Such reduced lead time can reduce management's ability to forecast production levels and revenues. When the economy rebounds, our customers may strongly increase their demands, which can result in capacity constraints due to our inability to match manufacturing capacity with such demand.

In addition, our sales are affected by seasonality, with the first quarter generally showing lowest revenue levels in the year, and the third or fourth quarter historically generating higher amounts of revenues.

We also sell certain products to key customers pursuant to frame contracts. Frame contracts are annual contracts with customers setting forth quantities and prices on specific products that may be ordered in the future. These contracts allow us to schedule production capacity in advance and allow customers to manage their inventory levels consistent with just-in-time principles while shortening the cycle times required to produce ordered products. Orders under frame contracts are also subject to a high degree of volatility, because they reflect expected market conditions which may or may not materialize. Thus, they are subject to risks of price reduction, order cancellation and modifications as to quantities actually ordered resulting in inventory build-ups.

Furthermore, developing industry trends, including customers' use of outsourcing and their deployment of new and revised supply chain models, may reduce our ability to forecast changes in customer demand and may increase our financial requirements in terms of capital expenditures and inventory levels.

We entered 2012 with a backlog significantly lower than we had compared to 2011, as a result of a difficult industry environment. During 2012, our backlog declined, in particular in the second half, reflecting the continuing difficult industry environment, which resulted in a significant decline in our order inflows. As a result of these challenging conditions, we entered 2013 with a backlog significantly lower than we had entering 2012.

### **Competition**

Markets for our products are intensely competitive. While only a few companies compete with us in all of our product lines, we face significant competition in each of them. We compete with major international semiconductor companies. Smaller niche companies are also increasing their participation in the semiconductor market, and semiconductor foundry companies have expanded significantly, particularly in Asia. Competitors include manufacturers of standard semiconductors, ASICs and fully customized ICs, including both chip and board-level products, as well as customers who develop their own IC products and foundry operations. Some of our competitors are also our customers.

The primary international semiconductor companies that compete with us include Analog Devices, Atmel, Avago, Broadcom, Fairchild Semiconductor, Freescale Semiconductor, Infineon, Intel, International Rectifier, Invensense, Linear Technology, LSI Logic, Marvell, Maxim, MediaTek, Microchip Technology, Mstar, NXP Semiconductors, ON Semiconductor, Qualcomm, Renesas, ROHM Semiconductor, Samsung, Texas Instruments, Toshiba, TSMC and Vishay.

We compete in different product lines to various degrees on the basis of price, technical performance, product features, product system compatibility, customized design, availability, quality and sales and technical support. In particular, standard products may involve greater risk of competitive pricing, inventory imbalances and severe market fluctuations than differentiated products. Our ability to compete successfully depends on elements both within and outside our control, including successful and timely development of new products and manufacturing processes, product performance and quality, manufacturing yields and product availability, customer service, pricing, industry trends and general economic trends.

### **Organizational Structure and History**

We are organized in a matrix structure with geographic regions interacting with product divisions, both supported by shared technology and manufacturing operations and by central functions, designed to enable us to be closer to our customers and to facilitate communication among the R&D, production, marketing and sales organizations.



**Table of Contents**

While STMicroelectronics N.V. is the parent company, we also conduct our operations through service activities from our subsidiaries. We provide certain administrative, human resources, legal, treasury, strategy, manufacturing, marketing and other overhead services to our consolidated subsidiaries pursuant to service agreements for which we recover the cost. We have two joint ventures with Ericsson, which operate as independent JV companies and are governed by a fully balanced Board and an independent management team. Our Consolidated Financial Statements include JVS and related affiliates, responsible for the full commercial operation of the combined businesses, namely sales and marketing. Its parent company is ST-Ericsson SA ( JVS ), which is owned 50% plus a controlling share by us. The other JV is focused on fundamental R&D activities. Its parent company is ST-Ericsson AT SA ( JVD ), which is owned 50% plus a controlling share by Ericsson and is therefore accounted for by us under the equity-method.

The following table lists our consolidated subsidiaries and our percentage ownership as of December 31, 2012:

| Legal Seat                | Name  | Percentage Ownership<br>(Direct or Indirect) |
|---------------------------|---|--|
| Australia, Sydney         | STMicroelectronics PTY Ltd                          | 100  |
| Belgium, Diegem           | ST-Ericsson Belgium N.V.                            | 50   |
| Belgium, Diegem           | Proton World International N.V.                     | 100  |
| Brazil, Sao Paulo         | STMicroelectronics Ltda                             | 100  |
| Brazil, Sao Paulo         | Incard do Brazil Ltda                               | 50   |
| Canada, Ottawa            | STMicroelectronics (Canada), Inc.                   | 100  |
| China, Beijing            | STMicroelectronics (Beijing) R&D Co. Ltd            | 100  |
| China, Beijing            | ST-Ericsson Semiconductor (Beijing) Co. Ltd         | 50   |
| China, Shanghai           | STMicroelectronics (Shanghai) Co. Ltd               | 100  |
| China, Shanghai           | STMicroelectronics (Shanghai) R&D Co. Ltd           | 100  |
| China, Shanghai           | STMicroelectronics (China) Investment Co. Ltd       | 100  |
| China, Shanghai           | ST-Ericsson Semiconductor (Shanghai) Co. Ltd        | 50   |
| China, Shanghai           | Shanghai NF Semiconductors Technology Ltd           | 50   |
| China, Shenzhen           | Shenzhen STS Microelectronics Co. Ltd               | 60   |
| China, Shenzhen           | STMicroelectronics (Shenzhen) Co. Ltd               | 100  |
| China, Shenzhen           | STMicroelectronics (Shenzhen) Manufacturing Co. Ltd | 100  |
| China, Shenzhen           | STMicroelectronics (Shenzhen) R&D Co. Ltd           | 100  |
| Czech Republic, Prague    | STMicroelectronics Design and Application s.r.o.    | 100  |
| Czech Republic, Prague    | ST-Ericsson s.r.o.                                  | 50   |
| Finland, Nummela          | STMicroelectronics Finland OY                       | 100  |
| Finland, Turku            | ST-Ericsson OY                                      | 50   |
| France, Crolles           | STMicroelectronics (Crolles 2) SAS                  | 100  |
| France, Grenoble          | STMicroelectronics (Grenoble 2) SAS                 | 100  |
| France, Grenoble          | ST-Ericsson (France) SAS                            | 50   |
| France, Grenoble          | ST-Ericsson (Grenoble) SAS                          | 50   |
| France, Montrouge         | STMicroelectronics S.A.                             | 100  |
| France, Rousset           | STMicroelectronics (Rousset) SAS                    | 100  |
| France, Tours             | STMicroelectronics (Tours) SAS                      | 100  |
| Germany, Aschheim-Dornach | STMicroelectronics GmbH                             | 100  |
| Germany, Aschheim-Dornach | STMicroelectronics Application GmbH                 | 100  |
| Germany, Aschheim-Dornach | ST-NXP Wireless GmbH i.L.                           | 50   |
| Holland, Amsterdam        | STMicroelectronics Finance B.V.                     | 100  |
| Holland, Amsterdam        | STMicroelectronics Finance II N.V.                  | 100  |
| Holland, Amsterdam        | STMicroelectronics International N.V.               | 100  |
| Holland, Eindhoven        | ST-Ericsson B.V.                                    | 50   |
| Holland, Eindhoven        | ST-Ericsson Holding B.V.                            | 50   |
| Hong Kong, Hong Kong      | STMicroelectronics LTD                              | 100  |
| India, Bangalore          | NF Wireless India Pvt Ltd i.L.                      | 50   |
| India, New Delhi          | STMicroelectronics Marketing Pvt Ltd                | 100  |
| India, Noida              | STMicroelectronics Pvt Ltd                          | 100  |
| India, Noida              | ST-Ericsson India Pvt Ltd                           | 50   |
| Israel, Netanya           | STMicroelectronics Ltd                              | 100  |





**Table of Contents**

| <b>Legal Seat</b>          | <b>Name</b>                                  | <b>Percentage Ownership<br/>(Direct or Indirect)</b> |
|----------------------------|--|--|
| Italy, Agrate Brianza      | ST-Ericsson Srl                              | 50   |
| Italy, Aosta               | DORA S.p.a.                                  | 100  |
| Italy, Catania             | CO.RI.M.ME.                                  | 100  |
| Italy, Naples              | STMicronics Services S.r.l.                  | 100  |
| Italy, Torino              | ST-POLITO Scarl                              | 75   |
| Japan, Tokyo               | STMicronics KK                               | 100  |
| Japan, Tokyo               | ST-Ericsson KK                               | 50   |
| Korea, Seoul               | ST-Ericsson Korea Ltd                        | 50   |
| Malaysia, Kuala Lumpur     | STMicronics Marketing SDN BHD                | 100  |
| Malaysia, Muar             | STMicronics SDN BHD                          | 100  |
| Malaysia, Muar             | ST-Ericsson SDN BHD                          | 50   |
| Malta, Kirkop              | STMicronics (Malta) Ltd                      | 100  |
| Mexico, Guadalajara        | STMicronics Marketing, S. de R.L. de C.V.    | 100  |
| Morocco, Rabat             | Electronic Holding S.A.                      | 100  |
| Morocco, Casablanca        | STMicronics S.A.S. (Maroc)                   | 100  |
| Morocco, Rabat             | ST-Ericsson (Maroc) SARLAU                   | 50   |
| Norway, Grimstad           | ST-Ericsson A.S.                             | 50   |
| Philippines, Calamba       | STMicronics, Inc.                            | 100  |
| Philippines, Calamba       | ST-Ericsson (Philippines) Inc.               | 50   |
| Philippines, Calamba       | Mountain Drive Property, Inc.                | 20   |
| Singapore, Ang Mo Kio      | STMicronics Asia Pacific Pte Ltd             | 100  |
| Singapore, Ang Mo Kio      | STMicronics Pte Ltd                          | 100  |
| Singapore, Ang Mo Kio      | ST-Ericsson Asia Pacific Pte Ltd             | 50   |
| Singapore, The Curie       | Veredus Laboratories Pte Ltd                 | 67   |
| Spain, Barcelona           | STMicronics Iberia S.A.                      | 100  |
| Sweden, Kista              | STMicronics A.B.                             | 100  |
| Sweden, Lund               | ST-Ericsson A.B.                             | 50   |
| Switzerland, Geneva        | STMicronics S.A.                             | 100  |
| Switzerland, Geneva        | INCARD S.A.                                  | 100  |
| Switzerland, Geneva        | ST-Ericsson S.A.                             | 50   |
| Switzerland, Geneva        | ST New Ventures S.A.                         | 100  |
| Taiwan, Taipei             | ST-Ericsson (Taiwan) Ltd                     | 50   |
| Thailand, Bangkok          | STMicronics (Thailand) Ltd                   | 100  |
| United Kingdom, Bristol    | Inmos Limited                                | 100  |
| United Kingdom, Bristol    | ST-Ericsson (UK) Ltd                         | 50   |
| United Kingdom, Marlow     | STMicronics Limited                          | 100  |
| United Kingdom, Marlow     | STMicronics (Research & Development) Limited | 100  |
| United Kingdom, Reading    | Synad Technologies Limited                   | 100  |
| United States, Coppel      | STMicronics Inc.                             | 100  |
| United States, Coppel      | ST-Ericsson Inc.                             | 50   |
| United States, Coppel      | Genesis Microchip Inc.                       | 100  |
| United States, Coppel      | Genesis Microchip (Delaware) Inc.            | 100  |
| United States, Coppel      | Genesis Microchip LLC                        | 100  |
| United States, Coppel      | Genesis Microchip Limited Partnership        | 100  |
| United States, Coppel      | Sage Inc.                                    | 100  |
| United States, Coppel      | Faroudja Inc.                                | 100  |
| United States, Coppel      | Faroudja Laboratories Inc.                   | 100  |
| United States, Coppel      | STMicronics (North America) Holding, Inc.    | 100  |
| United States, Wilsonville | The Portland Group, Inc.                     | 100  |

**Table of Contents**

The following table lists our principal equity-method investments and our percentage ownership as of December 31, 2012:

| <b>Legal Seat</b>      | <b>Name</b>       | <b>Percentage Ownership<br/>(Direct or Indirect)</b> |
|------------------------|-------------------|--|
| France, Grenoble       | MicroOLED S.A.S   | 39.6   |
| Italy, Catania         | 3Sun S.r.l.       | 33.3   |
| South Korea, Yongin-si | ATLab Inc.        | 8.0  |
| Switzerland, Geneva    | ST-Ericsson AT SA | 49.0   |

**Public Funding**

We participate in certain programs established by the EU, individual countries and local authorities in Europe (primarily in France and Italy). Such funding is generally provided to encourage R&D activities and capital investment, industrialization and the economic development of underdeveloped regions. These programs are partially supported by direct funding, tax credits and specific loans (low-interest financing).

Public funding in France, Italy and Europe generally is open to all companies, regardless of their ownership or country of incorporation. The EU has developed model contracts for R&D funding that require beneficiaries to disclose the results to third parties on reasonable terms. As disclosed, the conditions for receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with European Commission regulations, as well as specifications regarding objectives and results.

Some of our R&D government funding contracts involve advance payments that require us to justify our expenses after receipt of funds. Certain specific contracts (Crolles, Grenoble, Rousset and Tours, France and Catania, Italy) contain commitments to maintain a minimum level of employment and/or investment during a certain amount of time. There could be penalties (i.e., a partial refund due to the government) if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations.

The main programs for R&D in which we are involved include: (i) the Eureka CATRENE cooperative R&D program (Cluster for Application and Technology Research in Europe on NanoElectronics); (ii) EU R&D projects with FP7 (Seventh Frame Program) for Information and Communication Technology; (iii) European Joint Technology Initiatives such as ENIA (European Nanoelectronics Initiative Advisory Committee) and ARTEMIS (Embedded Computing Systems Initiative) operated by Joint Undertakings formed by the European Union, some member states and industry; and (iv) national or regional programs for R&D and for industrialization in the electronics industries involving many companies and laboratories. The pan-European programs cover a period of several years, while national or regional programs in France and Italy are subject mostly to annual budget appropriation. We were recently awarded two of the first of five projects under the ENIAC KET (Key Enabling Technologies) Pilot Lines frame, recently launched in Europe. They are devoted respectively to specific MEMS technologies (based in Italy) and FD-SOI technologies (based in France).

In Italy, there are some national funding programs established to support the new FIRST (*Fondo per gli Investimenti nella Ricerca Scientifica e Tecnologica*) that will group previous funding regulations FIRB (*Fondo per gli Investimenti della Ricerca di Base*, aimed to fund fundamental research), FAR (*Fondo per le Agevolazioni alla Ricerca, to fund industrial research*), and the FCS (*Fondo per la Competitività e lo Sviluppo*). The FRI (*Fondo rotativo per il sostegno alle imprese e agli investimenti in ricerca*) funds research and innovation activities and the FIT (*Fondo speciale rotativo per l'Innovazione Tecnologica*) is designed to fund precompetitive development in manufacturing. These programs are not limited to microelectronics and are intended to support industry R&D in any segment. Italian programs often cover several years and the approval phase is quite long, up to two or three years. In 2012, within the PON (*Programma Operativo Nazionale Ricerca e competitività 2007 2013*), the Italian Research Ministry finalized the complete ranking of the approved proposals, and one of our proposals was selected for funding.

In Italy, according to the ARTEMIS and ENIAC Joint Undertaking procedures related to calls for proposals, in 2010 the Italian Research Ministry approved public grants for an additional four ENIAC projects (of which one was under the ENIAC's call for Key Enabling Technologies) and one for ARTEMIS project (under the ARTEMIS Innovation Pilot Program call) involving the company.

## Table of Contents

Furthermore, there are some regional funding tools for research that can be addressed by local initiatives, primarily in the regions of Puglia, Sicily, Campania and Val d'Aosta, provided that a reasonable regional socio-economic impact could be recognized in terms of industrial exploitation, new professional hiring and/or cooperation with local academia and public laboratories.

In 2006, the EU Commission allowed the modification of the conditions of a grant pertaining to the building, facilitation and equipment of our facility in Catania, Italy (the M6 Plant). Following this decision, the authorized timeframe for completion of the project was extended and the Italian government was authorized to allocate 446 million, out of the 542 million grants originally authorized, for the completion of the M6 Plant if we made a further investment of 1,700 million between January 1, 2006 through the end of 2009. On the basis of the investments actually realized during the period, we recorded an amount of approximately 78 million as funding for capital investment of which approximately 44 million has been received to date. On September 13, 2011, the European Commission initiated a review of the M6 investment and related benefits, requesting information from the Italian government about the status and the ownership of the benefits of the M6 investment during the period 2001-2006. The Italian authorities responded to all such requests for information in 2011 and 2012 concerning primarily the history of the investment made, the motivation of the state aid granted, the formal interpretation related to the definition of investment activation, and its application to the M6 case. To our knowledge, no proceedings are ongoing.

In France, support for R&D is given by public agencies such as ANR (*Agence Nationale de la Recherche*), or OSEO (the agency taking over the missions and budgets of the AII Agency for Industrial Innovation), generally for consortia of partners grouping universities, public laboratories and private actors (large and small). The agencies operate via calls for project proposals, most often related to the identified clusters of competitiveness (*Pôles de Compétitivité*) throughout the French territory. The most relevant for us are Minalogic around Grenoble, SCS in the south-east area covering Rousset and S2E2 in the Tours area. The selected projects receive a support limited to 25% or 35% of the actual R&D expenses, depending on the type of project. The funding is given when technical reports have been accepted by the agencies; all expenses must be documented and financial audits are organized by the agencies to check their eligibility.

Another important contribution is given by the Ministry of Industry (FCE) and by local public authorities. Specific support for microelectronics is provided through FCE to all the companies with activities in France in the semiconductor industry. The amount of support under French programs is decided annually and subject to budget appropriation. In 2012, we terminated the execution of the framework agreement for the Nano-2012 Research and Development program in which STMicroelectronics (Crolles and Grenoble sites) is the leading contributor, with over 30 other partners (universities, public research laboratories, large groups and small companies (SMEs)). Under this frame agreement, an overall funding budget of 340 million (about \$450 million) in grants was put in place for us for the period 2008-2012, subject to the conclusion of agreements every year with the public authorities (the French State being represented by the Ministry of Industry, and local authorities), and provided that all technical parameters and objectives are met. Nano-2012 is designed to promote the development of advanced CMOS (32nm and below) technologies for system on chip semiconductor products in the Grenoble-Crolles region of France, in cooperation with the ISDA.

Due to a major change in the taxation regime in France, the local authorities have received lower tax receipts than before. During the Nano-2012 program, some of the local authorities involved have, as a result of such tax receipts, decided to suspend their funding obligations related to the Nano-2012 program. Therefore, the benefit for us and the other partners ended up being lower than expected as the French government did not agree to compensate us for the shortfall in support from the local authorities. The technical part of the program was completed successfully at the end of 2012 and a final review of our participation in the Nano-2012 program is planned in April 2013. We are currently in discussions concerning a new program, Nano-2017, for an additional five-year period, with the goal of reaching an agreement on content and budget before the end of 2013.

A new type of R&D support program was set up in France in 2011, as part of a global rejuvenation effort aimed at research and industry (Investissements d'Avenir or IA). This program is coordinated by the CGI (*Commissariat Général aux Investissements d'Avenir*) and targets industrial sectors of high relevance. We have been granted three projects under this frame, all due to start in 2013: one for Tours 2015 covering three types of technologies developed in cooperation with public laboratories, one for Rousset MAGE targeting the development of ultra-low power secure microcontrollers and one in the area of electricity metering.

We also benefit from tax credits for R&D activities in several countries (notably in France). R&D tax credits consist of tax benefits granted to companies on an open and non-discriminatory base for their research & development activities. See Item 5. Operating and Financial Review and Prospects Results of Operations Research and Development Expenses.

---

## **Table of Contents**

Funding for R&D activities is the most common form of funding that we receive. Public funding for R&D is recorded as Other Income and Expenses, net in our consolidated statements of income and booked pro rata in relation to the relevant cost once the agreement with the respective government agency has been signed and all applicable conditions are met. See Note 2 to our Consolidated Financial Statements.

Government support for capital expenditures funding has been used to support our capital investment. Although receipt of these funds is not directly reflected in our results of operations, the resulting lower amounts recorded in property, plant and equipment costs reduce the level of depreciation recognized by us. In Italy, the Tremonti-law laws allowed business income tax reduction excluding from taxation of business income an amount equal to 50 percent of the value of investments in a detailed list of new machinery and new equipment, made from July 1, 2009 through June 30, 2010. See Note 10 to our Consolidated Financial Statements.

As a third category of government funding, we receive some loans, mainly related to large capital investment projects, at preferential interest rates. See Note 14 to our Consolidated Financial Statements.

Funding of programs in France and Italy is subject to annual appropriation, and if such governments or local authorities were unable to provide anticipated funding on a timely basis or if existing government or local-authority-funded programs were curtailed or discontinued, or if we were unable to fulfill our eligibility requirements, such an occurrence could have a material adverse effect on our business, operating results and financial condition. From time to time, we have experienced delays in the receipt of funding under these programs. As the availability of such funding is substantially outside our control, there can be no assurance that we will continue to benefit from such government support, that sufficient alternative funding would be available if necessary, or that any such alternative funding would be provided on terms as favorable to us as those previously committed. Due to changes in legislation and/or review by the competent administrative or judicial bodies, there can be no assurance that government funding granted to us may not be revoked or challenged or discontinued, in whole or in part, by any competent state or European authority, until the legal time period for challenging or revoking such funding has fully lapsed. See Item 3. Key Information Risk Factors Risks Related to Our Operations If we fail to meet the condition and approval requirements applicable to public funding we have received in the past, we may face demands for repayment, which may increase our costs and impact our results of operations.

## **Suppliers**

We use three main critical types of suppliers in our business: equipment suppliers, raw material suppliers and external subcontractors.

In the front-end process, we use steppers, scanners, tracking equipment, strippers, chemo-mechanical polishing equipment, cleaners, inspection equipment, etchers, physical and chemical vapor-deposition equipment, implanters, furnaces, testers, probers and other specialized equipment. The manufacturing tools that we use in the back-end process include bonders, burn-in ovens, testers and other specialized equipment. The quality and technology of equipment used in the IC manufacturing process defines the limits of our technology. Demand for increasingly smaller chip structures means that semiconductor producers must quickly incorporate the latest advances in process technology to remain competitive. Advances in process technology cannot occur without commensurate advances in equipment technology, and equipment costs tend to increase as the equipment becomes more sophisticated.

Our manufacturing processes use many raw materials, including silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases. The prices of many of these raw materials are volatile due to the specificity of the market. We have therefore adopted a multiple sourcing strategy designed to protect us from the risk of price disruption. The same strategy applies to supplies for the raw materials used by us to avoid potential material disruption of essential material when industry demand is ramping up. See Item 3. Key Information Risk Factors Risks Related to Our Operations Because we depend on a limited number of suppliers for raw materials and certain equipment, we may experience supply disruptions if suppliers interrupt supply, increase prices or experience material adverse changes in their financial condition. Our multiple sourcing strategy, our Financial Risk Monitoring (FRISK) as well as the robustness of our supply chain and strong partnership with suppliers are intended to mitigate these risks.

Finally, we also use external subcontractors to outsource wafer manufacturing, as well as assembly and testing of finished products. See Property, Plants and Equipment above.

---

## **Table of Contents**

### **Environmental Matters**

Our manufacturing operations use many chemicals, gases and other hazardous substances, and we are subject to a variety of evolving environmental and health and safety regulations related, among other things, to the use, storage, discharge and disposal of such chemicals and gases and other hazardous substances, emissions and wastes, as well as the investigation and remediation of soil and ground water contamination. In most of the jurisdictions in which we operate, we must obtain permits, licenses and other forms of authorization, or give prior notification, in order to operate. Because a large portion of our manufacturing activities are located in the EU, we are subject to European Commission regulation on environmental protection, as well as regulations of the other jurisdictions where we have operations.

Consistent with our Principles of Sustainable Excellence ( PSE ) and Sustainability Strategy, we have established proactive environmental policies with respect to the handling of chemicals, gases, emissions and waste disposals from our manufacturing operations, and we have not suffered material environmental claims in the past. We believe that our activities comply with presently applicable environmental regulations in all material respects. We have engaged outside consultants to audit all of our environmental activities and created environmental management teams, information systems and training. We have also instituted environmental control procedures for processes used by us as well as our suppliers. As a company, we have been certified to be in compliance with the quality standard ISO9001:2008 and with the technical specification ISO/TS16949:2009, and with the environmental standards ISO14001 and the European EMAS (Eco Management and Audit Scheme).

Our activities are subject to two directives: Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment ( ROHS Directive, as amended), which will be replaced, with effect from January 3, 2013, by Directive 2011/65/EU of June 8, 2011, entitled ROHS 2 Directive; and Directive 2002/96/EC on waste electrical and electronic equipment ( WEEE Directive, as amended), which will be replaced, with effect from February 15, 2014 by Directive 2012/19/EU of July 4, 2012. Moreover our products, due to their final applications, may be subject to the end of life vehicles Directive 2000/53/EC ( ELV Directive, as amended) and Directive 2007/47/EC (Medical Devices as amended). The ROHS Directive aims at banning the use of lead and other metals and of other flame retardant substances in electric and electronic equipments placed on the market, while the new text is also introducing new requirements within the design and manufacturing phases of the products manufacturing electronic components. The WEEE Directive promotes the recovery and recycling of electrical and electronic waste, while not imposing any take back activities to our operations. At this stage, we do not participate in a take back organization in France.

Our activities in the EU are also subject to the European Directive 2003/87/EC (as amended) establishing a scheme for greenhouse gas allowance trading and applicable national legislation. Two of our manufacturing sites (Crolles, France, and Agrate, Italy) have been allocated a quota of greenhouse gas for the period 2008-2012. The Crolles site in France was removed from the allocation scheme in 2010 by the French authorities and our site in Agrate, Italy, was removed from the scheme by the Italian authorities in 2012. We were able to complete the allocation period of 2008-2012 without purchasing any allocation.

We have also implemented voluntary reforestation projects in several countries in order to sequester additional CO2 emissions and report our emissions in our annual Corporate Sustainability Report as well as through the Carbon Disclosure Project.

Regulations implementing the registration, evaluation, authorization and restriction of chemicals ( REACH ) came into force in 2008, and are required to be fully implemented by 2018. We intend to proactively implement such legislation, in line with our commitment toward environmental protection. The implementation of any such legislation could adversely affect our manufacturing costs or product sales by requiring us to develop new processes, acquire costly equipment or materials, or to incur other significant expenses in adapting our manufacturing processes or waste and emission disposal processes. However, we are currently unable to evaluate such specific expenses and therefore have no specific reserves for environmental risks. Furthermore, environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations and, as with other companies engaged in similar activities, any failure by us to control the use of, or adequately restrict the discharge of hazardous substances could subject us to future liabilities. See Item 3. Key Information Risk Factors Risks Related to Our Operations Some of our production processes and materials are environmentally sensitive, which could expose us to liability and increase our costs due to environmental regulations and laws or because of damage to the environment .

---

**Table of Contents**

**Item 5. Operating and Financial Review and Prospects  
Overview**

*The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto included elsewhere in this Form 20-F. The following discussion contains 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, particularly in the sections Critical Accounting Policies Using Significant Estimates , Business Outlook , Liquidity and Capital Resources and Financial Outlook . Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see Cautionary Note Regarding Forward-Looking Statements and Item 3. Key Information Risk Factors . We assume no obligation to update the forward-looking statements or such risk factors.*

***Critical Accounting Policies Using Significant Estimates***

The preparation of our Consolidated Financial Statements in accordance with U.S. GAAP requires us to make estimates and assumptions. The primary areas that require significant estimates and judgments by us include, but are not limited to:

sales returns and allowances;

determination of the best estimate of the selling price for deliverables in multiple element sale arrangements;

inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory;

provisions for litigation and claims and recognition and measurement of loss contingencies;

valuation at fair value of assets acquired in a business combination, including intangibles, goodwill, investments and tangible assets, as well as the impairment of their related carrying values, and valuation at fair value of assumed liabilities;

annual and trigger-based impairment review of our goodwill and intangible assets, as well as an assessment, in each reporting period, of events, which could trigger interim impairment testing;

assessment of credit losses and other-than-temporary impairment charges on financial assets and equity investments;

restructuring charges;

assumptions used in assessing the number of awards expected to vest on stock-based compensation plans;

assumptions used in calculating pension obligations; and

determination of the amount of taxes expected to be paid and tax benefit expected to be received, including deferred income tax assets and valuation allowances, and provisions for uncertain tax positions and claims.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

We base the estimates and assumptions on historical experience and on various other factors such as market trends and the latest available business plans that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. While we regularly evaluate our estimates and assumptions, the actual results we experience could differ materially and adversely from our estimates. To the extent there are material differences between our estimates and actual results, future results of operations, cash flows and financial position could be significantly affected.

Our Consolidated Financial Statements include the ST-Ericsson joint ventures; in particular, we fully consolidate ST-Ericsson SA and related affiliates ( JVS ), which is owned 50% plus a controlling share by us and is responsible for the full commercial operations of the Wireless business, primarily sales and marketing. The other joint venture is focused on fundamental R&D activities. Its parent company is ST-Ericsson AT SA ( JVD ), which is owned 50% plus a controlling share by Ericsson and is therefore accounted for by us under the equity-method.



---

## **Table of Contents**

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our Consolidated Financial Statements:

*Revenue recognition.* Our policy is to recognize revenues from sales of products to our customers when all of the following conditions have been met: (a) persuasive evidence of an arrangement exists; (b) delivery has occurred; (c) the selling price is fixed or determinable; and (d) collectability is reasonably assured. Our revenue recognition usually occurs at the time of shipment.

Consistent with standard business practice in the semiconductor industry, price protection is granted to distribution customers on their existing inventory of our products to compensate them for declines in market prices. We accrue a provision for price protection based on a rolling historical price trend computed on a monthly basis as a percentage of gross distributor sales. This historical price trend represents differences in recent months between the invoiced price and the final price to the distributor adjusted, if required, to accommodate for a significant change in the current market price. We record the accrued amounts as a deduction of revenue at the time of the sale. The ultimate decision to authorize a distributor refund remains fully within our control. The short outstanding inventory time period, our visibility into the standard inventory product pricing and our long distributor pricing history, have enabled us to reliably estimate price protection provisions at period-end. If market conditions differ from our assumptions, this could have an impact on future periods. In particular, if market conditions were to deteriorate, net revenues could be reduced due to higher product returns and price reductions at the time these adjustments occur, which could severely impact our profitability.

Our customers occasionally return our products for technical reasons. Our standard terms and conditions of sale provide that if we determine that products are non-conforming, we will repair or replace them, or issue a credit or rebate of the purchase price. In certain cases, when the products we have supplied have been proven to be defective, we have agreed to compensate our customers for claimed damages in order to maintain and enhance our business relationship. Quality returns are not related to any technological obsolescence issues and are identified shortly after sale in customer quality control testing. We provide for such returns when they are considered probable and can be reasonably estimated. We record the accrued amounts as a reduction of revenue.

Our insurance policy relating to product liability only covers physical and other direct damages caused by defective products. We carry limited insurance against immaterial non consequential damages. We record a provision for warranty costs as a charge against cost of sales based on historical trends of warranty costs incurred as a percentage of sales which we have determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period.

Any potential warranty claims are subject to our determination that we are at fault for damages, and that such claims usually must be submitted within a short period following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms expressed or implied by statute or common law. Our contractual terms and conditions typically limit our liability to the sales value of the products that gave rise to the claims.

We maintain an allowance for doubtful accounts for potential estimated losses resulting from our customers' inability to make required payments. We base our estimates on historical collection trends and record a provision accordingly. Furthermore, we evaluate our customers' financial condition periodically and record a provision for any specific account we consider as doubtful. In 2012, we did not record any new material specific provision related to bankrupt customers. If we receive information that the financial condition of our customers has deteriorated, resulting in an impairment of their ability to make payments, additional allowances could be required.

While the majority of our sales agreements contain standard terms and conditions, we may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. In such cases, following the guidance related to revenue recognition, the arrangement is allocated to the different elements based on vendor-specific objective evidence, third party evidence or our best estimates of the selling price of the separable deliverables.

*Business combinations and goodwill.* The purchase accounting method applied to business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the identifiable assets acquired and liabilities assumed. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required. At December 31, 2012, the value of goodwill amounted to \$141 million, after having recorded in 2012 a non-cash impairment charge of \$922 million relating to our Wireless business.

---

**Table of Contents**

*Impairment of goodwill.* Goodwill recognized in business combinations is not amortized but is tested for impairment annually in the third quarter, or more frequently if a triggering event indicating a possible impairment exists. Goodwill subject to potential impairment is tested at a reporting unit level, which represents a component of an operating segment for which discrete financial information is available after performing a qualitative assessment to determine whether an impairment test is necessary, in cases when we have chosen such option. This impairment test determines whether the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, we use the lower of a value determined by applying a market approach with financial metrics of comparable public companies compared to an estimate of the expected discounted future cash flows associated with the reporting unit. Significant management judgments and estimates are used in forecasting the future discounted cash flows, including: the applicable industry's sales volume forecast and selling price evolution, the reporting unit's market penetration and its revenues evolution, the market acceptance of certain new technologies and products, the relevant cost structure, the discount rates applied using a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market, our sales expectations and our costs evaluation, and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may prove to be incorrect, and future adverse changes in market conditions, changes in strategies, lack of performance of major customers or operating results of acquired businesses that are not in line with our estimates may require impairments.

We performed our annual impairment test of goodwill on each of our reporting units during the third quarter of 2012. Based upon the first step of the goodwill impairment test, no impairment was recorded for the DCG, AMS and MMS reporting units since the fair value of the reporting units exceeded their carrying values. However, we were required, based upon step one, to conduct the second step of the impairment test for the Wireless reporting unit whose estimated fair value was lower than its carrying value. The second step consists in allocating a reporting unit's fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets. Based on our analysis, which calculated the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination, we estimated that the implied fair value of Wireless goodwill was lower than its carrying value. Due to the complexity required to estimate the fair value of the Wireless reporting unit in the first step of the impairment test and to estimate the fair value of all assets and liabilities of the Wireless reporting unit in the second step of the test, we recorded a preliminary non-cash impairment charge of \$690 million for Wireless goodwill in the third quarter of 2012. During the fourth quarter, as part of our new strategic plan, we decided to exit the ST-Ericsson joint venture and consequently undertook a further impairment test to estimate the fair value of all assets and liabilities of the Wireless reporting unit in light of this decision. As a result, we recorded an additional non-cash impairment charge of \$232 million in the fourth quarter, effectively writing off the total amount of goodwill of the Wireless reporting unit.

Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic alternatives, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the current carrying value.

*Intangible assets subject to amortization.* Intangible assets subject to amortization include intangible assets purchased from third parties recorded at cost and intangible assets acquired in business combinations recorded at fair value, comprised of technologies and licenses, trademarks and contractual customer relationships and computer software. Intangible assets with finite useful lives are reflected net of any impairment losses and are amortized over their estimated useful life. We evaluate each period whether there is reason to suspect that intangible assets held for use might not be recoverable. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we assess whether the carrying value exceeds the undiscounted cash flows associated with the intangible assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. An impairment charge is recognized for the excess of the carrying amount over the fair value. Significant management judgments and estimates are required to forecast undiscounted cash flows associated with the intangible assets. Our evaluations are based on financial plans updated with the latest available projections of growth in the semiconductor market and our sales expectations. They are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect and that future adverse changes in market conditions or operating results of businesses acquired may not be in line with our estimates and may therefore require us to recognize impairment charges on certain intangible assets.

---

**Table of Contents**

We recorded an impairment charge on intangible assets of \$323 million in 2012, relating primarily to our decision to exit the ST-Ericsson joint venture. We will continue to monitor the carrying value of our assets. If market conditions deteriorate, this could result in future non-cash impairment charges against earnings. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or by strategic transactions, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the one underlying the carrying amount.

At December 31, 2012, the value of intangible assets subject to amortization amounted to \$213 million.

*Property, plant and equipment.* Our business requires substantial investments in technologically advanced manufacturing facilities, which may become significantly underutilized or obsolete as a result of rapid changes in demand and ongoing technological evolution. We estimate the useful life for the majority of our manufacturing equipment, the largest component of our long-lived assets, to be six years, except for our 300mm manufacturing equipment whose useful life is estimated to be ten years. This estimate is based on our experience using the equipment over time. Depreciation expense is a major element of our manufacturing cost structure. We begin to depreciate newly acquired equipment when it is placed into service.

We evaluate each period if there is reason to suspect impairment on tangible assets or groups of assets held for use and we perform an impairment review when there is reason to suspect that the carrying value of these long-lived assets might not be recoverable, particularly in case of a restructuring plan. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we assess whether the carrying value exceeds the undiscounted cash flows associated with the tangible assets or group of assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. We normally estimate this fair value based on independent market appraisals or the sum of discounted future cash flows, using market assumptions such as the utilization of our fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies. We also evaluate and adjust, if appropriate, the assets' useful lives at each balance sheet date or when impairment indicators are identified. Assets classified as held for sale are reported as current assets at the lower of their carrying amount and fair value less costs to sell and are not depreciated. Costs to sell include incremental direct costs to transact the sale that we would not have incurred except for the decision to sell. During 2012, we recorded an impairment charge of \$21 million on our Carrollton building and facilities in Texas, which we no longer occupy, and which have remained unsold. As a result, the remaining carrying value was reclassified into assets held for use.

Our evaluations are based on financial plans updated with the latest projections of growth in the semiconductor market and our sales expectations, from which we derive the future production needs and loading of our manufacturing facilities, and which are consistent with the plans and estimates that we use to manage our business. These plans are highly variable due to the high volatility of the semiconductor business and therefore are subject to continuous modifications. If future growth differs from the estimates used in our plans, in terms of both market growth and production allocation to our manufacturing plants, this could require a further review of the carrying amount of our tangible assets and result in a potential impairment loss.

*Inventory.* Inventory is stated at the lower of cost or market value. Cost is based on the weighted average cost by adjusting the standard cost to approximate actual manufacturing costs on a quarterly basis; therefore, the cost is dependent on our manufacturing performance. In the case of underutilization of our manufacturing facilities, we estimate the costs associated with the excess capacity. These costs are not included in the valuation of inventory but are charged directly to cost of sales. Market value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and cost of completion. As required, we evaluate inventory acquired in business combinations at fair value, less completion and distribution costs and related margin.

While we perform, on a continuous basis, inventory write-offs of products and semi-finished products, the valuation of inventory requires us to estimate a reserve for obsolete or excess inventory as well as inventory that is not of saleable quality. Provisions for obsolescence are estimated for excess uncommitted inventories based on the previous quarter's sales, order backlog and production plans. To the extent that future negative market conditions generate order backlog cancellations and declining sales, or if future conditions are less favorable than the projected revenue assumptions or if issues arise following our exit from ST-Ericsson, we could record additional inventory provisions, which would have a negative impact on our gross margin.

---

**Table of Contents**

*Restructuring charges.* We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us, or may require us in the future, to develop formalized plans for exiting any of our existing activities. We recognize the fair value of a liability for costs associated with exiting an activity when we have a present obligation and the amount can be reasonably estimated. Given the significance and timing of the execution of our restructuring activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. This process can require more than one year due to requisite governmental and customer approvals and our capability to transfer technology and know-how to other locations. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or newer initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, we may incur additional charges as well as change estimates of the amounts previously recorded. The potential impact of these changes could be material and could have a material adverse effect on our results of operations or financial condition. In 2012, the amount of restructuring charges and other related closure costs amounted to \$108 million before taxes, which does not include additional restructuring charges, which will be incurred in 2013, as a result of our decision to exit the ST-Ericsson joint venture. The amount of such restructuring charges will depend upon which strategic options are adopted with regard to our ST-Ericsson joint venture.

*Share-based compensation.* We measure the cost of share-based service awards based on the fair value of the award on the grant date. This cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. Our share-based compensation plans may award shares contingent on the achievement of certain performance conditions based on financial objectives, including our financial results when compared to certain industry performances. In order to determine share-based compensation to be recorded for the period, we use significant estimates on the number of awards expected to vest, including the probability of achieving certain industry performances compared to our financial results, award forfeitures and employees' service period. Our assumption related to industry performances is generally taken with a lag of one quarter in line with the availability of the information. In 2012, we recorded a total charge of approximately \$11 million relating to our outstanding stock award plans.

*Income (loss) on Equity-method Investments.* We record our proportionate share in the results of entities that we account for under the equity-method. This recognition is based on results reported by these entities, relying on their internal reporting systems to measure financial results. Our main equity-method investments as of December 31, 2012 were represented by 3Sun with a carrying value of approximately \$91 million, out of total equity investments of \$106 million. In 2012, we recognized a loss of approximately \$16 million related to our minority equity investment in 3Sun and an \$8 million loss related to other investments, principally ST-Ericsson JVD. In case of triggering events, such as continuing difficult market conditions, which could lead to continued operation losses and negative cash flow, or in the case of a strategic repositioning by one or more of our partners, we determine whether our investment is temporarily or other-than-temporarily impaired. If impairment is considered to be other-than-temporary, we need to assess the fair value of our investment and record an impairment charge directly in earnings when fair value is lower than the carrying value of the investment. We make this assessment by evaluating the business on the basis of the most recent plans and projections or to the best of our estimates. We are continuing to monitor our equity investments and if required, additional other-than-temporary impairment charges could negatively impact our future results.

*Financial assets.* We classify our financial assets in the following two categories, held-for-trading and available-for-sale. Such classification depends on the purpose for which the investments are acquired and held. We determine the classification of our financial assets at initial recognition. Unlisted equity securities with no readily determinable fair value are carried at cost; they are neither classified as trading nor as available-for-sale financial assets.

Trading and available-for-sale financial assets are valued at fair value. The fair value of quoted debt and equity securities is based on current market prices. If the market for a financial asset is not active, if no observable market price is obtainable, or if the security is not quoted, we measure fair value by using assumptions and estimates. For unquoted equity securities, these assumptions and estimates include the use of recent arm's-length transactions; for debt securities without available observable market price, we establish fair value by reference to publicly available indexes of securities with the same rating and comparable or similar underlying collaterals or industries' exposure, which we believe approximates the amount that would be received from the sale of the asset in an orderly transaction between market participants. In measuring fair value, we make maximum use of market inputs and rely as little as possible on entity-specific inputs.

**Table of Contents**

*Income taxes.* We make estimates and judgments in determining income tax for the period, comprising current and deferred income tax. We need to assess the income tax expected to be paid or the benefit expected to be received related to the current year income (loss) in each individual tax jurisdiction and recognize deferred income tax for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Furthermore, we assess all material open income tax positions in all tax jurisdictions to determine any uncertain tax positions, and to record a provision for those that are not more likely than not to be sustained upon examination by the taxing authorities, which could trigger potential tax claims by them. In such an event, we could be required to record additional charges in our accounts, which could significantly exceed our best estimates and our provisions.

We also assess the likelihood of realization of our deferred tax assets originated by our net operating loss carry-forwards. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable profit available against loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. We record a valuation allowance against the deferred tax assets that we consider it is more likely than not that the deferred tax assets will not be realized, which would increase our provision for income taxes.

As of December 31, 2012, we had current deferred tax assets of \$137 million and non-current deferred tax assets of \$414 million, net of valuation allowances. Our deferred tax assets have increased in the past few years. In 2012, we continued to assess the future recoverability of the deferred tax assets resulting from past net operating losses.

We could be required to record further valuation allowances thereby reducing the amount of total deferred tax assets, resulting in a decrease in our total assets and, consequently, in our equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in our assessment or due to other factors, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize net operating losses and tax credit carry-forwards in the future. Likewise, a change in the tax rates applicable in the various jurisdictions or unfavorable outcomes of any ongoing tax audits could have a material impact on our future tax provisions in the periods in which these changes could occur.

*Patent and other Intellectual Property ( IP ) litigation or claims.* As is the case with many companies in the semiconductor industry, we have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other IP rights of third parties. Furthermore, we may become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. In the event the outcome of a litigation claim is unfavorable to us, we may be required to purchase a license for the underlying IP right on economically unfavorable terms and conditions, possibly pay damages for prior use, and/or face an injunction, all of which singly or in the aggregate could have a material adverse effect on our results of operations and on our ability to compete. See Item 3. Key Information Risk Factors Risks Related to Our Operations We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others .

We record a provision when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims with the support of our outside counsel to determine whether they need to be adjusted based on current information available to us. Such estimates are difficult to the extent that they are largely dependent on the status of ongoing litigation that may vary based on positions taken by the Court with respect to issues submitted, demands of opposing parties, changing laws, discovery of new facts or other matters of fact or law. As of December 31, 2012, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to either probable or possible risks. In the event of litigation that is adversely determined with respect to our interests, or in the event that we need to change our evaluation of a potential third-party claim based on new evidence or communications, unexpected legal rulings or changes in the law, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize. We are in discussion with several parties with respect to claims against us relating to possible infringement of IP rights. We are also involved in certain legal proceedings concerning such issues. See Item 8. Financial Information Legal Proceedings .

---

## **Table of Contents**

*Other claims.* We are subject to the possibility of loss contingencies arising in the ordinary course of business. These include, but are not limited to: warranty costs on our products not covered by insurance, breach of contract claims, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. We are also exposed to numerous legal risks which until now have not resulted in legal disputes and proceedings. These include risks related to product recalls, environment, anti-trust, anti-corruption, competition as well as other compliance regulations. We may also face claims in the event of breaches of law committed by individual employees or third parties. In determining loss contingencies, we consider the likelihood of a loss of an asset or the occurrence of a liability, as well as our ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly re-evaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. As of December 31, 2012, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to either probable or possible risks. The disclosure of accruals for possible risks relating to the claims we are facing may compromise our legal and negotiating position with respect to such claims. In the event we are unable to estimate the amount of such loss in a correct and timely manner, this could have a material adverse effect on our results of operations or financial condition at the time such loss were to materialize. For further details of our legal proceedings refer to Item 8. Financial Information – Legal Proceedings and Note 23 to our Consolidated Financial Statements.

There can be no assurance, however, that all IP litigation or claims and other claims to which we are currently subject will be resolved in our favor or as currently anticipated. If the outcome of any claim or litigation were to be unfavorable to us, we could incur monetary damages, and/or face an injunction, all of which singly or in the aggregate could have an adverse effect on our results of operations and our ability to compete.

*Pension and Post-Retirement Benefits.* Our results of operations and our consolidated balance sheet include amounts for pension obligations and post-retirement benefits that are measured using actuarial valuations. At December 31, 2012, our pension and post-retirement benefit obligations net of plan assets amounted to \$477 million based on the assumption that our employees will work with us until they reach the age of retirement. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds and salary increase rates. These assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. Any changes in the pension schemes or in the above assumptions can have an impact on our valuations. The measurement date we use for our plans is December 31.

### ***Fiscal Year 2012***

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. The first quarter of 2012 ended on March 31, 2012. The second quarter of 2012 ended on June 30, 2012 and the third quarter of 2012 ended on September 29, 2012. The fourth quarter of 2012 ended on December 31, 2012. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year.

In 2013 the first quarter will end on March 30, the second quarter will end on June 29, the third quarter will end on September 28 and the fourth quarter will end on December 31.

### ***2012 Business Overview***

The total available market is defined as the TAM, while the serviceable available market, the SAM, is defined as the market for products produced by us (which consists of the TAM and excludes major devices such as Microprocessors (MPUs), DRAMs, optoelectronics devices and Flash Memories).

The semiconductor market experienced a demand reduction and inventory correction, which started in the second half of 2011, which led to a decrease in 2012 of both the TAM and the SAM, while registering recovery towards the end of the year.

Based on published industry data by WSTS, semiconductor industry revenues decreased in 2012 on a year-over-year basis by approximately 3% for both the TAM and the SAM to reach approximately \$292 billion and \$169 billion, respectively. In the fourth quarter, the TAM and the SAM increased on a year-over-year basis by approximately 4% and 3%, respectively. Sequentially, in the fourth quarter of 2012, the TAM was basically flat while the SAM decreased by approximately 4%.

---

**Table of Contents**

With reference to our business performance, in 2012 we continued to experience difficult market conditions, which led to a decline in terms of revenues, mainly due to lower unit volumes, also driven by a significant drop in sales at our former largest customer. As a result, our 2012 revenues decreased 12.8% to \$8,493 million; this performance was below the SAM.

Our fourth quarter 2012 revenues were down to \$2,162 million, declining by 1.4% on a year-over-year basis and by 0.2% on a sequential basis. The year-over-year decrease was mainly originated by a 14.2% decline in Wireless revenues, while our wholly owned businesses revenues increased by 1.6%. The sequential variation was characterized by a 0.2% increase in our wholly owned businesses revenues, while Wireless revenues decreased by 2.2%. Both on a year-over-year basis and sequential basis, our fourth quarter 2012 revenues decreased in all product segments except AMM, whose revenues increased by 15.8% and 7.4%, respectively. Compared to the SAM, our performance was above the SAM on a sequential basis and lower on a year-over-year basis. Our fourth quarter 2012 sequential performance was slightly better than the mid-point of the guidance range released to the market, which indicated a quarter-over-quarter evolution in revenues in the range of about -5% to +2%.

Our effective average exchange rate for 2012 was \$1.31 for 1.00 compared to \$1.37 for 1.00 for 2011. Our effective average exchange rate for the fourth quarter of 2012 was \$1.30 for 1.00, compared to \$1.29 for 1.00 for the third quarter of 2012 and compared to \$1.36 for 1.00 in the fourth quarter of 2011. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see [Impact of Changes in Exchange Rates](#) below.

Our 2012 gross margin was 32.8% of revenues, decreasing by 390 basis points compared to the prior year, principally due to the negative impact of selling prices, lower sales volume and higher unused capacity charges, originated by the actions taken to keep strong control on our inventory levels. Furthermore, 2012 included a \$53 million charge related to the arbitration award paid to NXP. Our fourth quarter 2012 gross margin was down by 250 basis points sequentially to 32.3%, slightly improving compared to our guidance range, which indicated a gross margin of 32.0%, plus or minus 2 percentage points.

Combined 2012 SG&A and R&D expenses were basically flat compared to 2011, with the increase in R&D balanced by a decline in SG&A.

Restructuring and impairment charges significantly increased to \$1,376 million from \$75 million in 2011, which included a \$1,234 million non-cash impairment charge on our Wireless goodwill and other intangible assets and \$87 million of charges and other related closure costs, related to restructuring initiatives due to our Wireless business.

Our operating results were therefore negatively impacted by the non-cash impairment charge on Wireless goodwill and other intangible assets, lower revenues, higher restructuring charges, the NXP arbitration award charge and higher unused capacity charges, resulting in a loss of \$2,081 million, compared to an income of \$46 million in 2011.

Our fourth quarter 2012 operating result was a loss of \$730 million, mainly due to \$544 million non-cash impairment charges on our Wireless goodwill and intangible assets and \$44 million of other impairment and restructuring charges.

In the fourth quarter, both revenue and gross margin results came in above the mid-point of our guidance despite the ongoing softness in the semiconductor market. We extended our leadership in key areas. Thanks to new product momentum, revenues from our wholly owned businesses increased 0.2% and 1.6% on a sequential and year-ago basis driven by a very strong ramp of our MEMS products in the fourth quarter.

Looking at 2012 overall, we improved our net financial position, as defined in [Capital Resources](#), compared to 2011 despite the significant cash used by ST-Ericsson as well as the impact of weak business conditions. We were able to end the year with significant financial flexibility and strong cash balances while providing shareholders with the same level of dividend compared to 2011.

Important decisions were made in 2012 that are shaping a new, more focused, higher-performing ST. In December, we announced our new strategic plan targeting leadership in two product segments effective January 1, 2013: Sense & Power and Automotive Products and Embedded Processing Solutions. This new strategy includes a sharper focus on five growth drivers: MEMS and sensors, smart power, automotive products, microcontrollers, and application processors including digital consumer products. Importantly, from a financial model perspective, we are targeting an operating margin of 10% or more. A key component to achieving this objective is bringing our net operating expenses, defined as SG&A expenses and R&D expenses net of related grants, to an average quarterly rate in the range of \$600 million to \$650 million by the beginning of 2014.





---

## **Table of Contents**

In connection with our new strategic plan, we decided to exit ST-Ericsson after a transition period and our actions this past quarter, including the further impairment charge, are aligned with moving this decision forward.

### ***Business Outlook***

In the first quarter, we expect our wholly owned businesses to deliver a better than seasonal revenue performance, with a sequential decrease of about 3% at the mid-point, despite weak macro-economic conditions. Including Wireless, we expect an overall revenue decrease of about 7% at the mid-point of our guidance, plus or minus 3.5 percentage points, as ST-Ericsson anticipates a very significant sequential decrease in net sales. Reflecting lower unsaturation charges and no licensing revenues compared to the fourth quarter, we expect gross margin in the first quarter to be about 31.4%, plus or minus 2.0 percentage points. This does not take into consideration potential write-off charges, if any, which may be incurred depending on the exit options adopted for ST-Ericsson.

More broadly, semiconductor market conditions are expected to improve in 2013, driven by a more favorable economic environment. During the first part of the year, there have been initial signs of a mild recovery. At ST, we expect to outperform the market with our Sense & Power and Automotive Products and Embedded Processing Solutions segments. In particular, we expect Imaging, Microcontrollers, Analog and MEMS to be the highest contributors to our revenue performance.

With respect to ST-Ericsson, we are finalizing our decision regarding available strategic options. While we do not underestimate the challenges related to the transition, we are committed to ensure a smooth and timely exit. This could have a negative impact on our results in terms of additional provisions for restructuring charges and write-downs of assets. Our current best estimate is that we could have funding requirements, including the ongoing operations of ST-Ericsson during the transition period and restructuring costs, in the range of approximately \$300 million to \$500 million during 2013.

Overall, we will be a much stronger company with a re-sized cost base, sharpened product focus and stronger market position.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.31 = 1.00 for the 2013 first quarter and includes the impact of existing hedging contracts. The first quarter will close on March 30, 2013.

*These are forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially; in particular, refer to those known risks and uncertainties described in Cautionary Note Regarding Forward-Looking Statements and Item 3. Key Information Risk Factors herein.*

### ***Other Developments***

On February 23, 2012, certain holders redeemed 190,131 of our 2016 Convertible Bonds at a price of \$1,093.81, out of the total of 200,402 outstanding bonds, representing approximately 95% of the then outstanding convertible bonds. In addition, on March 12, 2012, we accepted the further put of 4,980 bonds for a cash consideration of \$5 million. On March 28, 2012, we published a notice of sweep up redemption for the remaining 5,291 bonds outstanding, which were redeemed on May 10, 2012. As of December 31, 2012, there were no bonds remaining outstanding.

On April 5, 2012, an arbitration tribunal set up according to the rules of the International Chamber of Commerce, ordered us to pay approximately \$59 million to NXP concerning a dispute related to a claim from NXP for underloading charges to be included in the price of wafers which NXP supplied to our Wireless joint venture. The tribunal chose not to address certain issues raised by us that formed part of a second arbitration before the same ICC tribunal. Hearings occurred in June 2012 and a final decision is expected in the first half of 2013.

Our Annual General Meeting of Shareholders was held on May 30, 2012 in Amsterdam and, among other, the following decisions were adopted by our shareholders:

The appointment of Ms. Martine Verluyten as a new member of the Supervisory Board for a three-year term, expiring at the 2015 Annual General Meeting, in replacement of Mr. Doug Dunn whose mandate expired;

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

The adoption of our 2011 accounts reported in accordance with International Financial Reporting Standards, as issued by the IASB and adopted by the European Union (IFRS);

## **Table of Contents**

The distribution of a cash dividend of \$0.40 per share, to be paid in four equal quarterly installments in June, August and December 2012 and February 2013 to shareholders of record in the month of each quarterly payment.

After our Annual General Meeting of Shareholders on May 30, 2012, Philippe Dereeper was named Executive Secretary of our Supervisory Board.

On July 2, 2012, we announced the publication of our 2011 Sustainability Report. Containing comprehensive details of our sustainability strategy, policies and performance during 2011, the Report also illustrates how we embed sustainability into every level of our operations to create value for all our stakeholders.

Effective July 31, 2012, Alisia Grenville-Mangold, Corporate Vice President and Chief Compliance Officer, was succeeded by Philippe Dereeper as Corporate Compliance Officer, reporting to Tjerk Hooghiemstra, Chief Administrative Officer.

Effective July 31, 2012, Franck Freymond, Chief Audit and Risk Executive, took on responsibility for the Ethics Committee, the whistle-blowing hotline and the process and reporting on related investigations and Enterprise Risk Management, in addition to his current assignment.

Effective July 31, 2012, Patrice Chastagner, Corporate Vice President, Human Resources, was succeeded by Philippe Brun, reporting to Tjerk Hooghiemstra.

On August 6, 2012, we announced the completion of an IP and talent acquisition from bTendo, an Israeli projection-technology innovator.

On August 30, 2012, we announced a strategic agreement with MicroOLED, a France-based company dedicated to the development and commercialization of state-of-the-art organic light emitting diodes, as well as an equity investment of approximately 6 million in the company.

On September 13, 2012, we announced that Georges Penalver was appointed Executive Vice President, Member of the Corporate Strategic Committee, Corporate Strategy Officer, effective immediately. Jean-Marc Chery, Executive Vice President, took the additional responsibility of General Manager, Digital Sector, while maintaining his current role of Executive Vice President, Chief Technology and Manufacturing Officer. As a result of Mr. Chery's expanded responsibilities, Eric Aussedat, General Manager, Imaging and Bi-CMOS ASICs Group, Joel Hartmann, Corporate Vice President, Front-end Manufacturing & Process R&D, Digital Sector, and Philippe Magarshack, Corporate Vice President, Design Enablement & Services, are promoted to Executive Vice Presidents while maintaining their previous roles. Stephane Delivre, Corporate Vice President, Global Chief Information Officer, now reports to Carlo Bozotti. Philippe Lambinet, Executive Vice President, Corporate Strategy Officer and General Manager, Digital Sector, left the company to pursue other interests, effective September 13, 2012.

On October 23, 2012, in a move to enhance performance and optimize asset utilization, we announced a new savings plan designed to achieve \$150 million in annual savings at the ST level upon completion anticipated to occur by the end of 2013. A portion of the savings coming from the identified initiatives will leverage the synergies of our previously disclosed Unified Processing Platform approach by integrating the development of System-on-Chip for digital TV. The plan also involves other new initiatives, such as efficiencies in our process-technology development model and expenses related to design outsourcing. Total restructuring costs are expected to be about \$25 million to \$30 million through completion and might affect up to 500 jobs, including contractors and attritions.

On December 10, 2012, we announced our new strategic plan. The plan is the outcome of a strategic review, as we saw major changes in the market dynamics, in particular, with reference to the wireless market. Our new strategy is aligned with the new market environment and is centered on leadership in Sense and Power and Automotive Products, and in Embedded Processing Solutions. Our specific focus is on five product areas: MEMS and sensors, smart power, automotive products, microcontrollers, and application processors including digital consumer. As part of new strategy, we decided to exit the ST-Ericsson joint venture after a transition period, which is expected to end during the third quarter of 2013.

## ***Results of Operations***

### ***Segment Information***

We operate in two business areas: Semiconductors and Subsystems.



**Table of Contents**

In the Semiconductors business area, we design, develop, manufacture and market a broad range of products, including discrete and standard commodity components, application-specific integrated circuits ( ASICs ), full-custom devices and semi-custom devices and application-specific standard products ( ASSPs ) for analog, digital and mixed-signal applications. In addition, we further participate in the manufacturing value chain of Smartcard products, which include the production and sale of both silicon chips and Smartcards.

In 2012, the organization was as follows:

Automotive Segment ( APG );

Digital Segment, consisting of two product lines:

Digital Convergence Group ( DCG ); and

Imaging, Bi-CMOS ASIC and Silicon Photonics Group ( IBP ).

Analog, MEMS and Microcontrollers Sector ( AMM ), comprised of three product lines:

Analog, MEMS & Sensors ( AMS );

Industrial & Power Conversion ( IPC ); and

Microcontrollers, Memories and Secure MCUs ( MMS ).

Power Discrete Product Segment ( PDP );

Wireless Segment comprised of the following product lines:

Connectivity ( COS );

Smartphone and Tablet Solutions ( STS );

Modems ( MOD ); and

Other Wireless, in which we report other revenues, gross margin and other items related to the Wireless business but outside the ST-Ericsson JVS.

In 2012, we revised our results from prior periods in accordance with the new segment structure due to the former Automotive, Consumer, Computer and Communication Infrastructure ( ACCI ) now being split into three segments ( APG , Digital and AMM ). In addition, we revised the

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

product lines of the Wireless segment due to Entry Solutions being reclassified into Smartphone and Tablet Solutions ( STS ). The preparation of segment information based on the current segment structure requires us to make significant estimates, assumptions and judgments in determining the operating income (loss) of the segments for the prior reporting periods. We believe that the revised 2011 and 2010 presentation is consistent with that of 2012 and we use these comparatives when managing our company.

Effective January 1, 2013, based on our new strategy, the reporting of our results reflects the new organization announced on December 10, 2012, as follows:

Sense & Power and Automotive Products ( SPA ), including Analog and MEMS, Automotive and Industrial and Power Discrete; and

Embedded Processing Solutions ( EPS ), comprised of Digital Consumer, Microcontrollers, Memory and Security, Imaging and Wireless.

Our principal investment and resource allocation decisions in the semiconductor business area are for expenditures on R&D and capital investments in front-end and back-end manufacturing facilities. These decisions are not made by product segments, but on the basis of the semiconductor business area. All product segments share common R&D for process technology and manufacturing capacity for most of their products.

In the Subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the guidance on disclosures about segments of an enterprise and related information. All the financial values related to Subsystems including net revenues and related costs, are reported in the segment Others .

**Table of Contents**

The following tables present our consolidated net revenues and consolidated operating income (loss) by product segment. For the computation of the segments' internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, SG&A expenses and a significant part of R&D expenses. In compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, including ST-Ericsson plans, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, the NXP arbitration award charge, strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold.

|   | Year Ended December 31, |                 |                  |
|---|-------------------------|-----------------|------------------|
|   | 2012                    | 2011            | 2010             |
|   | (In millions)           |                 |                  |
| <b>Net revenues by product segment:</b>   |                         |                 |                  |
| Automotive ( APG )                        | \$ 1,554                | \$ 1,678        | \$ 1,420         |
| Digital                                   | 1,334                   | 1,839           | 2,174            |
| Analog, MEMS and Microcontrollers ( AMM ) | 3,200                   | 3,377           | 3,154            |
| Power Discrete Products ( PDP )           | 1,015                   | 1,240           | 1,319            |
| Wireless                                  | 1,345                   | 1,552           | 2,219            |
| Others <sup>(1)</sup>                     | 45                      | 49              | 60               |
| <b>Total consolidated net revenues</b>    | <b>\$ 8,493</b>         | <b>\$ 9,735</b> | <b>\$ 10,346</b> |

(1) In 2012, Others includes revenues from the sales of Subsystems (\$25 million), sales of materials and other products not allocated to product segments (\$16 million) and miscellaneous (\$4 million).

For each product segment, the following table discloses the revenues of their relevant product lines for the periods under review:

|   | Year Ended December 31, |                 |                  |
|---|-------------------------|-----------------|------------------|
|   | 2012                    | 2011            | 2010             |
|   | (In millions)           |                 |                  |
| <b>Net revenues by product line:</b>                      |                         |                 |                  |
| <b>Automotive ( APG )</b>                                 | <b>\$ 1,554</b>         | <b>\$ 1,678</b> | <b>\$ 1,420</b>  |
| Digital Convergence Group ( DCG )                         | 888                     | 1,084           | 1,413            |
| Imaging, Bi-CMOS ASIC and Silicon Photonics Group ( IBP ) | 437                     | 722             | 712              |
| Others  | 9                       | 33              | 49               |
| <b>Digital</b>  | <b>1,334</b>            | <b>1,839</b>    | <b>2,174</b>     |
| Analog, MEMS & Sensors ( AMS )                            | 1,320                   | 1,335           | 1,106            |
| Industrial & Power Conversion ( IPC )                     | 733                     | 864             | 863              |
| Microcontrollers, Memories & Secure MCUs ( MMS )          | 1,147                   | 1,175           | 1,181            |
| Others  |                         | 3               | 4                |
| <b>Analog, MEMS and Microcontrollers ( AMM )</b>          | <b>3,200</b>            | <b>3,377</b>    | <b>3,154</b>     |
| <b>Power Discrete Products ( PDP )</b>                    | <b>1,015</b>            | <b>1,240</b>    | <b>1,319</b>     |
| Connectivity ( COS )                                      | 120                     | 233             | 286              |
| Smartphone and Tablet Solutions ( STS )                   | 1,102                   | 1,202           | 1,893            |
| Modems ( MOD )  | 129                     | 115             | 35               |
| Others  | (6)                     | 2               | 5                |
| <b>Wireless</b>   | <b>1,345</b>            | <b>1,552</b>    | <b>2,219</b>     |
| Others  | 45                      | 49              | 60               |
| <b>Total consolidated net revenues</b>                    | <b>\$ 8,493</b>         | <b>\$ 9,735</b> | <b>\$ 10,346</b> |

**Table of Contents**

|  | Year Ended December 31, |              |               |
|--|-------------------------|--------------|---------------|
|  | 2012                    | 2011         | 2010          |
|  | (In millions)           |              |               |
| <b>Operating income (loss) by product segment:</b> |                         |              |               |
| Automotive ( APG )                                 | \$ 129                  | \$ 227       | \$ 121        |
| Digital  | (154)                   | 108          | 245           |
| Analog, MEMS and Microcontrollers ( AMM )          | 418                     | 606          | 546           |
| Power Discrete Products ( PDP )                    | 18                      | 139          | 179           |
| Wireless <sup>(1)</sup>                            | (885)                   | (812)        | (483)         |
| Others <sup>(2)</sup>                              | (1,607)                 | (222)        | (132)         |
| <b>Operating income (loss)</b>                     | <b>\$ (2,081)</b>       | <b>\$ 46</b> | <b>\$ 476</b> |

- (1) The majority of Wireless activities are run through ST-Ericsson JVS. In addition, Wireless includes other items affecting operating results related to the Wireless business. The noncontrolling interest of Ericsson in ST-Ericsson JVS operating results (which are 100% included in Wireless) is credited on the line Net loss (income) attributable to noncontrolling interest of our Consolidated Statements of Income, which represented \$1,030 million for the year ended December 31, 2012.
- (2) Operating loss of Others includes items such as impairment, restructuring charges and other related closure costs including ST-Ericsson plans, unused capacity charges, phase-out and start-up costs, the NXP arbitration award charge and other unallocated expenses such as: strategic or special R&D programs, certain corporate-level operating expenses and other costs that are not allocated to the product segments, as well as operating earnings of the Subsystems and Other Products Group. The \$1,234 million non-cash Wireless impairment charge has been attributed to the segment Others.

|   | Year Ended December 31,         |             |             |
|---|---------------------------------|-------------|-------------|
|   | 2012                            | 2011        | 2010        |
|   | (As percentage of net revenues) |             |             |
| <b>Operating income (loss) by product segment:</b>              |                                 |             |             |
| Automotive ( APG <sup>(1)</sup> )                               | 8.3%                            | 13.5%       | 8.5%        |
| Digital <sup>(1)</sup>  | (11.5)                          | 5.8         | 11.3        |
| Analog, MEMS and Microcontrollers ( AMM <sup>(1)</sup> )        | 13.1                            | 17.9        | 17.3        |
| Power Discrete Products ( PDP <sup>(1)</sup> )                  | 1.8                             | 11.2        | 13.6        |
| Wireless <sup>(1)</sup>   | (65.8)                          | (52.3)      | (21.8)      |
| Others  |                                 |             |             |
| <b>Total consolidated operating income (loss)<sup>(2)</sup></b> | <b>(24.5)%</b>                  | <b>0.5%</b> | <b>4.6%</b> |

- (1) As a percentage of net revenues per product segment.
- (2) As a percentage of total net revenues.

|   | Year Ended December 31, |              |               |
|---|-------------------------|--------------|---------------|
|   | 2012                    | 2011         | 2010          |
|   | (In millions)           |              |               |
| <b>Reconciliation to consolidated operating income (loss):</b>    |                         |              |               |
| Total operating income (loss) of product segments                 | \$ (474)                | \$ 268       | \$ 608        |
| Unused capacity charges   | (172)                   | (149)        | (3)           |
| Impairment, restructuring charges and other related closure costs | (1,376)                 | (75)         | (104)         |
| Phase-out and start up costs                                      |                         | (8)          | (15)          |
| Strategic and other research and development programs             | (12)                    | (13)         | (18)          |
| NXP arbitration award   | (54)                    |              |               |
| Other non-allocated provisions <sup>(1)</sup>                     | 7                       | 23           | 8             |
| Total operating loss Others                                       | (1,607)                 | (222)        | (132)         |
| <b>Total consolidated operating income (loss)</b>                 | <b>\$ (2,081)</b>       | <b>\$ 46</b> | <b>\$ 476</b> |

- (1)



## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Includes unallocated income and expenses such as certain corporate-level operating expenses and other costs/income that are not allocated to the product segments.

**Table of Contents***Net revenues by location of shipment and by market channel*

The table below sets forth information on our net revenues by location of shipment:

|  | Year Ended December 31, |                 |                  |
|--|-------------------------|-----------------|------------------|
|  | 2012                    | 2011            | 2010             |
|  | (In millions)           |                 |                  |
| <b>Net Revenues by Location of Shipment:<sup>(1)</sup></b> |                         |                 |                  |
| EMEA   | \$ 2,100                | \$ 2,328        | \$ 2,592         |
| Americas   | 1,253                   | 1,342           | 1,331            |
| Greater China-South Asia                                   | 3,555                   | 4,359           | 4,558            |
| Japan-Korea  | 1,585                   | 1,706           | 1,865            |
| <b>Total</b>   | <b>\$ 8,493</b>         | <b>\$ 9,735</b> | <b>\$ 10,346</b> |

- (1) Net revenues by location of shipment are classified by location of customer invoiced or reclassified by shipment destination in line with customer demand. For example, products ordered by U.S.-based companies to be invoiced to Greater China-South Asia affiliates are classified as Greater China-South Asia revenues. Furthermore, the comparison among the different periods may be affected by shifts in shipment from one location to another, as requested by our customers.

The table below shows our net revenues by location of shipment and market channel in percentage of net revenues:

|  | Year Ended December 31,         |               |               |
|--|---------------------------------|---------------|---------------|
|  | 2012                            | 2011          | 2010          |
|  | (As percentage of net revenues) |               |               |
| <b>Net Revenues by Location of Shipment:<sup>(1)</sup></b> |                                 |               |               |
| EMEA   | 24.7%                           | 23.9%         | 25.0%         |
| Americas   | 14.7                            | 13.8          | 12.9          |
| Greater China-South Asia                                   | 41.9                            | 44.8          | 44.1          |
| Japan-Korea  | 18.7                            | 17.5          | 18.0          |
| <b>Total</b>   | <b>100.0</b>                    | <b>100.0</b>  | <b>100.0</b>  |
| <b>Net Revenues by Market Channel:<sup>(2)</sup></b>       |                                 |               |               |
| OEM  | 77.6                            | 77.3          | 79.1          |
| Distribution   | 22.4                            | 22.7          | 20.9          |
| <b>Total</b>   | <b>100.0%</b>                   | <b>100.0%</b> | <b>100.0%</b> |

- (1) Net revenues by location of shipment are classified by location of customer invoiced or reclassified by shipment destination in line with customer demand. For example, products ordered by U.S.-based companies to be invoiced to Greater China-South Asia affiliates are classified as Greater China-South Asia revenues. Furthermore, the comparison among the different periods may be affected by shifts in shipment from one location to another, as requested by our customers.
- (2) Original Equipment Manufacturers ( OEM ) are the end-customers which are directly followed by us in terms of marketing application engineering support, while Distribution customers refers to the distributors and representatives that we engage to distribute our products around the world.

**Table of Contents**

The following table sets forth certain financial data from our Consolidated Statements of Income, expressed in each case as a percentage of net revenues:

|   | Year Ended December 31,         |              |              |
|---|---------------------------------|--------------|--------------|
|   | 2012                            | 2011         | 2010         |
|   | (As percentage of net revenues) |              |              |
| Net sales   | 98.7%                           | 98.9%        | 99.2%        |
| Other revenues  | 1.3                             | 1.1          | 0.8          |
| <b>Net revenues</b>   | <b>100.0</b>                    | <b>100.0</b> | <b>100.0</b> |
| Cost of sales   | (67.2)                          | (63.3)       | (61.2)       |
| <b>Gross profit</b>   | <b>32.8</b>                     | <b>36.7</b>  | <b>38.8</b>  |
| Selling, general and administrative   | (13.8)                          | (12.4)       | (11.4)       |
| Research and development  | (28.4)                          | (24.1)       | (22.7)       |
| Other income and expenses, net  | 1.1                             | 1.1          | 0.9          |
| Impairment, restructuring charges and other related closure costs             | (16.2)                          | (0.8)        | (1.0)        |
| <b>Operating income (loss)</b>  | <b>(24.5)</b>                   | <b>0.5</b>   | <b>4.6</b>   |
| Other-than-temporary impairment charge and realized gains on financial assets |                                 | 3.3          |              |
| Interest expense, net   | (0.4)                           | (0.3)        | (0.0)        |
| Income (loss) on equity-method investments and gain on investment divestiture | (0.3)                           | (0.3)        | 2.3          |
| Gain (loss) on financial instruments, net                                     | 0.0                             | 0.3          | (0.2)        |
| <b>Income (loss) before income taxes and noncontrolling interest</b>          | <b>(25.2)</b>                   | <b>3.5</b>   | <b>6.7</b>   |
| Income tax expense  | (0.6)                           | (1.9)        | (1.5)        |
| <b>Net income (loss)</b>  | <b>(25.8)</b>                   | <b>1.6</b>   | <b>5.2</b>   |
| Net loss (income) attributable to noncontrolling interest                     | 12.2                            | 5.1          | 2.8          |
| <b>Net income (loss) attributable to parent company</b>                       | <b>(13.6)%</b>                  | <b>6.7%</b>  | <b>8.0%</b>  |

**2012 vs. 2011***Net revenues*

|                     | Year Ended<br>December 31, |                       | %<br>Variation<br>Year-Over-<br>Year |
|---------------------|----------------------------|-----------------------|--------------------------------------|
|                     | 2012                       | 2011<br>(In millions) |                                      |
| Net sales           | \$ 8,380                   | \$ 9,630              | (13.0)%                              |
| Other revenues      | 113                        | 105                   | 7.3                                  |
| <b>Net revenues</b> | <b>\$ 8,493</b>            | <b>\$ 9,735</b>       | <b>(12.8)%</b>                       |

Our 2012 net revenues decreased compared to the year-ago period, which benefited from more favorable market conditions. Net revenues decreased by 12.8% driven by a decrease of approximately 7% in volume and a decline in average selling prices by approximately 6%.

Net revenues decreased by approximately 27% for Digital, 18% for PDP, 7% for APG and 5% for AMM, all driven by a significant decline in volume except APG. Wireless revenues registered a decline of approximately 13%.

By market channel, the relative breakdown between OEM and Distribution remained comparable from one period to the next.

By location of shipment, all regions were negatively impacted in terms of revenues by the difficult market conditions. In 2012, no customer exceeded 10% of our total net revenues while the Nokia group of companies accounted for slightly more than 10% of our total net revenues in 2011.

*Gross profit*

|  | Year Ended<br>December 31, |                       | %<br>Variation<br>Year-Over-<br>Year |
|--|----------------------------|-----------------------|--------------------------------------|
|  | 2012                       | 2011<br>(In millions) |                                      |
| Cost of sales                                | \$ (5,710)                 | \$ (6,161)            | 7.3%                                 |
| Gross profit                                 | 2,783                      | 3,574                 | (22.1)                               |
| Gross margin (as percentage of net revenues) | 32.8%                      | 36.7%                 |                                      |

**Table of Contents**

In 2012, gross margin was 32.8%, decreasing by 390 basis points compared to the prior year, principally due to the negative impact of declining selling prices, lower sales volume, higher unused capacity charges and the \$53 million NXP arbitration award charge, partially offset by a favorable currency effect and a more favorable product mix.

**Selling, general and administrative expenses**

|  | Year Ended<br>December 31, |                       | %<br>Variation<br>Year-Over-<br>Year |
|--|----------------------------|-----------------------|--------------------------------------|
|  | 2012                       | 2011<br>(In millions) |                                      |
| Selling, general and administrative expenses | \$ (1,166)                 | \$ (1,210)            | 3.6%                                 |
| As percentage of net revenues                | (13.8)%                    | (12.4)%               |                                      |

Our SG&A expenses decreased in 2012 mainly due to the favorable impact of the U.S. dollar exchange rate and cost saving initiatives. Our share-based compensation charges were \$6 million in 2012, compared to \$16 million in 2011.

As a percentage of revenues, our SG&A expenses amounted to 13.8%, slightly increasing in comparison to 12.4% in 2011 due to lower volumes of sales.

**Research and development expenses**

|                                   | Year Ended<br>December 31, |                       | %<br>Variation<br>Year-Over-<br>Year |
|-----------------------------------|----------------------------|-----------------------|--------------------------------------|
|                                   | 2012                       | 2011<br>(In millions) |                                      |
| Research and development expenses | \$ (2,413)                 | \$ (2,352)            | (2.6)%                               |
| As percentage of net revenues     | (28.4)%                    | (24.1)%               |                                      |

Our R&D expenses increased compared to 2011, mainly because 2011 benefited from a \$100 million billing of R&D services. Furthermore, the 2012 R&D expenses benefited from ongoing cost saving measures and restructuring initiatives and a more favorable exchange rate. Our 2012 R&D expenses included \$3 million of share-based compensation charges, compared to \$8 million in 2011. Total R&D expenses were net of research tax credits, which amounted to \$152 million in 2012; the amount was \$159 million in 2011.

As a percentage of revenues, 2012 R&D equaled 28.4%, increasing compared to 24.1% in the prior year.

**Other income and expenses, net**

|                                       | Year Ended<br>December 31, |               |
|---------------------------------------|----------------------------|---------------|
|                                       | 2012                       | 2011          |
|                                       | (In millions)              |               |
| Research and development funding      | \$ 102                     | \$ 128        |
| Phase-out and start-up costs          |                            | (8)           |
| Exchange gain, net                    | 5                          | 8             |
| Patent costs                          | (20)                       | (28)          |
| Gain on sale of non-current assets    | 9                          | 15            |
| Other, net                            | (5)                        | (6)           |
| <b>Other income and expenses, net</b> | <b>\$ 91</b>               | <b>\$ 109</b> |
| As percentage of net revenues         | 1.1%                       | 1.1%          |

Other income and expenses, net, mainly included, as income, items such as R&D funding, gain on sale of non-current assets and exchange gain and, as expenses, patent costs. Income from R&D funding was associated with our R&D projects, which, upon project approval, qualifies as

funding on the basis of contracts with local government agencies in locations where we pursue our activities. In 2012, the balance of these factors resulted in an income, net of \$91 million, decreasing compared to 2011 mainly due to the lower level of funding.

**Table of Contents*****Impairment, restructuring charges and other related closure costs***

|   | <b>Year Ended<br/>December 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2012</b>                        | <b>2011</b> |
|   | <b>(In millions)</b>               |             |
| Impairment, restructuring charges and other related closure costs | \$ (1,376)                         | \$ (75)     |

In 2012, we recorded \$1,376 million of impairment, restructuring charges and other related closure costs, of which:

\$1,234 million as a non-cash impairment on our Wireless goodwill and other intangible assets;

\$66 million related to the ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits, as well as \$2 million impairment charges on long-lived assets with no future use;

\$23 million related to the manufacturing restructuring plan as part of the closure of our Carrollton (Texas) and Phoenix (Arizona) sites of which \$21 million was recorded as an impairment on the Carrollton building and facilities;

\$21 million related to the ST-Ericsson restructuring plans previously announced in 2011 and 2009;

\$20 million was recorded in relation to our Digital restructuring plan announced in October 2012 and was composed of employee termination benefits, as well as \$7 million impairment charges on intangible assets with no future use;

\$8 million related to other restructuring initiatives; and

a \$4 million impairment charge on certain intangibles.

In 2011, we recorded \$75 million of impairment, restructuring charges and other related closure costs, of which:

\$37 million was recorded in relation to the manufacturing restructuring plan as part of the closure of our Carrollton and Phoenix sites, and was composed of one-time termination benefits, as well as other related closure charges, mainly associated with the Phoenix fab, where production was terminated in the first quarter of 2011;

\$26 million related to the cost savings plan announced in June 2011 by ST-Ericsson, primarily consisting of employee termination benefits;

\$7 million related to the workforce reduction plans announced in April and December 2009 by ST-Ericsson, pursuant to the closure of certain locations; and

\$5 million related to other restructuring initiatives.

*Operating income (loss)*

|                               | Year Ended December 31, |       |
|-------------------------------|-------------------------|-------|
|                               | 2012                    | 2011  |
|                               | (In millions)           |       |
| Operating income (loss)       | \$ (2,081)              | \$ 46 |
| As percentage of net revenues | (24.5)%                 | 0.5%  |

Our operating results deteriorated compared to the prior year mainly due to the non-cash impairment charge on Wireless goodwill and other intangible assets, the impact of lower revenues due both to a volume and average selling price decline, higher restructuring charges, the NXP arbitration award charge and higher unused capacity charges. Furthermore, 2011 benefited from a \$100 million billing of R&D services. This resulted in an operating loss of \$2,081 million in 2012 compared to an operating income of \$46 million in 2011.

Our wholly owned businesses (APG, Digital, AMM, PDP and others) reported a decline in their profitability levels compared to the year-ago period, mainly due to lower levels of revenues. APG operating income was \$129 million or approximately 8% of revenues in 2012, down from \$227 million, or about 14% of 2011 revenues. AMM profit declined from \$606 million or about 18% of revenues to \$418 million or about 13% of revenues in 2012. PDP operating income decreased from \$139 million or about 11% of revenues to \$18 million or about 2% of revenues in 2012. In 2012, Digital registered an operating loss of \$154 million or about negative 12% of revenues, down from a \$108 million operating income or approximately 6% of 2011 revenues. Wireless operating loss increased from \$812 million in 2011 to \$885 million in 2012, of which the largest part was generated from ST-Ericsson JVS, partially originated by an approximate 13% decline in revenues; 50% of this loss was attributed to Ericsson as noncontrolling interest below operating income (loss). The segment Others increased its losses to \$1,607 million from \$222 million in 2011, mainly due to higher impairment and restructuring charges (which accounted for \$1,376 million in 2012 compared to \$75 million in 2011), the higher amount of unused capacity charges (which accounted for \$172 million in 2012 compared to \$149 million in 2011) and the NXP arbitration award charge of \$54 million in 2012.



**Table of Contents*****Other-than-temporary impairment charge and realized gains on financial assets***

| Year Ended<br>December 31, |      |
|----------------------------|------|
| 2012                       | 2011 |

(In millions)

|   |    |        |
|---|----|--------|
| Other-than-temporary impairment charge and realized gains on financial assets | \$ | \$ 318 |
|---|----|--------|

In 2011, the income of \$318 million represented a balance of (i) a realized gain on financial assets of \$323 million as a result of the cash settlement from Credit Suisse against the transfer of ownership of the whole portfolio of Auction Rate Securities and (ii) an other-than-temporary impairment charge of \$5 million as an adjustment of the fair value of certain marketable securities.

***Interest expense, net***

| Year Ended<br>December 31, |      |
|----------------------------|------|
| 2012                       | 2011 |

(In millions)

|                       |         |         |
|-----------------------|---------|---------|
| Interest expense, net | \$ (35) | \$ (25) |
|-----------------------|---------|---------|

In 2012, we registered an expense increase compared with the year-ago period, mainly due to ST-Ericsson increased utilization of the parent's loan facility. As in 2011, ST-Ericsson had a one-off sale of certain R&D tax credits anticipating their collection by three years and also interest expenses related to the sale without recourse of its trade receivables.

***Loss on equity-method investments***

| Year Ended<br>December 31, |      |
|----------------------------|------|
| 2012                       | 2011 |

(In millions)

|                                   |         |         |
|-----------------------------------|---------|---------|
| Loss on equity-method investments | \$ (24) | \$ (28) |
|-----------------------------------|---------|---------|

In 2012, we recorded a charge of \$24 million, out of which \$16 million related to 3Sun and \$7 million to our proportionate share in the loss of ST-Ericsson JVD primarily reflecting our share of the impairment charge recorded by ST-Ericsson JVD as a result of their impairment test. The remaining \$1 million loss related to other investments. The 2011 amount represented a charge of \$28 million, out of which \$23 million related to our proportionate share in ST-Ericsson JVD's net results, including amortization of basis difference. The remaining \$5 million loss related to other investments.

***Gain on financial instruments, net***

| Year Ended<br>December 31, |      |
|----------------------------|------|
| 2012                       | 2011 |

(In millions)

|                                    |      |       |
|------------------------------------|------|-------|
| Gain on financial instruments, net | \$ 3 | \$ 25 |
|------------------------------------|------|-------|

The \$3 million gain on financial assets in 2012 was mainly associated with the gain of \$2 million related to the repurchase of our 2016 Convertible Bonds and \$1 million related to the sale of some marketable securities. The \$25 million gain on financial assets in 2011 was mainly associated with (i) the gain of \$20 million related to the sale of the remaining Micron shares and the unwinding of the related hedging of our equity participation in



**Table of Contents**

Micron received upon the Numonyx disposal and (ii) a gain of \$4 million recorded following unsolicited repurchases of a portion of our 2016 Convertible Bonds with an accreted value of \$318 million, inclusive of the swap, for a cash consideration of \$314 million.

**Income tax expense**

|                    | Year Ended December 31, |          |
|--------------------|-------------------------|----------|
|                    | 2012                    | 2011     |
|                    | (In millions)           |          |
| Income tax expense | \$ (51)                 | \$ (181) |

During 2012, we registered an income tax expense of \$51 million, reflecting the actual tax charge calculated on our income before income taxes in each of our jurisdictions. This expense included the recognition of deferred tax assets, net of valuation allowances, associated with our estimates of the net operating loss recoverability in certain jurisdictions and our best estimate on additional tax charges related to potential uncertain tax positions and claims. The 2012 income tax expense was also impacted by the additional valuation allowances recorded on certain deferred tax assets related to ST-Ericsson, which are no longer supported by tax planning strategies, partially due to our decision to exit the joint venture.

**Net loss (income) attributable to noncontrolling interest**

|   | Year Ended December 31, |        |
|---|-------------------------|--------|
|   | 2012                    | 2011   |
|   | (In millions)           |        |
| Net loss (income) attributable to noncontrolling interest | \$ 1,030                | \$ 495 |
| As percentage of net revenues                             | 12.2%                   | 5.1%   |

In 2012, we recorded \$1,030 million loss attributable to noncontrolling interest, which mainly included Ericsson's ownership in ST-Ericsson JVS. In 2011, we recorded \$495 million loss attributable to noncontrolling interest, which mainly included \$413 million of the ST-Ericsson JVS losses and \$92 million charge for a valuation allowance related to part of ST-Ericsson's accumulated net operating losses.

All periods also included the recognition of noncontrolling interest related to our joint venture in Shenzhen, China for assembly operating activities and Incard do Brazil for distribution.

**Net income (loss) attributable to parent company**

|  | Year Ended December 31, |        |
|--|-------------------------|--------|
|  | 2012                    | 2011   |
|  | (In millions)           |        |
| Net income (loss) attributable to parent company | \$ (1,158)              | \$ 650 |
| As percentage of net revenues                    | (13.6)%                 | 6.7%   |

In 2012, we reported a net loss of \$1,158 million, a significant decline compared to 2011 due to the aforementioned factors. In 2011, we reported a net income of \$650 million.

The 2012 net loss attributable to the parent company was \$(1.31) per share compared to diluted earnings of \$0.72 per share in 2011.

In 2012, the impact after tax of impairment, restructuring charges and other related closure costs and other one-time items, net of tax, was estimated to be approximately \$(0.98) per share.

**2011 vs. 2010****Net revenues**

|                     | Year Ended<br>December 31, |                       | %<br>Variation<br>Year-Over-<br>Year |
|---------------------|----------------------------|-----------------------|--------------------------------------|
|                     | 2011                       | 2010<br>(In millions) |                                      |
| Net sales           | \$ 9,630                   | \$ 10,262             | (6.2)%                               |
| Other revenues      | 105                        | 84                    | 24.3                                 |
| <b>Net revenues</b> | <b>\$ 9,735</b>            | <b>\$ 10,346</b>      | <b>(5.9)%</b>                        |

**Table of Contents**

Our 2011 net revenues decreased by approximately 6%, driven by the significant decline in Wireless and the overall weakness in the semiconductor industry registered in the second half of 2011. Such decline originated from an approximate 4% decrease in volume and 2% reduction in average selling prices. Our 2011 net revenues benefited from \$105 million of other revenues, consisting mainly of technology licensing of \$77 million.

Our wholly owned businesses revenues registered an increase by about 1% in 2011.

APG revenues increased by approximately 18% compared to the prior year. AMM registered a revenue growth of approximately 7%, led by the strong success of our MEMS products, while Digital revenues decreased by approximately 15%. PDP revenues declined by approximately 6%. Wireless sales registered a decline of approximately 30%, led by the strong reduction of its legacy products.

By market channel, Distribution revenues accounted for approximately 23% of our total revenues, compared to 21% in 2010.

By location of shipment, all regions except the Americas performed negatively in terms of revenues. In 2011, our largest customer, the Nokia group of companies, accounted for slightly more than 10% of our total net revenues, compared to about 14% in 2010.

**Gross profit**

|  | Year Ended<br>December 31, |                       | %<br>Variation<br>Year-Over-<br>Year |
|--|----------------------------|-----------------------|--------------------------------------|
|  | 2011                       | 2010<br>(In millions) |                                      |
| Cost of sales                                | \$ (6,161)                 | \$ (6,331)            | 2.7%                                 |
| Gross profit                                 | 3,574                      | 4,015                 | (11.0)                               |
| Gross margin (as percentage of net revenues) | 36.7%                      | 38.8%                 |                                      |

In 2011, gross margin was 36.7%, down by 210 basis points compared to the prior year, mainly due to the negative impact of selling prices, lower sales volume which generated a significant amount of unused capacity charges, which penalized the 2011 gross margin by 150 basis points. Furthermore, 2011 benefited from the contribution of improved overall manufacturing performances and of the contribution of other revenues.

**Selling, general and administrative expenses**

|  | Year Ended<br>December 31, |                       | %<br>Variation<br>Year-Over-<br>Year |
|--|----------------------------|-----------------------|--------------------------------------|
|  | 2011                       | 2010<br>(In millions) |                                      |
| Selling, general and administrative expenses | \$ (1,210)                 | \$ (1,175)            | (3.0)%                               |
| As percentage of net revenues                | (12.4)%                    | (11.4)%               |                                      |

Our SG&A expenses increased in 2011 mainly due to the negative impact of the U.S. dollar exchange rate. Our share-based compensation charges were \$16 million in 2011, slightly lower compared to the previous period.

As a percentage of revenues, our SG&A expenses amounted to 12.4%, slightly increasing in comparison to 11.4% in 2010.

**Research and development expenses**

|  | Year Ended<br>December 31, |      | %<br>Variation |
|--|----------------------------|------|----------------|
|  | 2011                       | 2010 |                |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|                                   |            | (In millions) | Year-Over-<br>Year |
|-----------------------------------|------------|---------------|--------------------|
| Research and development expenses | \$ (2,352) | \$ (2,350)    | (0.1)%             |
| As percentage of net revenues     | (24.1)%    | (22.7)%       |                    |

**Table of Contents**

The 2011 R&D expenses benefited from higher billing of R&D services in the amount of \$100 million, whereas they amounted to \$80 million in 2010, while they were penalized by the unfavorable impact of the exchange rates. In addition, the 2011 R&D expenses benefited from our ongoing cost saving measures and restructuring initiatives, mainly in the ST-Ericsson perimeter. As a result, our R&D expenses were flat on a year-over-year basis.

The 2011 amount included \$8 million of share-based compensation charges, slightly less compared to 2010. Total R&D expenses were net of research tax credits, which amounted to \$159 million in 2011; the amount was \$146 million in 2010.

As a percentage of revenues, 2011 R&D equaled 24.1%, increasing compared to 22.7% in the prior year.

**Other income and expenses, net**

|                                       | Year Ended<br>December 31, |              |
|---------------------------------------|----------------------------|--------------|
|                                       | 2011                       | 2010         |
|                                       | (In millions)              |              |
| Research and development funding      | \$ 128                     | \$ 106       |
| Phase-out and start-up costs          | (8)                        | (15)         |
| Exchange gain, net                    | 8                          | 11           |
| Patent costs                          | (28)                       | (12)         |
| Gain on sale of non-current assets    | 15                         | 4            |
| Other, net                            | (6)                        | (4)          |
| <b>Other income and expenses, net</b> | <b>\$ 109</b>              | <b>\$ 90</b> |
| As percentage of net revenues         | 1.1%                       | 0.9%         |

Other income and expenses, net, mainly included, as income, items such as R&D funding, gain on sale of non-current assets and exchange gain and, as expenses, patent costs and phase-out and start-up costs. Income from R&D funding was associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies in locations where we pursue our activities. Patent costs increased mainly due to higher provisions for loss contingencies and higher legal fees. The gain on the sale of non-current assets mainly consisted of the gain on the sale of our Phoenix plant. In 2011, the balance of these factors resulted in an income, net of \$109 million, increasing compared to 2010 mainly due to the higher level of funding.

**Impairment, restructuring charges and other related closure costs**

|   | Year Ended<br>December 31, |          |
|---|----------------------------|----------|
|   | 2011                       | 2010     |
|   | (In millions)              |          |
| Impairment, restructuring charges and other related closure costs | \$ (75)                    | \$ (104) |

In 2011, we recorded \$75 million of impairment, restructuring charges and other related closure costs, of which:

\$37 million was recorded in relation to the manufacturing restructuring plan as part of the closure of our Carrollton (Texas) and Phoenix (Arizona) sites, and was composed of one-time termination benefits, as well as other related closure charges, mainly associated with the Phoenix fab, where production was terminated in the first quarter of 2011;

\$26 million related to the cost savings plan announced in June 2011 by ST-Ericsson, primarily consisting of employee termination benefits;

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

\$7 million related to the workforce reduction plans announced in April and December 2009 by ST-Ericsson, pursuant to the closure of certain locations; and

\$5 million related to other restructuring initiatives.



**Table of Contents**

In 2010, we recorded \$104 million of impairment, restructuring charges and other related closure costs, which were basically related to two plans: the manufacturing plan and the ST-Ericsson restructuring plan. The breakdown was as follows:

\$74 million related to the plans announced in April and December 2009 by ST-Ericsson, largely completed during 2010, primarily consisting of ongoing termination benefits pursuant to the workforce reduction plan and the closure of certain locations in Europe;

\$27 million related to our manufacturing restructuring plan, which contemplated the closure of our Ain Sebaa (Morocco), Carrollton and Phoenix sites, and was composed of one-time termination benefits, as well as other relevant charges, mainly related to the Carrollton and Phoenix fabs; and

\$3 million related to other restructuring initiatives.

**Operating income**

|                               | <b>Year Ended<br/>December 31,</b> |             |
|-------------------------------|------------------------------------|-------------|
|                               | <b>2011</b>                        | <b>2010</b> |
|                               | <b>(In millions)</b>               |             |
| Operating income              | \$ 46                              | \$ 476      |
| As percentage of net revenues | 0.5%                               | 4.6%        |

Our operating income was down to \$46 million from \$476 million in 2010, as a result of the lower volume of our revenues and the other aforementioned factors.

Our wholly owned businesses (APG, Digital, AMM, PDP and others), were in a position to maintain a solid operating income of slightly above 11% of revenues, while they reported a decline in their profitability compared to 2010 because of lower revenues. APG operating income increased to \$227 million or about 14% of revenues from \$121 million operating income or approximately 9% of 2010 revenues, mainly driven by the revenue growth. Digital operating income decreased to \$108 million or about 6% of revenues from \$245 million or approximately 11% of 2010 revenues. AMM improved its profit level, driven by revenue growth, registering \$606 million operating income or 18% of revenues compared to \$546 million operating income or about 17% of revenues in 2010, mainly supported by the strong MEMS operating performances. PDP operating income was down to \$139 million, equivalent to about 11% of revenues from \$179 million operating income or about 14% of 2010 revenues. Due to a strong decline in revenues, Wireless segment registered a significant deterioration in its operating result, registering a loss of \$812 million, compared to a loss of \$483 million in the previous year; since, substantially all of this loss was generated by ST-Ericsson JVS, 50% was attributed to Ericsson as noncontrolling interest below operating income. The segment Others increased its losses to \$222 million from \$132 million in 2010, mainly due to higher unused capacity charges, which are not allocated to the product segments.

**Other-than-temporary impairment charge and realized gains on financial assets**

|   | <b>Year Ended<br/>December 31,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2011</b>                        | <b>2010</b> |
|   | <b>(In millions)</b>               |             |
| Other-than-temporary impairment charge and realized gains on financial assets | \$ 318                             | \$          |

The income of \$318 million represents a balance of (i) a realized gain on financial assets of \$323 million as a result of the cash settlement from Credit Suisse against the transfer of ownership of the whole portfolio of ARS and (ii) an other-than-temporary impairment charge of \$5 million as an adjustment of the fair value of certain marketable securities.

**Interest expense, net**

|                       | <b>Year Ended<br/>December 31,</b> |             |
|-----------------------|------------------------------------|-------------|
|                       | <b>2011</b>                        | <b>2010</b> |
|                       | <b>(In millions)</b>               |             |
| Interest expense, net | \$ (25)                            | \$ (3)      |

**Table of Contents**

In 2011, we registered a significant expense increase compared with the year-ago period, mainly due to ST-Ericsson because of the one-off sale of certain R&D tax credits at ST-Ericsson, anticipating their collection by three years and the increased utilization of the parents' loan facility.

***Income (loss) on equity-method investments and gain on investment divestiture***

|   | Year Ended<br>December 31, |        |
|---|----------------------------|--------|
|   | 2011                       | 2010   |
|   | (In millions)              |        |
| Income (loss) on equity-method investments and gain on investment divestiture | \$ (28)                    | \$ 242 |

In 2011, we recorded a charge of \$28 million, out of which \$23 million related to our proportionate share in ST-Ericsson JVD's net results, including amortization of basis difference. The remaining \$5 million loss related to other investments. The 2010 amount represented an income of \$242 million, which included (i) \$265 million gain realized on the divestiture of our proportionate share in Numonyx; (ii) \$8 million of income representing our net proportional share of Numonyx's result; (iii) \$28 million of loss related to our proportionate share in the ST-Ericsson JVD (both results included amortization of basis difference following the business combinations); and (iv) \$3 million loss relating to other investments.

***Gain (loss) on financial instruments, net***

|   | Year Ended<br>December 31, |         |
|---|----------------------------|---------|
|   | 2011                       | 2010    |
|   | (In millions)              |         |
| Gain (loss) on financial instruments, net | \$ 25                      | \$ (24) |

The \$25 million gain on financial assets in 2011 was mainly associated with (i) the gain of \$20 million related to the sale of the remaining Micron shares and the unwinding of the related hedging of our equity participation in Micron received upon the Numonyx disposal and (ii) a gain of \$4 million recorded following unsolicited repurchases of a portion of our 2016 Convertible Bonds with an accreted value of \$318 million, inclusive of the swap, for a cash consideration of \$314 million. The \$24 million loss on financial instruments in 2010 was the balance between (i) a loss of \$15 million related to the net premium paid on financial contracts designated to hedge part of the disposal of our share in Numonyx; (ii) a loss of \$3 million related to the sale of senior Floating Rate Notes; (iii) a loss of \$13 million related to the sale of shares of our equity participation in Micron; and (iv) a gain of \$7 million related to the repurchase of our 2016 Convertible Bonds.

***Income tax expense***

|                    | Year Ended<br>December 31, |          |
|--------------------|----------------------------|----------|
|                    | 2011                       | 2010     |
|                    | (In millions)              |          |
| Income tax expense | \$ (181)                   | \$ (149) |

During 2011, we registered an income tax expense of \$181 million, reflecting the actual tax charge calculated on our income before income taxes in each of our jurisdictions. This expense included the recognition of deferred tax assets, potential valuation allowances on our deferred tax assets associated with our estimates of the net operating loss recoverability in certain jurisdictions of which a \$92 million charge was for a valuation allowance related to part of ST-Ericsson's accumulated net operating losses and our best estimate on tax charges related to potential uncertain tax positions.

***Net loss (income) attributable to noncontrolling interest***

|   | Year Ended<br>December 31, |        |
|---|----------------------------|--------|
|   | 2011                       | 2010   |
|   | (In millions)              |        |
| Net loss (income) attributable to noncontrolling interest | \$ 495                     | \$ 288 |
| As percentage of net revenues                             | 5.1%                       | 2.8%   |

**Table of Contents**

In 2011, we recorded \$495 million loss attributable to noncontrolling interest, which mainly included \$413 million of the ST-Ericsson JVS losses and \$92 million charge for a valuation allowance related to part of ST-Ericsson's accumulated net operating losses. In 2010, we booked \$288 million loss attributable to noncontrolling interest, of which \$296 million was attributable to the share owned by Ericsson in the losses of the consolidated ST-Ericsson JVS.

All periods included the recognition of noncontrolling interest related to our joint venture in Shenzhen, China for assembly operating activities and Incard do Brazil for distribution. Those amounts were not material.

**Net income attributable to parent company**

|   | Year Ended<br>December 31, |        |
|---|----------------------------|--------|
|   | 2011                       | 2010   |
|   | (In millions)              |        |
| Net income attributable to parent company | \$ 650                     | \$ 830 |
| As percentage of net revenues             | 6.7%                       | 8.0%   |

In 2011, we reported a net income of \$650 million, a significant decline compared to 2010 due to the aforementioned factors and in spite of the significant amount of realized gain on financial assets. In 2010, we reported a net income of \$830 million.

Diluted earnings per share for 2011 was \$0.72 compared to \$0.92 per share in 2010.

In 2011, the impact after tax of impairment, restructuring charges and other related closure costs, other-than-temporary impairment charge and other one-time items, net of tax, was estimated to be approximately \$0.31 per share.

**Quarterly Results of Operations**

Certain quarterly financial information for the years 2012 and 2011 are set forth below. Such information is derived from our unaudited Consolidated Financial Statements, prepared on a basis consistent with the Consolidated Financial Statements that include, in our opinion, all normal adjustments necessary for a fair statement of the interim information set forth therein. Operating results for any quarter are not necessarily indicative of results for any future period. In addition, in view of the significant volatility we have experienced in recent years, the increasingly competitive nature of the markets in which we operate, the changes in products mix and the currency effects of changes in the composition of sales and production among different geographic regions, we believe that period-to-period comparisons of our operating results should not be relied upon as an indication of future performance.

Our quarterly and annual operating results are also affected by a wide variety of other factors that could materially and adversely affect revenues and profitability or lead to significant variability of operating results, including, among others, capital requirements and the availability of funding, competition, new product development, changes in technology, manufacturing problems, litigation and possible IP claims. In addition, a number of other factors could lead to fluctuations in operating results, including order cancellations or reduced bookings by key customers or distributors, IP developments, international events, currency fluctuations, problems in obtaining adequate raw materials on a timely basis, impairment, restructuring charges and other related closure costs, as well as the loss of key personnel. As only a portion of our expenses varies with our revenues, there can be no assurance that we will be able to reduce costs promptly or adequately in relation to revenue declines to compensate for the effect of any such factors. As a result, unfavorable changes in the above or other factors have in the past and may in the future adversely affect our operating results. Quarterly results have also been and may be expected to continue to be substantially affected by the cyclical nature of the semiconductor and electronic systems industries, the speed of some process and manufacturing technology developments, market demand for existing products, the timing and success of new product introductions and the levels of provisions and other unusual charges incurred. Certain additions of our quarterly results will not total our annual results due to rounding.

In the fourth quarter of 2012, based upon published industry data by WSTS, the TAM and the SAM increased year-over-year approximately 4% and 3%, reaching approximately \$74 billion and \$42 billion, while sequentially, the TAM was basically flat and the SAM decreased by approximately 4%.

**Table of Contents**

In the fourth quarter of 2012, our average effective exchange rate was approximately \$1.30 to 1.00, compared to \$1.29 to 1.00 in the third quarter of 2012 and \$1.36 to 1.00 in the year-ago quarter. Our effective exchange rate reflects actual exchange rate levels combined with the impact of cash flow hedging programs.

*Net revenues*

|                     | December 31,<br>2012 | Three Months Ended    |                          | December 31,<br>2011 | % Variation<br>Sequential | % Variation<br>Year-Over-<br>Year |
|---------------------|----------------------|-----------------------|--------------------------|----------------------|---------------------------|-----------------------------------|
|                     |                      | September 29,<br>2012 | (Unaudited, in millions) |                      |                           |                                   |
| Net sales           | \$ 2,111             | \$ 2,119              | \$ 2,170                 |                      | (0.4)%                    | (2.7)%                            |
| Other revenues      | 51                   | 47                    | 21                       |                      | 7.6                       | 139.0                             |
| <b>Net revenues</b> | <b>\$ 2,162</b>      | <b>\$ 2,166</b>       | <b>\$ 2,191</b>          |                      | <b>(0.2)%</b>             | <b>(1.4)%</b>                     |

*Year-over-year comparison*

Our fourth quarter 2012 net revenues were \$2,162 million, or 1.4% below the equivalent year-ago quarter, reflecting a more difficult industry environment, which negatively impacted our average selling prices for our products. As such, our revenue performance was primarily originated from an approximate 7% reduction in average selling prices almost entirely due to the impact of negative pricing pressure, with no benefit from an improved product mix, partially balanced by an approximate 6% increase in volume.

By product segment, all product segments registered a decrease, except AMM, which registered an approximate increase by 16% driven by a strong performance in MEMS and Microcontrollers. AMM's increase in fourth quarter revenues was mainly due to volume despite negative pricing pressure. Digital revenues were down by approximately 17% due to declining prices and volume. APG revenues decreased by about 4%, mainly due to negative pricing pressure since volume was increasing. PDP revenues were down by approximately 3% compared to the equivalent year-ago quarter. In total, our wholly owned businesses increased 1.6% on a year-ago basis, again driven by a strong ramp of our MEMS products. Wireless sales registered a decline of approximately 14%.

By market channel, Distribution revenues accounted for approximately 23% of our total revenues, compared to 20% in the fourth quarter of 2011.

By location of shipment, our fourth quarter 2012 revenues increased in Japan-Korea and EMEA by approximately 9% and 4%, respectively, while they decreased in Greater China-South Asia and in Americas by about 8% and 1% respectively.

In the fourth quarter 2012, our largest customer, the Samsung group of companies, accounted for approximately 11% of our net revenues. In the fourth quarter of 2011, Nokia accounted for about 13% of our net revenues.

*Sequential comparison*

On a sequential basis our revenues decreased by 0.2%, slightly better than the mid-point of the anticipated range of about -5% to +2%. This result is consistent with our expectation of a relatively flat quarter-to-quarter pattern in revenue. This sequential variation was due to an approximate 5% decrease in volume, almost entirely compensated by an approximate 5% increase in average selling prices, due to a more favorable product mix. The fourth quarter also benefited from \$51 million of other revenues compared to \$47 million in the third quarter, which both consisted mainly of technology licensing.

By product segment, with reference to our wholly owned businesses, our revenues increased by 0.2%, led by an approximate 7% increase in AMM, while they decreased by about 11% in PDP, 6% in APG and 2% in Digital. Wireless revenues decreased by approximately 2%.

By region, our revenues in Japan-Korea and Greater China-South Asia registered an approximate increase by 16% and 1% respectively while revenues in EMEA decreased by about 13%. Americas revenues were almost flat compared to the third quarter.



**Table of Contents**

In the fourth quarter of 2012, our largest customer, the Samsung group of companies, accounted for approximately 11% of our net revenues while no customer exceeded 10% of our total net revenues in the third quarter of 2012.

**Gross profit**

|  | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012 | December 31,<br>2011<br>(Unaudited, in millions) | Sequential | % Variation<br>Year-Over-<br>Year |
|--|----------------------|---|--|------------|-----------------------------------|
| Cost of sales                                | \$ (1,465)           | \$ (1,413)                                  | \$ (1,459)                                       | (3.6)%     | (0.4)%                            |
| Gross profit                                 | 697                  | 753   | 732  | (7.4)      | (4.8)                             |
| Gross margin (as percentage of net revenues) | 32.3%                | 34.8%                                       | 33.4%  |            |                                   |

Fourth quarter gross margin was 32.3%, decreasing on a year-over-year basis by approximately 110 basis points, mainly due to the impact of negative pricing pressure and a less favorable product mix, partially balanced by a higher volume of revenues and lower unused capacity charges.

On a sequential basis, gross margin in the fourth quarter decreased by 250 basis points, mainly due to lower volume, lower selling prices and higher unused capacity charges, partially balanced by a more favorable product mix.

**Selling, general and administrative expenses**

|  | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012 | December 31,<br>2011<br>(Unaudited, in millions) | Sequential | % Variation<br>Year-Over-<br>Year |
|--|----------------------|---|--|------------|-----------------------------------|
| Selling, general and administrative expenses | \$ (291)             | \$ (274)                                    | \$ (280)   | (6.1)%     | (3.8)%                            |
| As percentage of net revenues                | (13.5)%              | (12.7)%                                     | (12.8)%  |            |                                   |

Our SG&A expenses increased on a year-over-year basis mainly because of a higher number of days. On a sequential basis, SG&A expenses increased mainly due to seasonal factors. Our share-based compensation charges were \$3 million in the fourth quarter of 2012, compared to \$3 million in the fourth quarter of 2011 and \$1 million in the third quarter of 2012.

As a percentage of revenues, our SG&A expenses amounted to 13.5%, slightly increasing in comparison to 12.8% in the prior year's fourth quarter and 12.7% in the prior quarter.

**Research and development expenses**

|                                   | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012 | December 31,<br>2011<br>(Unaudited, in millions) | Sequential | % Variation<br>Year-Over-<br>Year |
|-----------------------------------|----------------------|---|--|------------|-----------------------------------|
| Research and development expenses | \$(585)              | \$(578)                                     | \$(614)  | (1.1)%     | 4.8%                              |
| As percentage of net revenues     | (27.1)%              | (26.7)%                                     | (28.0)%  |            |                                   |

R&D expenses decreased year-over-year, mainly due to the positive impact of the U.S. dollar exchange rate, which strengthened against the Euro and the benefit of our cost saving programs primarily at ST-Ericsson. On a sequential basis, R&D expenses increased, due to seasonal factors.

The fourth quarter of 2012 included \$1 million of share-based compensation charges compared to \$2 million in the fourth quarter of 2011 and was basically flat compared to the third quarter of 2012. The fourth quarter 2012 R&D expenses were net of research tax credits, which amounted to \$42 million, compared to \$36 million in both the fourth quarter 2011 and the third quarter 2012.





**Table of Contents**

As a percentage of revenues, fourth quarter 2012 R&D equaled 27.1%, a decrease of approximately 90 basis points compared to the year-ago period due to the reduction in our operating expenses and a 40 basis points increase on a sequential basis, due to increasing operating expenses.

**Other income and expenses, net**

|  | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|--|----------------------|---|----------------------|
| Research and development funding                     | \$ 41                | \$ 19   | \$ 46                |
| Phase-out costs and start-up costs                   |                      |   |                      |
| Exchange gain, net                                   | 1                    | 3   | 2                    |
| Patent costs, net of reversals for unused provisions | (5)                  | 1   | (7)                  |
| Gain on sale of non-current assets                   | 2                    |   |                      |
| Other, net   | (2)                  | (3)   | (2)                  |
| <b>Other income and expenses, net</b>                | <b>\$ 37</b>         | <b>\$ 20</b>  | <b>\$ 39</b>         |
| As percentage of net revenues                        | 1.7%                 | 0.9%  | 1.8%                 |

Other income and expenses, net, mainly included, as income, items such as R&D funding and gain on sale of non-current assets and, as expenses, patent costs, net of reversals for unused provisions. Income from R&D funding was associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies in locations where we pursue our activities. In the fourth quarter of 2012, the balance of these factors resulted in net income of \$37 million, mainly due to funding of approximately \$41 million.

**Impairment, restructuring charges and other related closure costs**

|   | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|---|----------------------|---|----------------------|
| Impairment, restructuring charges and other related closure costs | \$ (588)             | \$ (713)  | \$ (9)               |

In the fourth quarter of 2012, we recorded \$588 million of impairment, restructuring charges and other related closure costs, of which:

\$544 million as a non-cash impairment on our Wireless goodwill and other intangible assets;

\$20 million was recorded in relation to our Digital restructuring plan announced in October 2012 and was composed of employee termination benefits, as well as \$7 million impairment charges on intangible assets with no future use;

\$16 million related to the ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits; and

\$8 million related to other restructuring initiatives.

In the third quarter of 2012, we recorded \$713 million of impairment, restructuring charges and other related closure costs, mainly due to the following:

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

\$690 million as a non-cash impairment on our Wireless goodwill;

\$13 million as an additional impairment on the Carrollton (Texas) building and facilities, reflecting the persistent difficulty in disposing of this asset;

\$5 million in relation to the ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits;

\$4 million as an impairment on certain intangibles; and

\$1 million related to the ST-Ericsson cost savings plan previously announced in 2011.

**Table of Contents**

In the fourth quarter of 2011, we recorded \$9 million of impairment, restructuring charges and other related closure costs in relation to the cost savings plan announced in June 2011 by ST-Ericsson, primarily consisting of employee termination benefits.

**Operating loss**

|                               | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|-------------------------------|----------------------|---|----------------------|
| Operating loss                | \$ (730)             | \$ (792)  | \$ (132)             |
| As percentage of net revenues | (33.8)%              | (36.6)%   | (6.0)%               |

Our fourth quarter 2012 operating results deteriorated compared to the year-ago period mainly as a result of higher impairment and restructuring charges and a lower amount of revenues. On a sequential basis, our operating loss decreased mainly because of lower impairment and restructuring charges. Excluding impairment and restructuring charges, the operating loss deteriorated sequentially primarily due to higher unused capacity charges and higher operating expenses due to seasonal factors. The fourth quarter 2012 registered an operating loss of \$730 million compared to a loss of \$132 million in the year-ago quarter and a loss of \$792 million in the prior quarter.

While all our segments except AMM reported a decline in their profitability levels compared to the year-ago period mainly driven by lower revenues, AMM, APG and PDP were able to maintain a solid profitability level in spite of the difficult market environment. AMM operating income increased from \$116 million or about 16% of revenues to \$120 million or an approximate 14% of revenues driven by higher revenue. APG decreased its operating income from \$41 million or about 11% of revenues to \$20 million, equivalent to about 6% of revenues. PDP decreased its operating income from \$16 million or about 6% of revenues to \$3 million, equivalent to about 1% of revenues. Digital registered an operating loss of \$51 million or about negative 16% of revenues compared to an operating income of \$9 million equivalent to about 2% of revenues in the prior year fourth quarter. Wireless registered an improvement in its operating result, registering a loss of \$168 million, compared to a loss of \$211 million in the prior year fourth quarter; since substantially all of this loss was generated by ST-Ericsson JVS, 50% was attributed to Ericsson as noncontrolling interest below operating loss. The segment Others significantly increased its losses from \$103 million in the year-ago period to \$654 million, mainly due to higher impairment and restructuring charges. Excluding impairment and restructuring charges, the segment Others decreased its losses mainly due to lower unused capacity charges.

On a sequential basis, all product segments registered a deterioration in their operating results except AMM and Wireless.

**Interest expense, net**

|                       | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|-----------------------|----------------------|---|----------------------|
| Interest expense, net | \$ (9)               | \$ (8)  | \$ (5)               |

We recorded net interest expense of \$9 million in the fourth quarter of 2012. On a year-over-year basis and on a sequential basis the net interest expense increased by \$4 million and \$1 million, respectively, mainly due to the increased utilization of the parent loan facility in ST-Ericsson.

**Income (loss) on equity-method investments**

|  | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|--|----------------------|---|----------------------|
| Income (loss) on equity-method investments | \$ (11)              | \$ (4)  | \$ (6)               |

**Table of Contents**

In the fourth quarter of 2012, we recorded a charge of \$11 million, of which \$5 million related to our minority equity investment in 3Sun, \$5 million related to our proportionate share in ST-Ericsson JVD, primarily reflecting our share of the impairment charge recorded by ST-Ericsson JVD as a result of its impairment test, and \$1 million related to other investments.

***Gain on financial instruments, net***

|                                    | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|------------------------------------|----------------------|---|----------------------|
| Gain on financial instruments, net | \$                   | \$  | \$ 3                 |

In the fourth quarter of 2011 the \$3 million gain on financial instruments was related to an additional unsolicited repurchase of part of our 2016 Convertible Bonds with an accreted value of \$201 million, inclusive of the swap, for a cash consideration of \$198 million.

***Income tax expense***

|                    | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|--------------------|----------------------|---|----------------------|
| Income tax expense | \$ (39)              | \$ (25)   | \$ (70)              |

During the fourth quarter of 2012, we registered an income tax expense of \$39 million, in spite of a loss before income taxes, reflecting actual tax charges and benefits in each jurisdiction. The income tax expense of the fourth quarter was impacted by the additional valuation allowances recorded on certain deferred tax assets related to ST-Ericsson, which are no longer supported by tax planning strategies, partially due to our decision to exit the joint venture.

Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimations of our tax provisions. Our income tax amounts and rates depend also on our loss carry-forwards and their relevant valuation allowances, which are based on estimated projected plans and available tax planning strategies; in the case of material changes in these plans, the valuation allowances could be adjusted accordingly with an impact on our tax charges. We currently enjoy certain tax benefits in some countries. Such benefits may not be available in the future due to changes in the local jurisdictions; our effective tax rate could be different in future quarters and may increase in the coming years. In addition, our yearly income tax charges include the estimated impact of provisions related to potential tax positions which have been considered uncertain.

***Net loss (income) attributable to noncontrolling interest***

|   | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|---|----------------------|---|----------------------|
| Net loss (income) attributable to noncontrolling interest | \$ 361               | \$ 351  | \$ 199               |

In the fourth quarter of 2012, we recorded \$361 million loss attributable to noncontrolling interest, which mainly included the 50% owned by Ericsson in the consolidated ST-Ericsson JVS. In the third quarter of 2012 and in the fourth quarter of 2011, the corresponding amounts were \$351 million and \$199 million, respectively. These amounts mainly reflected Ericsson's share in the joint venture's loss. The year-over-year increase was mainly associated with the non-cash impairment charge on Wireless goodwill and other intangible assets which was allocated to ST-Ericsson JVS.

All periods also included the recognition of noncontrolling interest related to our joint venture in Shenzhen, China for assembly operating activities and Incard do Brazil for distribution.



**Table of Contents****Net loss attributable to parent company**

|   | December 31,<br>2012 | Three Months Ended<br>September 29,<br>2012<br>(Unaudited, in millions) | December 31,<br>2011 |
|---|----------------------|---|----------------------|
| Net loss attributable to parent company | \$ (428)             | \$ (478)  | \$ (11)              |
| As percentage of net revenues           | (19.8)%              | (22.1)%   | (0.5)%               |

For the fourth quarter of 2012, we reported a net loss of \$428 million, slightly improving sequentially but a significant deterioration compared to the year-ago quarterly loss due to the aforementioned factors and the significant non-cash impairment charge on Wireless goodwill and other intangible assets.

Earnings per share for the fourth quarter of 2012 was \$(0.48) compared to \$(0.54) in the third quarter of 2012 and \$(0.01) in the year-ago quarter.

In the fourth quarter of 2012, the impact per share after tax of impairment, restructuring charges and other related closure costs and other one-time items was estimated to be approximately \$(0.37) per share, while in the third quarter of 2012, it was approximately \$(0.51) per share. In the year-ago quarter, the impact per share after tax of impairment, restructuring charges and other related closure costs and other one-time items was estimated to be basically nil.

**Impact of Changes in Exchange Rates**

Our results of operations and financial condition can be significantly affected by material changes in the exchange rates between the U.S. dollar and other currencies, particularly the Euro.

As a market rule, the reference currency for the semiconductor industry is the U.S. dollar and the market prices of semiconductor products are mainly denominated in U.S. dollars. However, revenues for some of our products (primarily our dedicated products sold in Europe and Japan) are quoted in currencies other than the U.S. dollar and as such are directly affected by fluctuations in the value of the U.S. dollar. As a result of currency variations, the appreciation of the Euro compared to the U.S. dollar could increase, in the short term, our level of revenues when reported in U.S. dollars. Revenues for all other products, which are either quoted in U.S. dollars and billed in U.S. dollars or in local currencies for payment, tend not to be affected significantly by fluctuations in exchange rates, except to the extent that there is a lag between the changes in currency rates and the adjustments in the local currency equivalent of the price paid for such products. Furthermore, certain significant costs incurred by us, such as manufacturing costs, SG&A expenses, and R&D expenses, are largely incurred in the currency of the jurisdictions in which our operations are located. Given that most of our operations are located in the Euro zone and other non U.S. dollar currency areas, including Sweden and Singapore, our costs tend to increase when translated into U.S. dollars when the dollar weakens or to decrease when the U.S. dollar strengthens.

In summary, as our reporting currency is the U.S. dollar, currency exchange rate fluctuations affect our results of operations: in particular, if the U.S. dollar weakens, our results are negatively impacted since we receive a limited part of our revenues, and more importantly, we incur a significant part of our costs, in currencies other than the U.S. dollar. On the other hand, our results are favorably impacted when the dollar strengthens. The impact on our accounts could therefore be material, in the case of a material variation of the U.S. dollar exchange rate.

Our principal strategy to reduce the risks associated with exchange rate fluctuations has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of materials, purchases and services from our suppliers denominated in U.S. dollars, thereby reducing the potential exchange rate impact of certain variable costs relative to revenues. Moreover, in order to further reduce the exposure to U.S. dollar exchange fluctuations, we have hedged certain line items on our consolidated statements of income, in particular with respect to a portion of the costs of goods sold, most of the R&D expenses and certain SG&A expenses, located in the Euro zone, which we account for as cash flow hedging contracts. We use three different types of hedging contracts, consisting of forward contracts, collars and options.

Our consolidated statements of income for 2012 included income and expense items translated at the average U.S. dollar exchange rate for the period, plus the impact of the hedging contracts expiring during the period. Our effective average exchange rate was \$1.31 for 1.00 for 2012 compared to \$1.37 for 1.00 for 2011.





**Table of Contents**

Our effective exchange rate was \$1.30 for 1.00 for the fourth quarter of 2012 and \$1.29 for 1.00 for the third quarter of 2012, while it was \$1.36 for 1.00 for the fourth quarter of 2011. These effective exchange rates reflect the actual exchange rates combined with the impact of cash flow hedging contracts that matured in the period.

In 2010, we extended the time horizon of our cash flow hedging through zero cost collars contracts for manufacturing costs and operating expenses for up to 24 months, for a limited percentage of our exposure to the Euro and under certain currency market circumstances. As of December 31, 2012, the outstanding hedged amounts were 601 million to cover manufacturing costs and 370 million to cover operating expenses, at an average exchange rate of about \$1.3162 to 1.00 and \$1.3133 to 1.00, respectively (considering the options and the risk reversals at strike and including the premiums paid to purchase foreign exchange options), maturing over the period from January 3, 2013 to November 7, 2013. As of December 31, 2012, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory represented a deferred profit of approximately \$24 million before tax, recorded in Accumulated other comprehensive income (loss) in the consolidated statements of equity, compared to a deferred loss of approximately \$67 million before tax at December 31, 2011.

With respect to the portion of our R&D expenses incurred in ST-Ericsson Sweden, as of December 31, 2012, the outstanding hedged amounts were Swedish krona (SEK) 821 million at an average exchange rate of about SEK 6.7766 to \$1.00, maturing over the period from January 4, 2013 to November 7, 2013. As of December 31, 2012, these outstanding hedging contracts represented a deferred profit of approximately \$4 million before tax, recorded in Accumulated other comprehensive income (loss) in the consolidated statements of equity, compared to a deferred loss of approximately \$4 million before tax at December 31, 2011.

During the second quarter of 2012, we started to hedge certain manufacturing costs denominated in Singapore dollars (SGD); as of December 31, 2012, the outstanding hedged amounts were SGD 178 million at an average exchange rate of about SGD 1.2282 to \$1.00 maturing over the period from January 3, 2013 to November 7, 2013. As of December 31, 2012, these outstanding hedging contracts represented a deferred gain of approximately \$1 million before tax, recorded in Accumulated other comprehensive income (loss) in the consolidated statement of equity.

Our cash flow hedging policy is not intended to cover our full exposure and is based on hedging a portion of our exposure in the next quarter and a declining percentage of our exposure in each quarter thereafter. In 2012, as a result of Euro / U.S. dollar, U.S. dollar / SEK and U.S. dollar / Singapore dollar cash flow hedging, we recorded a net loss of \$71 million, consisting of a loss of \$27 million to R&D expenses, a loss of \$39 million to cost of goods sold and a loss of \$5 million to SG&A expenses, while in 2011, we recorded a net gain of \$117 million.

In addition to our cash flow hedging, in order to mitigate potential exchange rate risks on our commercial transactions, we purchase and enter into forward foreign currency exchange contracts and currency options to cover foreign currency exposure in payables or receivables at our affiliates, which we account for as fair value instruments. We may in the future purchase or sell similar types of instruments. See Item 11. Quantitative and Qualitative Disclosures About Market Risk . Furthermore, we may not predict in a timely fashion the amount of future transactions in the volatile industry environment. No assurance may be given that our hedging activities will sufficiently protect us against declines in the value of the U.S. dollar. Consequently, our results of operations have been and may continue to be impacted by fluctuations in exchange rates. The net effect of the consolidated foreign exchange exposure resulted in a net gain of \$5 million recorded in Other income and expenses, net in our 2012 consolidated statement of income.

The assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. Income and expenses, as well as cash flows, are translated at the average exchange rate for the period. The balance sheet impact, as well as the income statement and cash flow impact, of such translations have been, and may be expected to be, significant from period to period since a large part of our assets and liabilities and activities are accounted for in Euros as they are located in jurisdictions where the Euro is the functional currency. Adjustments resulting from the translation are recorded directly in equity, and are shown as Accumulated other comprehensive income (loss) in the consolidated statements of equity. At December 31, 2012, our outstanding indebtedness was denominated mainly in U.S. dollars and in Euros.

For a more detailed discussion, see Item 3. Key Information Risk Factors Risks Related to Our Operations .

---

## **Table of Contents**

### **Impact of Changes in Interest Rates**

Interest rates may fluctuate upon changes in financial market conditions and material changes can affect our results of operations and financial condition, since these changes can impact the total interest income received on our cash and cash equivalents and marketable securities, as well as the total interest expense paid on our financial debt.

Our interest income (expense), net, as reported in our consolidated statements of income, is the balance between interest income received from our cash and cash equivalents and marketable securities investments and interest expense paid on our financial liabilities and bank fees (including fees on committed credit lines). Our interest income is dependent upon fluctuations in interest rates, mainly in U.S. dollars and Euros, since we invest primarily on a short-term basis; any increase or decrease in the market interest rates would mean an equivalent increase or decrease in our interest income. Our interest expense is mainly associated with long- and short-term debt, which mainly consists of our 2013 Senior Bonds, which is reset quarterly at a rate of three-month Euribor plus 40bps, and European Investment Bank Floating Rate Loans at three-month Libor and Euribor plus variable spreads. Our 2016 Convertible Bond was almost entirely repaid to the bondholders in the first quarter of 2012 upon the exercise of the put option and fully redeemed in the second quarter of 2012.

At December 31, 2012, our total financial resources, including cash and cash equivalents and marketable securities, generated an average interest income rate of 0.19%. At the same date, the average interest rate on our outstanding debt was 0.81%.

### **Impact of Changes in Equity Prices**

As of December 31, 2012, we did not hold any significant equity participations, which could be subject to a material impact in changes in equity prices. However, we hold equity participations whose carrying value could be lower due to further losses or impairment charges of our equity-method investments.

### **Liquidity and Capital Resources**

Treasury activities are regulated by our policies, which define procedures, objectives and controls. The policies focus on the management of our financial risk in terms of exposure to currency rates and interest rates. Most treasury activities are centralized, with any local treasury activities subject to oversight from our head treasury office. The majority of our cash and cash equivalents are held in U.S. dollars and Euros and are placed with financial institutions rated at least a single A long-term rating, meaning at least A3 from Moody's Investor Service (Moody's) and A- from Standard & Poor's (S&P's) or Fitch Ratings (Fitch), or better. Marginal amounts are held in other currencies. See Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Our total liquidity and capital resources were \$2,493 million as of December 31, 2012, increasing compared to \$2,333 million at December 31, 2011. As of December 31, 2012, our total liquidity and capital resources were comprised of \$2,250 million in cash and cash equivalents, of which \$37 million was held at the ST-Ericsson level, \$1 million in short-term deposits and \$238 million in marketable securities, all considered as current assets. Additionally, in order to reconcile with our consolidated balance sheet as of December 31, 2012, we had \$4 million as restricted cash in an escrow account related to the disposal of the Numonyx investment.

As of December 31, 2012, marketable securities were \$238 million held by us as current assets of which \$150 million invested in treasury bills from the U.S. government and \$88 million invested in senior debt issued by primary financial institutions with an average rating of A-/Baa1/A from Moody's, S&P's and Fitch, respectively. Both the treasury bills and the marketable securities are classified as available-for-sale and reported at fair value, with changes in fair value recognized as a separate component of Accumulated other comprehensive income (loss) in the consolidated statements of equity, except if deemed to be other-than-temporary. We reported as of December 31, 2012, a before tax increase of \$6 million compared to December 31, 2011, in the fair value of our marketable securities portfolio. Since the duration of the marketable securities portfolio is only an average of one year, we expect the value of the securities to return to par as the final maturity approaches. The fair value of these securities is based on market prices publicly available through major financial information providers. The market price of the marketable securities is influenced by changes in the credit standing of the issuer but is not significantly impacted by movement in interest rates. In 2012, we invested \$450 million in U.S. treasury bills. In addition, we reported proceeds of \$481 million during the year 2012 pursuant to sold or matured treasury bills. The change in fair value of the \$150 million government debt securities classified as available-for-sale was not material at December 31, 2012. The average duration of the treasury bills portfolio is less than five months and the securities are rated Aaa by Moody's.

**Table of Contents**

In 2007, we had \$415 million of Auction Rate Securities ( ARS ), representing interests in collateralized debt obligations and credit linked notes invested by Credit Suisse without our authorization. In 2008, we launched a legal action against Credit Suisse. In December 2009, Credit Suisse, because of its contingent interest in certain securities held by us and issued by Deutsche Bank, requested that we tender the securities. Pursuant to legal advice, and while reserving our legal rights, we participated in the tender offer. As a result, we sold ARS with a face value of \$154 million, collected \$75 million and registered \$68 million as realized losses on financial assets. On June 9, 2011, we received cash proceeds of \$356.8 million from Credit Suisse as the full and final payment for the settlement of all outstanding litigation concerning ARS. Upon receipt of the funds, the ownership of the whole portfolio was transferred to Credit Suisse. We booked a pre-tax gain of approximately \$329 million in the second quarter of 2011 as a result of the settlement, out of which \$6 million was reported on the line selling, general and administrative and \$323 million as a realized gain on financial assets. This \$356.8 million plus the \$75 million already cashed in makes a total amount of \$431.8 million that exceeds all losses and costs associated with the litigation.

**Liquidity**

We maintain a significant cash position and a low debt-to-equity ratio, which provide us with adequate financial flexibility. As in the past, our cash management policy is to finance our investment needs mainly with net cash generated from operating activities.

During 2012, our cash and cash equivalents increased by \$338 million, due to the net cash from operating activities and financing activities exceeding the net cash used in investing activities.

The components of our cash flow for the last three years are set forth below:

|  | Year Ended December 31, |        |          |
|--|-------------------------|--------|----------|
|  | 2012                    | 2011   | 2010     |
|  | (In millions)           |        |          |
| Net cash from operating activities           | \$ 612                  | \$ 880 | \$ 1,794 |
| Net cash used in investing activities        | (396)                   | (287)  | (526)    |
| Net cash from (used in) financing activities | 135                     | (529)  | (876)    |
| Effect of changes in exchange rates          | (13)                    | (44)   | (88)     |
| Net cash increase                            | \$ 338                  | \$ 20  | \$ 304   |

*Net cash from operating activities.* The net cash from operating activities in 2012 was \$612 million, decreasing compared to the prior year period mainly due to the overall deterioration of our financial results (see Results of Operations above for more information). Net cash from operating activities is the sum of (i) net income (loss) adjusted for non-cash items and (ii) changes in assets and liabilities. The decrease in net cash from operating activities in 2012 compared to 2011 resulted from:

Net income (loss) adjusted for non-cash items significantly reduced to \$109 million of cash generated in 2012 compared to \$965 million in the prior year period, due to the deteriorated operating results mainly at ST-Ericsson;

Changes in assets and liabilities generated cash for a total amount of \$503 million in 2012, compared to \$85 million of cash used in the prior year period. The changes in 2012 were represented by a positive trend in all the components of assets and liabilities, mainly associated with a favorable variation in inventories (\$191 million) and trade payables (\$148 million). In 2011, changes were negative, mainly due to trade payables with a negative change by \$384 million. Furthermore, 2012 also included a favorable net cash impact of \$26 million, deriving from the non-recourse factoring of trade and other receivables, mainly done by ST-Ericsson, while the same impact in 2011 was \$43 million.

*Net cash used in investing activities.* Investing activities used \$396 million of cash in 2012, mainly due to payments for the purchase of tangible assets and for investment in intangible and financial assets, partially offset by the net proceeds from the sale of marketable securities. Payments for purchase of tangible assets, net of proceeds, totaled \$476 million, reflecting a significant decrease in our capital expenditures in 2012 compared to \$1,258 million registered in 2011. This decrease in capital expenditures reflected our action to mitigate the weakening overall impact of the semiconductor industry.

*Net cash from (used in) financing activities.* Net cash generated from financing activities was \$135 million in 2012 compared to \$529 million used in 2011, since 2012 benefited from an increase in the proceeds from



**Table of Contents**

long-term debt, mainly associated with new financing from the European Investment Bank. Moreover, the financing activities in 2012 included \$355 million as dividends paid to stockholders, compared to \$327 million paid in 2011.

*Free Cash Flow (non U.S. GAAP measure).* We also present Free Cash Flow, which is a non U.S. GAAP measure, defined as (i) net cash from operating activities plus (ii) net cash used in investing activities, excluding payment for purchases (and proceeds from the sale) of marketable securities, short-term deposits and restricted cash, which are considered as temporary financial investments. The result of this definition is ultimately net cash from operating activities plus payment for purchase of tangible and intangible assets, net proceeds from sales of stock received on investment divestitures and payment for business acquisitions. We believe Free Cash Flow, a non U.S. GAAP measure, provides useful information for investors and management because it measures our capacity to generate cash from our operating activities to sustain our operating investing 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. Free Cash Flow reconciles with the total cash flow and the net cash increase (decrease) by including the payment for purchases (and proceeds from the sale) of marketable securities, short-term deposits and restricted cash, the net cash from (used in) financing activities and the effect of changes in exchange rates. In addition, our definition of Free Cash Flow may differ from definitions used by other companies. Free Cash Flow is determined as follows from our Consolidated Statements of Cash Flow:

|   | Year Ended December 31, |                 |               |
|---|-------------------------|-----------------|---------------|
|   | 2012                    | 2011            | 2010          |
|   | (In millions)           |                 |               |
| Net cash from operating activities  | \$ 612                  | \$ 880          | \$ 1,794      |
| Net cash used in investing activities   | (396)                   | (287)           | (526)         |
| Excluding:  |                         |                 |               |
| Payment for purchase and proceeds from sale of marketable securities, short-term deposits and restricted cash, net <sup>(1)</sup>   | (183)                   | (881)           | (307)         |
| Payment for purchase of tangible and intangible assets, net proceeds from sales of stock received on investment divestitures and payment for business acquisitions <sup>(2)</sup> | (579)                   | (1,168)         | (833)         |
| <b>Free Cash Flow (non U.S. GAAP measure)</b>   | <b>\$ 33</b>            | <b>\$ (288)</b> | <b>\$ 961</b> |

- (1) Reflects the total of the following line items reconciled with our Consolidated Statements of Cash Flows relating to temporary financial investments of our liquidity: Payment for purchase of marketable securities, Proceeds from sale of marketable securities, Proceeds from settlement of non-current marketable securities, Investment in short-term deposits, Proceeds from matured short-term deposits, Restricted cash and Release of restricted cash.
- (2) Reflects the total of the following line items reconciled with our Consolidated Statements of Cash Flows relating to the operating investing activities: Payment for purchase of tangible assets, Proceeds from sale of tangible assets, Investment in intangible and financial assets, Proceeds from sale of intangible and financial assets, Net proceeds from sale of stock received on investment divestiture and Payment for business acquisitions, net of cash and cash equivalents acquired.

Free Cash Flow was positive by \$33 million in 2012, since the \$612 million net cash from operating activities exceeded the total amount of \$579 million used for purchases of tangible, intangible and financial assets. Free Cash Flow in 2012 improved compared to negative \$288 million in 2011, which was using cash for a significantly higher level of capital expenditures. The net cash generated by operating activities declined compared to last year, largely due to the deterioration of our operating results. Our 2012 Free Cash Flow benefited from a significantly lower amount of capital expenditures, net of proceeds, which amounted to \$476 million, compared to \$1,258 million in 2011.

**Capital Resources**

*Net Financial Position (non U.S. GAAP measure).* Our Net Financial Position represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, current and non-current marketable securities, short-term deposits and restricted cash, and our total financial debt includes bank overdrafts, short-term debt and long-term debt, as represented in our Consolidated Balance Sheets. Net Financial Position is not a U.S. GAAP measure but we believe it provides useful information for investors because it gives evidence of our global position either in terms of net indebtedness or net cash by measuring our capital resources based on cash and cash equivalents and marketable securities and the total level of our financial indebtedness, which includes the 50% of ST-Ericsson indebtedness.



**Table of Contents**

Moreover, we also present the Net Financial Position attributable to ST ( ST Net Financial Position ), which does not include the ST-Ericsson indebtedness towards Ericsson, our partner in the JVS joint venture. Our Net Financial Position for each period has been determined as follows from our Consolidated Balance Sheets:

|                                     | Year Ended December 31, |                 |                 |
|-------------------------------------|-------------------------|-----------------|-----------------|
|                                     | 2012                    | 2011            | 2010            |
|                                     | (In millions)           |                 |                 |
| Cash and cash equivalents           | \$ 2,250                | \$ 1,912        | \$ 1,892        |
| Marketable securities, current      | 238                     | 413             | 891             |
| Restricted cash                     | 4                       | 8               |                 |
| Short-term deposits                 | 1                       |                 | 67              |
| Marketable securities, non-current  |                         |                 | 72              |
| Total financial resources           | 2,493                   | 2,333           | 2,922           |
| Bank overdrafts and short-term debt | (630)                   | (740)           | (720)           |
| Long-term debt                      | (671)                   | (826)           | (1,050)         |
| Total financial debt                | (1,301)                 | (1,566)         | (1,770)         |
| Net Financial Position              | 1,192                   | 767             | 1,152           |
| ST-Ericsson net debt to Ericsson    |                         | 400             | 75              |
| <b>ST Net Financial Position</b>    | <b>\$ 1,192</b>         | <b>\$ 1,167</b> | <b>\$ 1,227</b> |

Our ST Net Financial Position as of December 31, 2012 was a net cash position of \$1,192 million, slightly increasing compared to the net cash position of \$1,167 million at December 31, 2011. Total financial resources increased compared to 2011 mainly following the positive free cash flow and the proceeds from the new long-term loan, while the total financial debt decreased mainly due to a lower amount of short-term borrowings following the forgiveness of the debt due from ST-Ericsson to Ericsson. Our ST Net Financial Position in 2011 and 2010 excluded ST-Ericsson net debt to Ericsson, which was the loan provided by our partner to fund ST-Ericsson.

At December 31, 2012, our financial debt was \$1,301 million, composed of (i) \$630 million of current portion of long-term debt and (ii) \$671 million of long-term debt. The breakdown of our total financial debt included: (i) \$462 million of our 2013 Senior Bonds, (ii) \$815 million in European Investment Bank loans (the EIB Loans ), (iii) \$19 million in loans from other funding programs, and (iv) \$5 million of capital leases. The EIB Loans represent three long-term amortizing credit facilities as part of R&D funding programs. The first, for R&D in France, was drawn in U.S. dollars from 2006 to 2008, for a total amount of \$341 million, of which \$145 million remained outstanding as at December 31, 2012. The second, for R&D projects in Italy, was drawn in U.S. dollars in 2008 for a total amount of \$380 million, of which \$217 million remained outstanding as of December 31, 2012. The third, signed in 2010 as a 350 million multi-currency loan to support our R&D programs in Europe, was drawn mainly in U.S. dollars and only partially in Euros for a total amount of \$453 million.

Additionally, we had unutilized committed medium-term credit facilities with core relationship banks of \$490 million. At December 31, 2012, the amounts available under the uncommitted cash credit facilities were completely undrawn.

Together with Ericsson, we have a committed facility to ST-Ericsson SA, which was extended at various times and in December 2012 reached the level of \$1.5 billion. In December, the two parents decided to forgive the entire facility. The parents have agreed to extend funding for the first quarter 2013 only, with an expected total amount of approximately \$260 million of which about \$130 million would be provided by each partner.

Our long-term capital market financing instruments contain standard covenants, but do not impose minimum financial ratios or similar obligations on us. Upon a change of control, the holders of our 2013 Senior Bonds may require us to repurchase all or a portion of such holder's bonds.

As of December 31, 2012, debt payments due by year were as follows:

| Total         | 2013 | Payments Due by Period |      |      | 2017 | Thereafter |
|---------------|------|------------------------|------|------|------|------------|
|               |      | 2014                   | 2015 | 2016 |      |            |
| (In millions) |      |                        |      |      |      |            |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|  |          |                       |        |        |        |       |        |
|--|----------|-----------------------|--------|--------|--------|-------|--------|
| Long-term debt (including current portion) | \$ 1,301 | \$ 630 <sup>(1)</sup> | \$ 165 | \$ 144 | \$ 134 | \$ 58 | \$ 170 |
|--|----------|-----------------------|--------|--------|--------|-------|--------|

(1) Of which \$462 million relates to our 2013 Senior Bonds which reach maturity in March 2013 and \$160 million relate to EIB Loans.



**Table of Contents**

In February 2006, we issued \$1,131 million principal amount at maturity zero coupon senior convertible bonds due in February 2016. The bonds were convertible by the holder at any time prior to maturity at a conversion rate of 43.833898 shares per one thousand dollar face value of the bonds corresponding to 42,694,216 equivalent shares. In order to optimize our liability management and yield, we repurchased a portion of our 2016 Convertible Bonds during 2009 (98,000 bonds for a total cash consideration of \$103 million and corresponding to 4,295,722 shares) and in 2010 (385,830 bonds for a total cash consideration of \$410 million and corresponding to 16,912,433 shares). On February 23, 2011, certain holders redeemed 41,123 convertible bonds at a price of \$1,077.58, out of the total of 490,170 outstanding bonds, or about 8%. In the third and fourth quarters of 2011, we repurchased 248,645 bonds for a total cash consideration of \$270 million, corresponding to 10,899,080 shares. On February 23, 2012, certain holders redeemed 190,131 convertible bonds at a price of \$1,093.81, out of the total of 200,402 outstanding bonds, representing approximately 95% of the then outstanding convertible bonds. In addition, on March 12, 2012, we accepted the further put of 4,980 bonds for a cash consideration of \$5 million. On March 28, 2012, we published a notice of sweep up redemption for the remaining 5,291 bonds outstanding, which were redeemed on May 10, 2012. As of December 31, 2012, there were no bonds remaining outstanding.

In March 2006, STMicroelectronics Finance B.V. ( "ST BV" ), a wholly owned subsidiary, issued floating rate senior bonds with a principal amount of \$500 million at an issue price of 99.873% ( "2013 Senior Bonds" ). The notes, which mature on March 17, 2013, pay a coupon rate of the three-month Euribor plus 0.40% on June 17, September 17, December 17 and March 17 of each year through maturity. The notes have a put for early repayment in case of a change of control. The 2013 Senior Bonds issued by ST BV are guaranteed by ST NV. We repurchased a portion of our 2013 Senior Bonds: (i) for the amount of \$98 million in 2010, and (ii) \$107 million in 2011.

As of December 31, 2012, we had the following credit ratings on our 2013 Senior Bonds:

|                                     | Moody's Investors Service | Standard & Poor's |
|-------------------------------------|---------------------------|-------------------|
| Floating Rate Senior Bonds due 2013 | Baa2                      | BBB               |

On December 13, 2012, Moody's lowered our senior debt rating from Baa1 to Baa2 with stable outlook.

On December 18, 2012, S&P's lowered our senior debt rating from BBB+ to BBB with negative outlook.

We are also rated BBB from Fitch on an unsolicited basis. On May 29, 2012, Fitch lowered our senior debt rating from BBB+ to BBB with negative outlook.

*Contractual Obligations, Commercial Commitments and Contingencies*

Our contractual obligations, commercial commitments and contingencies as of December 31, 2012, and for each of the five years to come and thereafter, were as follows:<sup>(1)</sup>

|   | Total           | 2013            | 2014          | 2015          | 2016          | 2017          | Thereafter    |
|---|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|
| Operating leases <sup>(2)</sup>   | \$ 277          | \$ 71           | \$ 46         | \$ 36         | \$ 27         | \$ 24         | \$ 73         |
| Purchase obligations <sup>(2)</sup>   | 521             | 414             | 67            | 40            |               |               |               |
| of which:   |                 |                 |               |               |               |               |               |
| Equipment and other asset purchases   | 175             | 175             |               |               |               |               |               |
| Foundry purchases   | 127             | 127             |               |               |               |               |               |
| Software, technology licenses and design                                    | 219             | 112             | 67            | 40            |               |               |               |
| Other obligations <sup>(2)</sup>  | 344             | 122             | 72            | 52            | 42            | 37            | 19            |
| Long-term debt obligations (including current portion) <sup>(3)(4)(5)</sup> | 1,301           | 630             | 165           | 144           | 134           | 58            | 170           |
| of which:   |                 |                 |               |               |               |               |               |
| Capital leases <sup>(3)</sup>   | 5               | 3               | 2             |               |               |               |               |
| Pension obligations <sup>(3)</sup>  | 484             | 16              | 32            | 25            | 30            | 36            | 345           |
| Other long-term liabilities <sup>(3)</sup>                                  | 353             | 4               | 228           | 23            | 15            | 11            | 72            |
| <b>Total</b>  | <b>\$ 3,280</b> | <b>\$ 1,257</b> | <b>\$ 610</b> | <b>\$ 320</b> | <b>\$ 248</b> | <b>\$ 166</b> | <b>\$ 679</b> |

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

- (1) Contingent liabilities which cannot be quantified are excluded from the table above.
- (2) Items not reflected on the Consolidated Balance Sheet at December 31, 2012.
- (3) Items reflected on the Consolidated Balance Sheet at December 31, 2012.
- (4) See Note 14 to our Consolidated Financial Statements at December 31, 2012 for additional information related to long-term debt and redeemable convertible securities.
- (5) Year of payment is based on maturity before taking into account any potential acceleration that could result from a triggering of the change of control provisions of the 2013 Senior Bonds.

---

## **Table of Contents**

As a result of our planned closures of certain manufacturing facilities, some of the aforementioned contracts have been terminated. The termination fees for the sites still in operation have not been taken into account.

Operating leases are mainly related to building leases and to equipment. The amount disclosed is composed of minimum payments for future leases from 2013 to 2017 and thereafter. We lease land, buildings, plants and equipment under operating leases that expire at various dates under non-cancelable lease agreements.

Purchase obligations are primarily comprised of purchase commitments for equipment, for outsourced foundry wafers and for software licenses.

Other obligations primarily relate to firm contractual commitments with respect to partnership and cooperation agreements.

Long-term debt obligations mainly consist of bank loans and non-convertible debt issued by us that is totally redeemable for cash. Our 2013 Senior Bonds, amounting to \$462 million as of December 31, 2012, will mature on March 17, 2013 and we expect to redeem the whole amount with available cash and cash equivalents. Additionally, in 2013, we expect to redeem with available cash and cash equivalents a \$160 million loan received from European Investment Bank as an annual installment. See Net financial position (non U.S. GAAP measure) above.

Pension obligations amounting to \$484 million consist of our best estimates of the amounts projected to be payable by us for the retirement plans based on the assumption that our employees will work for us until they reach the age of retirement. The final actual amount to be paid and related timing of such payments may vary significantly due to early retirements, terminations and changes in assumptions rates. See Note 15 to our Consolidated Financial Statements. As part of the Flash divestiture, we retained the obligation to fund the severance payment (*trattamento di fine rapporto*) due to certain transferred employees by the defined amount of about \$26 million which qualifies as a defined benefit plan and was classified as an other long-term liability at December 31, 2012.

Other long-term liabilities include, in addition to the above-mentioned pension obligations, future obligations related to our restructuring plans and miscellaneous contractual obligations. They also include at December 31, 2012, following the Flash divestiture in 2008, a long-term liability for capacity rights amounting to \$13 million. In accordance with the authoritative guidance for accounting for uncertainty in income taxes, as of December 31, 2012, we had unrecognized tax benefits of \$227 million. We do not expect to recognize any of these tax benefits in 2013. We are not, however, able to provide a reasonably reliable estimate of when these benefits will be recognized.

### *Off-Balance Sheet Arrangements*

We had no material off-balance sheet arrangements at December 31, 2012.

## **Financial Outlook**

Our policy is to modulate our capital spending according to the evolution of the semiconductor market. Based on current visibility on demand, we anticipate our capex to remain at a low level in the first half 2013 and to be adjusted based on demand thereafter. We estimate a capital expenditure in the range of \$500-600 million in 2013. The most significant of our 2013 capital expenditure projects are expected to be: (a) for our front-end facilities: (i) in our 300mm fab in Crolles, technology evolution to consolidate the capability for 20-nm processes and mix evolution to support the production ramp up of the most advanced technologies, preparing the future growth; (ii) a few selective programs of mix evolution, mainly in the area of analog processes; and (iii) quality, safety, maintenance, and productivity and cost savings investments in both 150mm and 200mm front-end fabs; (b) for our back-end facilities, capital expenditures will mainly be dedicated to: (i) capacity growth on strategic package families, mainly in the area of microsystems, to sustain market demand; (ii) repatriation of product lines from subcontractors and modernization of package lines targeting cost savings benefits; and (iii) specific investments in the areas of factory automation, quality, environment and energy savings; and (c) an overall capacity adjustment in final testing and wafers probing (EWS) according to change in demand.

We will continue to monitor our level of capital spending by taking into consideration factors such as trends in the semiconductor industry and capacity utilization. We expect to need significant financial resources in the coming years for capital expenditures and for our investments in manufacturing and R&D. We plan to fund our capital requirements from cash provided by operating activities, available funds and support from third parties, and may have recourse to borrowings under available credit lines and, to the extent necessary or attractive based

## **Table of Contents**

on market conditions prevailing at the time, the issuance of debt, convertible bonds or additional equity securities. A substantial deterioration of our economic results, and consequently of our profitability, could generate a deterioration of the cash generated by our operating activities. Therefore, there can be no assurance that, in future periods, we will generate the same level of cash as in prior years to fund our capital expenditure plans for expanding/upgrading our production facilities, our working capital requirements, our R&D and manufacturing costs.

Furthermore, there may be a need to provide additional financing by the parent companies to ST-Ericsson joint venture, depending upon which strategic option is pursued as part of our exit from the joint venture. Our current best estimate is that we could have funding requirements including the ongoing operations of ST-Ericsson during the transition period and restructuring costs in the range of approximately \$300 million to \$500 million during 2013.

We are committed to participate in further capital increases of up to 14 million in 3Sun should certain events materialize. In addition to that, in case of a negative evolution of the business, there may be a need to provide additional resources to 3Sun.

We believe that we have the financial resources needed to meet our currently projected business requirements for the next twelve months, including capital expenditures for our manufacturing activities, working capital requirements, approved dividend payments and the repayment of our debts in line with their maturity dates.

### **Impact of Recently Issued U.S. Accounting Standards**

See Note 2 to our Consolidated Financial Statements.

### **Equity-method investments**

See Note 11 to our Consolidated Financial Statements.

### **Backlog and Customers**

See Item 4. Information on the Company Backlog .

## **Item 6. Directors, Senior Management and Employees Directors and Senior Management**

The management of our Company is entrusted to the Managing Board under the supervision of the Supervisory Board.

### ***Supervisory Board***

Our Supervisory Board advises our Managing Board and is responsible for supervising the policies pursued by our Managing Board and the general course of our affairs and business. Our Supervisory Board consists of such number of members as is resolved by our annual shareholders meeting upon a non-binding proposal of our Supervisory Board, with a minimum of six members. Decisions by our annual shareholders meeting concerning the number and the identity of our Supervisory Board members are taken by a simple majority of the votes cast at a meeting, provided quorum conditions are met (15% of our issued and outstanding share capital present or represented).

**Table of Contents**

Our Supervisory Board had the following nine members as of December 31, 2012:

| Name                | Position      | Year Appointed      | Term Expires | Age |
|---------------------|---------------|---------------------|--------------|-----|
| Didier Lombard      | Chairman      | 2004                | 2014         | 70  |
| Bruno Steve         | Vice Chairman | 1989                | 2014         | 71  |
| Jean d'Arthuys      | Member        | 2011                | 2014         | 46  |
| Raymond Bingham     | Member        | 2007                | 2013         | 67  |
| Jean Georges Malcor | Member        | 2011                | 2014         | 56  |
| Alessandro Ovi      | Member        | 2007 <sup>(1)</sup> | 2013         | 68  |
| Alessandro Rivera   | Member        | 2011                | 2014         | 42  |
| Martine Verluyten   | Member        | 2012 <sup>(2)</sup> | 2015         | 61  |
| Tom de Waard        | Member        | 1998                | 2014         | 66  |

(1) Mr. Ovi was also a Supervisory Board member from 1994 to 2005.

(2) Ms. Verluyten was appointed as a member of the Supervisory Board on May 30, 2012.

The mandates of Messrs. Bingham and Ovi will expire at our annual shareholders' meeting in 2013.

Resolutions of our Supervisory Board require the approval of at least three quarters of its members in office. Our Supervisory Board must meet upon request by two or more of its members or by our Managing Board. Our Supervisory Board has established procedures for the preparation of Supervisory Board resolutions and the calendar for Supervisory Board meetings. Our Supervisory Board meets at least five times a year, including once per quarter to approve our quarterly and annual accounts and their release. Our Supervisory Board has adopted a Supervisory Board Charter setting forth its duties, responsibilities and operations, as mentioned below. This charter is available on our website ([www.st.com](http://www.st.com)).

*Biographies*

Didier Lombard has been a member of our Supervisory Board since 2004 and has been its Chairman since May 3, 2011. He serves on the Compensation, Strategic and Nominating and Corporate Governance Committees of our Supervisory Board. Mr. Lombard was appointed Chairman and Chief Executive Officer of France Telecom in March 2005, and served as Chief Executive Officer until February 2010 and Chairman until March 2011. Mr. Lombard began his career in the Research and Development division of France Telecom in 1967. From 1989 to 1990, he served as scientific and technological director at the Ministry of Research and Technology. From 1991 to 1998, he served as General Director for industrial strategies at the French Ministry of Economy, Finances and Industry, and from 1999 to 2003 he served as an Ambassador-at-large for foreign investments in France and as President of the French Agency for International Investments. From 2003 through February 2005, he served as France Telecom's Senior Executive Vice President in charge of technologies, strategic partnerships and new usages and as a member of France Telecom's Executive Committee. Mr. Lombard is also a member of the Board of Directors of Thales and Technicolor (previously Thomson), one of our customers, as well as a member of the Supervisory Board of Radiall. Mr. Lombard was also a member until his resignation on November 15, 2006 of the Supervisory Board of ST Holding, our largest shareholder. Mr. Lombard is a graduate of the Ecole Polytechnique and the Ecole Nationale Supérieure des Télécommunications.

Bruno Steve has been a member of our Supervisory Board since 1989 (where he has held different positions as Chairman, Vice Chairman and Member) and has been its Vice Chairman since May 3, 2011. Mr. Steve serves on our Supervisory Board's Compensation Committee, Strategic Committee and Nominating and Corporate Governance Committee. He was with Istituto per la Ricostruzione Industriale I.R.I. S.p.A. (I.R.I.), a former shareholder of Finmeccanica, Finmeccanica and other affiliates of I.R.I. in various senior positions for over 17 years. Mr. Steve served as the Chairman of the Statutory Auditors of Selex Galileo S.p.A. until December 31, 2012. He previously served as member of the Statutory Auditors of Pirelli Tyres S.p.A. until December 1999, he served as Chairman of MEI. He served as the Chief Operating Officer of Finmeccanica from 1988 to July 1997 and Chief Executive Officer from May 1995 to July 1997. He was Senior Vice President of Planning, Finance and Control of I.R.I. from 1984 to 1988. Prior to 1984, Mr. Steve served in several key executive positions at Telecom Italia. He is also a professor at LUISS Guido Carli University in Rome. Mr. Steve was Vice-Chairman from May 1999 to March 2002, Chairman from March 2002 to May 2003 and member until his resignation on April 21, 2004 of the Supervisory Board of ST Holding, our largest shareholder.



**Table of Contents**

Jean d Arthuys has been a member of our Supervisory Board since May 2011. He serves on the Compensation, Strategic and Nominating and Corporate Governance Committees. Mr. d Arthuys joined Fonds Stratégique d Investissement ( FSI ) in 2010 as Director and member of the Executive Committee. Mr. d Arthuys was a partner in the fund PAI Partners from 2007 until 2010, in particular in charge of the sectors media, internet and telecom. He was previously Chairman and Chief Executive Officer of television channels Paris Premiere and W9. Mr. d Arthuys spent the main part of his career at the Executive Board of the Group M6, where he had various functions (from 1996 until 2007). He managed in particular the activities of digital television and the development of the Group. He was a board member of TPS, Sportfive and Newsweb. Mr. d Arthuys was also Chairman and Chief Executive Officer of the soccer club Girondins de Bordeaux. Mr. d Arthuys graduated from HEC Business School.

Raymond Bingham has been a member of our Supervisory Board since April 2007. He serves on the Audit Committee and the Strategic Committee. Since January 2010, Mr. Bingham has been an Advisory Director of General Atlantic LLC, a global private equity firm, and a Managing Director from September 2006 to December 2009. From August 2005 to August 2006, Mr. Bingham was a private investor. Mr. Bingham was Executive Chairman of the Board of Directors of Cadence Design Systems Inc., a supplier of electronic design automation software and services, from May 2004 to July 2005, and served as a director of Cadence from November 1997 to July 2005. Prior to being Executive Chairman, he served as President and Chief Executive Officer of Cadence from April 1999 to May 2004, and as Executive Vice President and Chief Financial Officer from April 1993 to April 1999. Mr. Bingham also serves as a Director of Spansion Inc., Fusion-i0, Dice Holdings, Oracle Corporation and Flextronics International, Ltd.

Jean Georges Malcor has been a member of our Supervisory Board since May 2011. He serves on the Audit Committee. Mr. Malcor is the Chief Executive Officer of CGG Veritas. Mr. Malcor began his career at the Thales group as an acoustic engineer in the Underwater Activities division where he was particularly in charge of hydrophone and geophone design and towed streamer programs. He then moved to the Sydney based Thomson Sintra Pacific Australia, becoming Managing Director of the company in 1990. Back in France, he became Director of Marketing and Communications (1991), then Director, Foreign Operations of Thomson Sintra Activités Sous Marines (1993). In 1996, he was appointed Managing Director of Thomson Marconi Sonar Australia which was, in addition to its military activities, the lead developing company for the solid geophysical streamer. In 1999 Mr. Malcor became the first Managing Director of the newly formed joint venture Australian Defense Industry. During this time he operated the Sydney-based Woolloomooloo Shipyard (the largest dry dock in the southern hemisphere). In 2002, he became Senior Vice President, International Operations of Thales International. From 2004 to 2009, he was Senior Vice President in charge of the Naval Division, supervising all naval activities in Thales including ship design, building and maintenance. In January 2009, he became Senior Vice President, in charge of the Aerospace Division. In June 2009, he moved to the position of Senior Vice President, Continental Europe, Turkey, Russia, Asia, Africa, Middle East, and Latin America. Mr. Malcor joined CGG Veritas in January 2010 as President and became CEO on June 30, 2010. He is a graduate of Ecole Centrale de Paris. He also holds a Master of Sciences degree from Stanford University, and a Doctorat from Ecole des Mines.

Alessandro Ovi was a member of our Supervisory Board from 1994 until his term expired at our annual general shareholders meeting on March 18, 2005. He was re-appointed to our Supervisory Board at the 2007 annual shareholders meeting. He serves on the Audit Committee (since 2010) and the Strategic Committee. Mr. Ovi has been Special Advisor to the President of the European Community for five years and has served on the boards of Telecom Italia S.p.A, Finmeccanica S.p.A. and Alitalia S.p.A. Currently, he is also a director of LandiRenzo S.p.A. Mr. Ovi is a Life Trustee in Carnegie Mellon University and a Member of the Board in the Italian Institute of Technology. Until April 2000, he was the Chief Executive Officer of Tecnitel S.p.A., a subsidiary of Telecom Italia Group. Prior to joining Tecnitel S.p.A., Mr. Ovi was the Senior Vice President of International Affairs and Communications at I.R.I. Mr. Ovi received a doctoral degree in Nuclear Engineering from the Politecnico in Milan and a Master s Degree in Operations Research from the Massachusetts Institute of Technology.

Alessandro Rivera has been a member of our Supervisory Board since May 2011. He serves on the Compensation and the Nominating and Corporate Governance Committees. Mr. Rivera has been the Head of Directorate IV Financial Sector Policy and Regulation Legal Affairs at the Department of the Treasury, Ministry of Economy and Finance, since 2008. He served as Head of Unit in the Department of the Treasury from 2000 to 2008 and was responsible for a variety of policy matters: financial services and markets, banking foundations, accounting, finance, corporate governance and auditing. Since 2008, Mr. Rivera has been a Government representative in the Consiglio Superiore of the Bank of Italy as well as serving on the Steering Committee of Cassa Depositi e Prestiti S.p.A., the Financial Services Committee and the European Securities

**Table of Contents**

Committee. He was a member of the Accounting Regulatory Committee from 2002 to 2008 and a member of the Audit Regulatory Committee from 2005 to 2008. He served on the board of Italia Lavoro S.p.A. from 2005 to 2008 and was a member of the Audit Committee and the Compensation Committee. Mr. Rivera was also the Chairman of the Audit Committee of the Fondo nazionale di garanzia degli intermediari finanziari (Italian investor compensation scheme) from 2003 to 2008. From 2001 to 2010, he was the Project Leader and Deputy Project Leader in several twinning projects with Eastern European Countries (the Russian Federation, the Czech Republic, Lithuania, and Bulgaria). He also served on the board of Mediocredito del Friuli Venezia Giulia S.p.A from 2001 to 2003.

Martine Verluyten has been a member of our Supervisory Board since May 2012. She serves on the Audit Committee. Until 2011, Ms. Verluyten acted as CFO of Umicore N.V. based in Brussels. Previously she was CFO of Mobistar N.V. (2001-2006), having initially joined Mobistar in 2000 as Group Controller. She had earlier worked at Raychem since 1976, holding various management positions during her 23-year tenure, from Manager European Consolidations (1976-1979), to General Accounting Manager based in the US (1979-1983). She was then promoted to Division Controller Telecom Division Europe from 1983 to 1990. In 1990, she was appointed Finance & Administration Director back in Europe, then in 1995, Europe Controller Finance & Administration Director until 1999. Ms. Verluyten began her career in 1973 at KPMG as Senior Auditor.

Tom de Waard has been a member of our Supervisory Board since 1998. Mr. de Waard has been Chairman of the Audit Committee since 1999 and is also Chairman of the Nominating and Corporate Governance Committee. In addition, he serves on our Supervisory Board's Compensation Committee. Mr. de Waard was a partner at Clifford Chance, a leading international law firm, until October 2011. From January 1, 2005 to January 1, 2007 he was a member of the Management Committee of Clifford Chance. Prior to joining Clifford Chance, he was a partner at Stibbe, where he held several positions since 1971 and gained extensive experience working with major international companies, particularly with respect to corporate finance. He is a member of the Amsterdam bar and was President of the Netherlands Bar Association from 1993 through 1995. Mr. de Waard is the chairman of the Supervisory Board of BE Semiconductor Industries N.V. (BESI) and a member of its Audit Compensation and Nominating Committees. Mr. de Waard is a member of the Supervisory Board of N.V. Nuon Energy and Chairman of its Compensation Committee. He received his law degree from Leiden University in 1971.

Douglas Dunn was a member of our Supervisory Board until May 30, 2012. He was a member of our Supervisory Board beginning in 2001 and had served on the Audit Committee since such time. He also served on the Strategic Committee until May 30, 2012. Mr. Dunn was formerly President and Chief Executive Officer of ASML Holding N.V. (ASML), an equipment supplier in the semiconductor industry, a position from which he retired in 2004. Mr. Dunn was appointed Chairman of the Board of Directors of ARM Holdings plc (United Kingdom) in October 2006 and retired in May 2012. In 2005, Mr. Dunn was appointed to the board of Philips LG LCD (Korea) (of which he is no longer a board member as of February 29, 2008), TomTom N.V. (Netherlands) and OMI, a privately held company (Ireland) (which was sold in November 2007 and of which he is no longer a board member), and also serves as a non executive director on the board of SOITEC (France). He is also a member of the Audit Committees of SOITEC and TomTom N.V., and a member of the Compensation Committee and Strategic Committee of SOITEC. He was appointed as a Supervisory Board member of BE Semiconductor Industries N.V. (BESI) at their Annual General Meeting on May 12, 2009 and serves on their Audit and Remuneration/Nomination Committees. Mr. Dunn was a member of the Managing Board of Royal Philips Electronics in 1998. From 1996 to 1998 he was Chairman and Chief Executive Officer of Philips Consumer Electronics and from 1993 to 1996 Chairman and Chief Executive Officer of Philips Semiconductors (now NXP Semiconductors). From 1980 to 1993 he was CEO of Plessey Semiconductors. Prior to this, he held several positions with Motorola Semiconductors (now Freescale).

***Supervisory Board Committees***

***Membership and Attendance.*** As of December 31, 2012, the composition of our Supervisory Board's committees was as follows: (i) Mr. Tom de Waard is the Chairman of the Audit Committee, Ms. Martine Verluyten and Messrs. Raymond Bingham, Jean Georges Malcor and Alessandro Ovi are members of the Audit Committee; (ii) Mr. Didier Lombard is the Chairman of the Compensation Committee, and Messrs. Tom de Waard, Jean d'Arthuys, Alessandro Rivera and Bruno Steve are members of the Compensation Committee; (iii) Mr. Tom de Waard is the Chairman of the Nominating and Corporate Governance Committee, and Messrs. Jean d'Arthuys, Didier Lombard, Alessandro Rivera and Bruno Steve are members of the Nominating and Corporate Governance Committee; and, (iv) Mr. Didier Lombard is the Chairman of the Strategic Committee, and Messrs. Raymond Bingham, Jean d'Arthuys, Alessandro Ovi and Bruno Steve are members of the Strategic Committee.



**Table of Contents**

Detailed information on attendance at full Supervisory Board and Supervisory Board Committee meetings during 2012 is as follows:

| <b>Number of Meetings Attended in 2012</b> | <b>Full Board</b> | <b>Audit Committee</b> | <b>Compensation Committee</b> | <b>Strategic Committee</b> | <b>Nominating and Corporate Governance Committee</b> |
|--|-------------------|------------------------|-------------------------------|----------------------------|--|
| Didier Lombard                             | 10                | N/A                    | 5                             | 2                          | 8  |
| Bruno Steve                                | 10                | N/A                    | 5                             | 2                          | 6  |
| Jean d Arthuys                             | 9                 | N/A                    | 3                             | 2                          | 5  |
| Raymond Bingham                            | 10                | 13                     | N/A                           | 2                          | N/A  |
| Douglas Dunn                               | 7                 | 6                      | N/A                           | 2                          | N/A  |
| Jean Georges Malcor                        | 10                | 13                     | N/A                           | 1                          | N/A  |
| Alessandro Ovi                             | 10                | 12                     | N/A                           | 2                          | N/A  |
| Alessandro Rivera                          | 10                | N/A                    | 5                             | N/A                        | 6  |
| Martine Verluyten                          | 5                 | 6                      | N/A                           | 1                          | N/A  |
| Tom de Waard                               | 10                | 12                     | 5                             | 1                          | 8  |

*Audit Committee.* Our Audit Committee was established in 1996 to assist the Supervisory Board in fulfilling its oversight responsibilities relating to corporate accounting, reporting practices, and the quality and integrity of our financial reports as well as our auditing practices, legal and regulatory related risks, execution of our auditors' recommendations regarding corporate auditing rules and the independence of our external auditors.

Our Audit Committee met 13 times during 2012. At many of the Audit Committee's meetings, the committee received presentations on current financial and accounting issues and had the opportunity to interview our CEO, CFO, General Counsel, Compliance Officer and external and internal auditors. Our Audit Committee also met with outside U.S. legal counsel to discuss corporate requirements pursuant to NYSE's corporate governance rules and the Sarbanes Oxley Act. Our Audit Committee also proceeded with its annual review of our internal audit function. Our Audit Committee reviewed our annual Consolidated Financial Statements in U.S. GAAP for the year ended December 31, 2012, and the results press release was published on January 30, 2013.

Our Audit Committee approved the compensation of our external auditors for 2012 and discussed the scope of their audit, audit related and non audit related services for 2013.

At the end of each quarter, prior to each Supervisory Board meeting to approve our quarterly results and earnings press release, our Audit Committee reviewed our interim financial information and the proposed press release and had the opportunity to raise questions to management and the independent registered public accounting firm. In addition, our Audit Committee reviewed our quarterly Operating and Financial Review and Prospects and Consolidated Financial Statements (and notes thereto) before they furnished to the SEC and voluntarily certified by the CEO and the CFO (pursuant to sections 302 and 906 of the Sarbanes Oxley Act). Our Audit Committee also reviewed Operating and Financial Review and Prospects and our Consolidated Financial Statements contained in our 2012 Form 20-F, prior to its approval by our Supervisory Board. Furthermore, our Audit Committee monitored our compliance with the European Directive and applicable provisions of Dutch law that require us to prepare a set of accounts pursuant to IFRS in advance of our annual shareholders' meeting, which was held on May 30, 2012. See Item 3. Key Information Risk Factors Risks Related to Our Operations .

Also in 2012, our Audit Committee reviewed with our external auditors our compliance with Section 404 of the Sarbanes-Oxley Act. In addition, our Audit Committee regularly discussed the progress of the implementation of internal control over financial reporting and reviewed management's conclusions as to the effectiveness of internal control.

As part of each of its quarterly meetings, our Audit Committee reviewed our financial results as presented by Management and whistleblowing reports, including independent investigative reports provided by internal audit or outside consultants on such matters.

*Compensation Committee.* Our Compensation Committee proposes to our Supervisory Board the compensation for our President and Chief Executive Officer and sole member of our Managing Board as well as for our Chief Operating Officer, including the variable portion of such compensation based on performance criteria recommended by our Compensation Committee. It also approves any increase in the incentive component



**Table of Contents**

of compensation for our executive officers. Our Compensation Committee is also informed of the compensation plans for our executive officers and specifically approves stock based compensation plans for our executive officers and key employees. Our Compensation Committee met five times in 2012.

Among its main activities, our Compensation Committee: (i) reviewed the objectives met as compared to the performance criteria relating to the CEO bonus for the fiscal year 2011; (ii) proposed performance criteria, which must be met by the CEO as well as all other employees participating in the employees stock award plans to benefit from such awards. In particular, our Compensation Committee recommended that the performance targets for the base bonus of our CEO be based on, among other factors, the Company's share price versus SOX from January 25, 2012 through January 22, 2013, new major accounts revenues and special programs. Our Compensation Committee, on behalf of, and with the approval of, the entire Supervisory Board, also set the criteria for a special bonus.

For the 2012 nonvested stock award plan, our Compensation Committee, on behalf, and with the approval, of the entire Supervisory Board, established the applicable performance criteria, which are based on sales and operating income as compared against a panel of semiconductor companies and cash flow before acquisitions, as well as cash restructuring costs, with the target to have it positive for the second half of 2012.

In addition, our Compensation Committee received presentations and discussed our succession planning for key employees.

*Strategic Committee.* Our Strategic Committee was created to monitor key developments within the semiconductor industry and our overall strategy, and is, in particular, involved in supervising the execution of strategic transactions. Our Strategic Committee met twice in 2012, and several of the strategic discussions were extended to involve all Supervisory Board members and occurred at extended Supervisory Board meetings. Among its main activities, our Strategic Committee reviewed prospects and various possible scenarios and opportunities to meet the challenges of the semiconductor market, including the evaluation of possible divestitures and partnerships to invest in new markets.

*Nominating and Corporate Governance Committee.* Our Nominating and Corporate Governance Committee was created to establish the selection criteria and appointment procedures for the appointment of members to our Supervisory Board and Managing Board, and to resolve issues relating to corporate governance. Our Nominating and Corporate Governance Committee met eight times during 2012 to discuss changes to the Dutch Corporate Governance Code, recent developments in U.S. law regarding corporate governance and preparations for the Annual General Meeting.

*Secretariat and Controllers.* Our Supervisory Board appoints a Secretary and Vice Secretary. Furthermore, the Managing Board makes an Executive Secretary available to our Supervisory Board, who is also appointed by the Supervisory Board. The Secretary, Vice Secretary and Executive Secretary constitute the Secretariat of the Supervisory Board. The mission of the Secretariat is primarily to organize meetings, ensure the continuing education and training of our Supervisory Board members and to maintain record keeping. Mr. Bertrand Loubert serves as Secretary, Mr. Luigi Chessa serves as Vice Secretary and Mr. Philippe Dereeper, our Corporate Compliance Officer, serves as Executive Secretary, respectively, for our Supervisory Board, and for each of the Compensation, Nominating and Corporate Governance and Strategic Committees of our Supervisory Board. Mr. Willem Toussaint serves as the secretary of our Audit Committee.

Our Supervisory Board appoints two financial experts ( Controllers ). The mission of the Controllers is primarily to assist our Supervisory Board in evaluating our operational and financial performance, business plan, strategic initiatives and the implementation of Supervisory Board decisions, as well as to review the operational reports provided under the responsibility of the Managing Board. The Controllers generally meet once a month with the management of the Company and report to our Supervisory Board. The current Controllers are Messrs. Nicolas Manardo and Andrea Novelli.

The STH Shareholders' Agreement between our principal indirect shareholders contains provisions with respect to the appointment of the Secretary, Vice Secretary and Controllers, which are described in Item 7. Major Shareholders and Related Party Transactions .

***Managing Board***

In accordance with Dutch law, our management is entrusted to the Managing Board under the supervision of our Supervisory Board. Mr. Carlo Bozotti, re-appointed in 2011 for a three year term to expire at the end of our

**Table of Contents**

annual shareholders meeting in 2014, is currently the sole member of our Managing Board with the function of President and Chief Executive Officer. Since its creation in 1987, our Managing Board has always been comprised of a sole member. The member of our Managing Board is appointed for a three year term, as described in our Articles of Association, which may be renewed one or more times in accordance with our Articles of Association upon a non binding proposal by our Supervisory Board at our shareholders meeting and adoption by a simple majority of the votes cast at the shareholders meeting where at least 15% of the issued and outstanding share capital is present or represented. If our Managing Board were to consist of more than one member, our Supervisory Board would appoint one of the members of our Managing Board to be chairman of our Managing Board for a three year term, as defined in our Articles of Association (upon approval of at least three quarters of the members of our Supervisory Board). In such case, resolutions of our Managing Board would require the approval of a majority of its members.

Our shareholders meeting may suspend or dismiss one or more members of our Managing Board at a meeting at which at least one half of the outstanding share capital is present or represented. If a quorum is not present, a further meeting shall be convened, to be held within four weeks after the first meeting, which shall be entitled, irrespective of the share capital represented, to pass a resolution with regard to the suspension or dismissal of one or more members of our Managing Board. Such a quorum is not required if a suspension or dismissal is proposed by our Supervisory Board. In that case, a resolution to dismiss or to suspend a member of our Managing Board can be taken by a simple majority of the votes cast at a meeting where at least 15% of our issued and outstanding share capital is present or represented. Our Supervisory Board may suspend members of our Managing Board, but a shareholders meeting must be convened within three months after such suspension to confirm or reject the suspension. Our Supervisory Board shall appoint one or more persons who shall, at any time, in the event of absence or inability to act of all the members of our Managing Board, be temporarily responsible for our management.

Under Dutch law, our Managing Board is entrusted with our general management and the representation of the Company. Our Managing Board must seek prior approval from our shareholders meeting for decisions regarding a significant change in the identity or nature of the Company. Under our Articles of Association, our Managing Board must obtain prior approval from our Supervisory Board for (i) all proposals to be submitted to a vote at a shareholders meeting; (ii) the formation of all companies, acquisition or sale of any participation, and conclusion of any cooperation and participation agreement; (iii) all of our multi-year plans and the budget for the coming year, covering investment policy, policy regarding R&D, as well as commercial policy and objectives, general financial policy, and policy regarding personnel; and (iv) all acts, decisions or operations covered by the foregoing and constituting a significant change with respect to decisions already taken by our Supervisory Board. In addition, under our Articles of Association, our Supervisory Board and our shareholders meeting may specify by resolution certain additional actions by our Managing Board that require its prior approval.

In accordance with our Corporate Governance Charter, the sole member of our Managing Board and our Executive Officers may not serve on the board of a public company without the prior approval of our Supervisory Board. We are not aware of any potential conflicts of interests between the private interest or other duties of our sole Management Board member and our Executive Officers and their duties to our Company.

Pursuant to the charter adopted by our Supervisory Board, the following decisions by our Managing Board with regard to the Company and any of our direct or indirect subsidiaries (an ST Group Company) require prior approval from our Supervisory Board: (i) any modification of our or any ST Group Company's Articles of Association or other constitutional documents, other than those of wholly owned subsidiaries; (ii) any change in our or any ST Group Company's authorized share capital or any issue, acquisition or disposal by us of our own shares, or any ST Group Company's shares, or change in share rights or issue of any instruments granting an interest in our or an ST Group Company's capital or profits other than those of our wholly owned subsidiaries; (iii) any liquidation or dissolution of us or any ST Group Company or the disposal of all or a substantial and material part of our business or assets, or those of any ST Group Company, or of any shares in any such ST Group Company; (iv) any merger, acquisition or joint venture agreement (and, if substantial and material, any agreement relating to IP) or formation of a new company to which we or any ST Group Company is, or is proposed to be, a party, as well as the formation of new companies by us or any ST Group Company (with the understanding that only acquisitions above \$25 million per transaction are subject to prior Supervisory Board approval); (v) approval of our draft consolidated balance sheets and financial statements, as well as our and our subsidiaries' profit distribution policies; (vi) entering into any agreement that may qualify as a related party transaction, including any agreement between us or any ST Group Company and ST Holding, FT1CI, Ministero dell' Economia e delle Finanze, FSI or CEA; (vii) the key parameters of our five-year plans and our consolidated annual budgets, as well as any significant modifications to said plans and budgets, or any one of the matters set

## **Table of Contents**

forth in our Articles of Association and not included in the approved plans or budgets; (viii) approval of operations of exceptional importance which have to be submitted for Supervisory Board prior approval even if their financing was already provided for in the approved annual budget; (ix) approval of our quarterly and annual Consolidated Financial Statements prepared in accordance with U.S. GAAP and semiannual and annual accounts using IFRS, prior to submission for shareholder adoption; and (x) the exercise of any shareholder right in an ST joint venture company, which is a company (a) with respect to which we hold directly or indirectly either a minority equity position in excess of 25% or a majority position without the voting power to adopt extraordinary resolutions, or (b) in which we directly or indirectly participate and such participation has a value of at least one third of our total assets according to the consolidated balance sheet and notes thereto in our most recently adopted (statutory) annual accounts.

### ***Executive Officers***

Our executive officers support our Managing Board in its management of the Company, without prejudice to our Managing Board's ultimate responsibility. New corporate officers during 2012 include: Mr. Marco Monti, who was appointed Corporate Vice President, General Manager Automotive Product Group in January 2012 and promoted to Executive Vice President in March 2012; Mr. Mario Arlati, who was appointed Executive Vice President, Member of the Corporate Strategic Committee, Chief Financial Officer in February 2012; Mr. Giuseppe Notarnicola, who was appointed Corporate Vice President, Corporate Treasury in February 2012; Mr. Eric Aussedat, who was appointed Corporate Vice President, General Manager Imaging, Bi-CMOS ASIC & Silicon Photonics Group in February 2012 and promoted to Executive Vice President in September 2012; Mr. Lorenzo Grandi, who was appointed Corporate Vice President, Corporate Control in February 2012; Mr. Joel Hartmann, who was appointed Corporate Vice President, Front-End Manufacturing & Technology R&D in February 2012 and promoted to Executive Vice President in September 2012; Mr. Philippe Magarshack, who was appointed Corporate Vice President, Design Enablement & Services in February 2012 and promoted to Executive Vice President in September 2012; Mr. Jerome Roux, who was appointed Corporate Vice President, Global Procurement & Outsourcing in February 2012; Mr. Philippe Brun, who was appointed Corporate Vice President, Human Resources and Mr. Georges Penalver, who was appointed Executive Vice President, Member of the Corporate Strategic Committee, Corporate Strategy Officer in September 2012.

As of February 2013, our organizational chart is as follows:

**Table of Contents**

As a company committed to good governance, we hold several corporate meetings on a regular basis. Such meetings, which involve the participation of several of our executive officers, include:

**Corporate Operations Reviews (COR)**, which meets once per month to review monthly results and short-term forecasts and involves the following executive officers/groups: CEO; COO; CFO; CAO; Infrastructures and Services; Product Quality Excellence; Manufacturing (Front-End and Back-End); TR&D; Regions; Product Groups.

**Corporate Staff Meeting**, which meets once per quarter to review the business in its entirety and to plan and forecast for the next quarter and beyond. The Corporate Staff Meeting includes all Executive Officers, with the exception of Didier Lamouche and Carlo Ferro in view of their assignments at ST-Ericsson and Andrea Cuomo in view of his role as Chairman of 3Sun.

**Corporate Strategic Committee**, which meets six times per year, sets corporate policy, coordinates strategies of our various functions and drives major cross functional programs. The Corporate Strategic Committee meetings are attended by the CEO and the following senior executive officers: Mario Arlati, Orio Bellezza, Jean-Marc Chery, Paul Grimme, Tjerk Hooghiemstra, Otto Kosgalwies, Georges Penalver and Carmelo Papa.

Our executive officers during 2012 were:

| Name  | Position  | Years with Company | Years in Semi-Conductor Industry | Age |
|---|---|--------------------|----------------------------------|-----|
| Carlo Bozotti, Chairman                       | President and Chief Executive Officer   | 36                 | 36                               | 60  |
| Didier Lamouche, Vice Chairman <sup>(1)</sup> | Chief Operating Officer   | 2                  | 25                               | 53  |
| Mario Arlati <sup>(2)</sup>                   | Executive Vice President, Chief Financial Officer   | 38                 | 38                               | 64  |
| Georges Auguste                               | Executive Vice President, Packaging and Test Manufacturing  | 26                 | 38                               | 63  |
| Eric Aussedat                                 | Executive Vice President, General Manager Imaging, Bi-CMOS ASIC & Silicon Photonics Group   | 31                 | 31                               | 59  |
| Orio Bellezza                                 | Executive Vice President, Member of the Corporate Strategic Committee, General Manager, Front-End & Manufacturing Technology R&D IMS & APG      | 29                 | 29                               | 53  |
| GianLuca Bertino <sup>(3)</sup>               | Executive Vice President, Digital Convergence Group   | 15                 | 26                               | 53  |
| Philippe Brun <sup>(4)</sup>                  | Corporate Vice President, Human Resources   | 26                 | 26                               | 54  |
| Marco Luciano Cassis                          | Executive Vice President, President, Japan & Korea Region   | 25                 | 25                               | 49  |
| Patrice Chastagner <sup>(5)</sup>             | Corporate Vice President, Human Resources   | 28                 | 28                               | 65  |
| Jean-Marc Chery                               | Executive Vice President, Member of the Corporate Strategic Committee, Chief Manufacturing & Technology Officer, General Manager Digital Sector | 28                 | 28                               | 52  |
| Andrea Cuomo <sup>(6)</sup>                   | Executive Vice President, Chairman 3Sun, AST & Special Projects   | 29                 | 29                               | 58  |
| Claude Dardanne                               | Executive Vice President, General Manager, Microcontroller Memory & Secure MCU  | 30                 | 33                               | 60  |
| Stephane Delivré                              | Corporate Vice President, Global Chief Information Officer  | 1                  | 12                               | 53  |
| Carlo Ferro <sup>(7)</sup>                    | Executive Vice President, Corporate Projects  | 13                 | 13                               | 52  |

**Table of Contents**

| Name                                 | Position  | Years with Company | Years in Semi-Conductor Industry | Age |
|--------------------------------------|---|--------------------|----------------------------------|-----|
| Lorenzo Grandi <sup>(8)</sup>        | Corporate Vice President, Corporate Control   | 25                 | 25                               | 51  |
| Alisia Grenville <sup>(9)</sup>      | Corporate Vice President, Chief Compliance Officer  | 5                  | 5                                | 45  |
| Paul Grimme <sup>(10)</sup>          | Executive Vice President, Member of the Corporate Strategic Committee, General Manager Sales & Marketing Europe, Middle-East and Africa | 4                  | 32                               | 53  |
| Fabio Gualandris                     | Executive Vice President, Product Quality Excellence  | 25                 | 28                               | 53  |
| François Guibert                     | Executive Vice President, President, Greater China & South Asia Region  | 32                 | 35                               | 59  |
| Joel Hartmann <sup>(11)</sup>        | Executive Vice President, Front-End Manufacturing & Technology R&D  | 12                 | 34                               | 57  |
| Tjerk Hooghiemstra                   | Executive Vice President, Member of the Corporate Strategic Committee, Chief Administrative Officer                                     | 3                  | 9                                | 56  |
| Otto Kosgalwies                      | Executive Vice President, Member of the Corporate Strategic Committee, Infrastructures and Services                                     | 29                 | 29                               | 57  |
| Robert Krysiak                       | Executive Vice President, President, Americas Region  | 30                 | 30                               | 58  |
| Philippe Lambinet <sup>(12)</sup>    | Executive Vice President, Member of the Corporate Strategic Committee, General Manager, Digital Sector and Corporate Strategy           | 19                 | 26                               | 55  |
| Claudia Levo                         | Corporate Vice President, Communications  | 2                  | 4                                | 47  |
| Loïc Liétar                          | Executive Vice President, New Ventures  | 27                 | 27                               | 50  |
| Philippe Magarshack <sup>(13)</sup>  | Executive Vice President, Design Enablement & Services  | 18                 | 27                               | 51  |
| Marco Monti <sup>(14)</sup>          | Executive Vice President, General Manager Automotive Product Group  | 25                 | 25                               | 51  |
| Giuseppe Notarnicola <sup>(15)</sup> | Corporate Vice President, Corporate Treasury  | 7                  | 7                                | 51  |
| Pierre Ollivier                      | Corporate Vice President, General Counsel   | 23                 | 23                               | 57  |
| Carmelo Papa                         | Executive Vice President, Member of the Corporate Strategic Committee, General Manager, Industrial & Multisegment Sector                | 30                 | 30                               | 63  |
| Georges Penalver <sup>(16)</sup>     | Executive Vice President, Member of the Corporate Strategic Committee, Corporate Strategy Officer                                       | 1                  | 1                                | 56  |
| Jerome Roux <sup>(17)</sup>          | Corporate Vice President, Global Procurement & Outsourcing  | 21                 | 24                               | 47  |
| Benedetto Vigna                      | Executive Vice President, General Manager Analog, MEMS & Sensors  | 18                 | 18                               | 43  |

- (1) Effective December 1, 2011, Mr. Lamouche suspended his operational responsibilities in view of his appointment as President and Chief Executive Officer of ST-Ericsson.
- (2) Mr. Mario Arlati has held this position since February 2012.
- (3) Mr. Gian Luca Bertino has held this position since February 2012.
- (4) Mr. Philippe Brun has held this position since July 2012.
- (5) Mr. Patrice Chastagner retired effective July 31, 2012 and was succeeded by Mr. Philippe Brun.
- (6) Mr. Andrea Cuomo has held this position since January 2012.





**Table of Contents**

- (7) Mr. Carlo Ferro was Chief Financial Officer until February 20, 2012, when he temporarily left the position in view of his appointment as COO of ST-Ericsson. Effective February 20, 2012, and in the interim of Mr. Ferro's assignment at ST-Ericsson, Mr. Mario Arlati is Executive Vice President, Chief Financial Officer.
- (8) Mr. Lorenzo Grandi has held this position since February 2012.
- (9) Ms. Alisia Grenville left the company effective July 31, 2012 and was succeeded by Mr. Philippe Dereeper as Corporate Compliance Officer and Executive Secretary of the Supervisory Board.
- (10) Mr. Paul Grimme has held this position since January 2012.
- (11) Mr. Joel Hartmann has held this position since February 2012.
- (12) Mr. Philippe Lambinet left the company effective September 13, 2012 and was succeeded by Mr. Jean-Marc Chery and Mr. Georges Penalver.
- (13) Mr. Philippe Magarshack has held this position since February 2012.
- (14) Mr. Marco Monti has held this position since February 2012.
- (15) Mr. Giuseppe Notarnicola has held this position since February 2012.
- (16) Mr. Georges Penalver has held this position since September 2012.
- (17) Mr. Jerome Roux has held this position since February 2012.

*Biographies of our Current Executive Officers*

Carlo Bozotti is our President, Chief Executive Officer and the sole member of our Managing Board. As CEO, Mr. Bozotti is the Chairman of our Corporate Strategic Committee. Prior to taking on this role at the 2005 annual shareholders' meeting, Mr. Bozotti served as Corporate Vice President, Memories Product Group (MPG) since August 1998. Mr. Bozotti joined SGS Microelettronica in 1977. Mr. Bozotti served as Product Manager for the Industrial, Automotive and Telecom products in the Linear Division and as Business Unit Manager for the Monolithic Microsystems Division from 1987 to 1988. He was appointed Director of Corporate Strategic Marketing and Key Accounts for the Headquarters Region in 1988 and became Vice President, Marketing and Sales, Americas Region in 1991. Mr. Bozotti served as Corporate Vice President, MPG from August 1998 through March 2005, after having served as Corporate Vice President, Europe and Headquarters Region from 1994 to 1998. In 2008, Mr. Bozotti was appointed Chairman of the Supervisory Board of Numonyx until it was acquired by Micron in 2010. As of February 1, 2009, he is Vice-Chairman of the Board of Directors of ST-Ericsson. Mr. Bozotti graduated in Electronic Engineering from the University of Pavia.

Didier Lamouche is our Chief Operating Officer and has held this position since 2011; however, he suspended his operational responsibilities in the Company effective December 1, 2011 in view of his appointment as President and Chief Executive Officer of ST-Ericsson. Prior to taking on this role, he was a member of our Supervisory Board and Audit Committee until October 26, 2010. He has over 20 years of experience in the semiconductor industry. Dr. Lamouche started his career in 1984 in the R&D department of Philips before joining IBM Microelectronics where he held several positions in France and the United States. In 1995, he became Director of Operations of Motorola's Advanced Power IC unit in Toulouse (France). Three years later, in 1998, he joined IBM as General Manager of the largest European semiconductor site in Corbeil (France) to lead its turnaround and transformation into a joint venture between IBM and Infineon: Altis Semiconductor. He managed Altis Semiconductor as CEO for four years. In 2003, Dr. Lamouche rejoined IBM and was the Vice President for Worldwide Semiconductor Operations based in New York (United States) until the end of 2004. Since February 2005, Dr. Lamouche has been the Chairman and CEO of Groupe Bull, a France based global company operating in the IT sector. He is also a member of the Board of Directors of SOITEC (since 2005), and Adecco (since 2011). Dr. Lamouche is a graduate of Ecole Centrale de Lyon and holds a PhD in semiconductor technology.

Mario Arlati is Executive Vice President, Member of the Corporate Strategic Committee, Chief Financial Officer and has held this position since February 2012. He started his professional career in 1974 in SGS ATES, a predecessor company of STMicroelectronics. Mr. Arlati was an integral member of the teams that managed the 1987 merger of SGS Microelettronica and Thomson Semiconducteurs, and later, in 1994, in ST's Initial Public Offering on the NYSE and Euronext Paris (formerly known as the Paris Bourse), followed in 1998 by ST's listing on the Borsa Italiana (Italian Stock Exchange). Mr. Arlati's career has covered all of the various functions in the Finance domain, including Accounting, Business Control, Finance, Consolidation and Reporting, in positions with increasing responsibilities. He was promoted to Corporate Controller and later became Chief Accounting Officer and Head of External Reporting. Mr. Arlati also participated in the establishment of the ST Foundation, an independent charitable organization, serving as a Director since its inception. Mr. Arlati graduated in Business and Economics at Università Cattolica in Milan in 1974.

**Table of Contents**

Georges Auguste is Executive Vice President, General Manager Packaging & Test Manufacturing and has held this position since 2011. Prior to joining us, Mr. Auguste worked with Philips Components from 1974 to 1986, in various positions in the field of manufacturing. From 1990 to 1997, he headed our operations in Morocco. From 1997 to 1999, Mr. Auguste served as Director of Total Quality and Environmental Management. In 1999, he was promoted Corporate Vice President and in 2005, he enlarged his responsibility, henceforth encompassing the Company's overall Sustainable Development, including environmental, health, safety as well as social and ethical matters. In 2008, Mr. Auguste was promoted to Executive Vice President and became also responsible for Product Quality Excellence, a field he fully concentrated on from early 2010 until he assumed responsibility for the Company's Packaging & Test Manufacturing operations in May 2011. Mr. Auguste received a degree in Engineering from the Ecole Supérieure d'Electricité (SUPELEC) in 1973 and a diploma in Business Administration from Caen University in 1976.

Eric Aussedat is Executive Vice President, General Manager Imaging, Bi-CMOS ASIC and Silicon Photonics Group and has held this position since February 2012. Mr. Aussedat joined Thomson Semiconducteurs, a predecessor company to ST, as Product Engineer in 1981. He held various positions in product engineering and planning and was promoted to Planning Manager of the Video Products Group in 1986. Later on, Mr. Aussedat was appointed to manage the product and manufacturing planning operations of Bristol based INMOS, a UK company acquired by ST in 1989. After his return to France, Mr. Aussedat supervised the Engineering and Test Strategy for the Programmable Product Group before his promotion to the Head of ST's Microcontroller Division in 1995. From 2000 to 2004, he led the TV and Display Division, and became General Manager of ST's Cellular Communication Division in 2005. Two years later, Mr. Aussedat was appointed General Manager of the Imaging Division. Mr. Aussedat graduated with a degree in Electronic Engineering from the Institut National Polytechnique in Grenoble and earned a diploma from the Institut d'Administration des Entreprises of Grenoble.

Orio Bellezza is Executive Vice President, Member of the Corporate Strategic Committee, General Manager Front-End Manufacturing & Technology R&D IMS & APG. He has been responsible for Front-End Manufacturing since 2008 and assumed additional responsibility for Technology R&D for IMS and APG in February 2012. Mr. Bellezza joined SGS ATES in 1984 as a Process Engineer and after two years moved to the Central R&D department, where he worked first as a Development Engineer and later as the Process Integration Manager, responsible for submicron EPROM (Erasable Programmable Read Only Memories) process technology modules. In 1996, Mr. Bellezza was named Director of the Agrate R1 Research and Development facility. In 2002, he was appointed Vice President of Central R&D and then in 2005 was named Vice President and Assistant General Manager of Front-End Technology and Manufacturing. Mr. Bellezza also served on the Board of the ST Hynix memory manufacturing joint venture established in Wuxi (China). Mr. Bellezza graduated with honors in Chemistry from Milan University in 1983.

Gian Luca Bertino is Executive Vice President, General Manager, Digital Convergence Group and has held this position since February 2012. Mr. Bertino held several positions within the Research and Development organization of Olivetti's semiconductor and product groups from 1986 to 1997 before joining ST in that same year. From 1998 to 2002, Mr. Bertino was Region Vice President, Computer and Consumer, within the Europe Sales Region, and then he was Group Vice President, Peripherals, General Manager of our Data Storage Division within the Telecommunications, Peripherals and Automotive (TPA) Groups from 2003 to 2004. Since 2005, Mr. Bertino has led the Computer Product Group, which was later expanded to become the Computer and Communication Infrastructure Group. Mr. Bertino graduated in 1985 in Electronic Engineering from the Polytechnic of Turin.

Philippe Brun is Corporate Vice President, Human Resources since July 2012. Mr. Brun started his career at the Pechiney Group (now Rio Tinto). In 1986, he joined Thomson Semiconducteurs, a predecessor to STMicroelectronics, as a back-end process engineer. From 1989 to 1996, Mr. Brun managed Human Resources at the Grenoble, France site and served as Site Director at the Company's St. Genis facility (France). In 1996, he was promoted to Human Resources Director responsible for over 10,000 employees in ST's manufacturing organization worldwide. From 1999 to 2010, Mr. Brun served as Fab Operations and Site Director at ST's plant in Rousset, France. In January 2011, he was appointed Group VP for execution excellence in ST's Front-End Manufacturing organization. Mr. Brun graduated with an engineering degree from the Ecole Nationale Supérieure d'Arts et Métiers (ENSAM) in France and holds a Master's degree in Aerospace engineering from the University of Colorado and a management degree from the IFG School of Business (France).

Marco Luciano Cassis is Executive Vice President, President Japan & Korea region. He has been responsible for our Sales & Marketing activities in Japan since 2005 and was given additional responsibility for

**Table of Contents**

Korea in 2010. Mr. Cassis joined us in 1988 as a mixed signal analog designer for car radio applications. In 1993, Mr. Cassis moved to Japan to support our newly created design center with his expertise in audio products. Then in 2000, Mr. Cassis took charge of the Audio Business Unit and a year later he was promoted to Director of Audio and Automotive Group, responsible for design, marketing, sales, application support, and customer services. In 2004, Mr. Cassis was named Vice President of Marketing for automotive, computer peripheral, and telecom products. In 2005, he advanced to Vice President Automotive Segment Group and joined the board of the Japanese subsidiary, STMicroelectronics K.K. Mr. Cassis graduated from the Polytechnic of Milan with a degree in Electronic Engineering.

Jean-Marc Chery is Executive Vice President, Member of the Corporate Strategic Committee, Chief Manufacturing & Technology Officer and General Manager Digital Sector, where his responsibilities include our corporate technology R&D, as well as Front-End Manufacturing, Packaging & Test Manufacturing, Product Quality Excellence and the Digital Sector since September 2012. Until September 2012, he was also responsible for Information Technology. Mr. Chery has been Chief Technology Officer since 2008 and assumed his extended manufacturing and quality responsibilities in 2011. He began his professional career in 1985 with MATRA SA in its Quality organization and by the end of 1986 had joined the Discrete Division of Thomson Semiconducteurs, located in Tours, where he remained until the beginning of 2001, first as Division Planning and Front End Production Control Manager and later as the Front-End Operation Manager. Early in 2001, Chery joined our Central Front-End Manufacturing organization as General Manager of the Rousset 8 (200mm) plant, eventually assuming responsibilities for the 6 and 8 wafer fab operations at the site. In 2005, Mr. Chery successfully led our restructuring program for 6 front-end wafer manufacturing and he moved to Singapore, where, in 2006, his efforts earned him the responsibility for our Asia Pacific Front-End Manufacturing operations and EWS (electrical wafer sort) operations. Mr. Chery sits on the boards of ST-Ericsson SA, CATRENE, the European microelectronics R&D program and AENEAS (Association for European NanoElectronics Activities). Mr. Chery graduated from the National Superior School for Engineering, ENSAM France in 1984.

Andrea Cuomo is Executive Vice President, Chairman 3Sun (our Photovoltaic Joint Venture with Sharp and Enel), AST & Special Projects. Mr. Cuomo joined us in 1983 as a System Testing Engineer, and from 1985 to 1989 held various positions to become Automotive Marketing Manager, then computer and industrial product manager. In 1989, Mr. Cuomo was appointed Director of Strategy and Market Development for the Dedicated Products Group, and in 1994 became Vice President of the Headquarters Region, responsible for Corporate Strategic Marketing and for Sales and Marketing to ST Strategic Accounts. In 1998, Mr. Cuomo was appointed as Vice President responsible for Advanced System Technology, and in 2002, Mr. Cuomo was appointed as Corporate Vice President and Advanced System Technology General Manager. In 2004, he was given the additional responsibility of serving as our Chief Strategy Officer and was promoted to Executive Vice President. In 2008, he was appointed Executive Vice President, General Manager, EMEA and AST. In July 2010, he was appointed, in addition to his current assignments, Chairman of the Board of Directors of 3Sun S.r.l. Mr. Cuomo studied Nuclear Sciences, with a special focus on analog electronics at Milano Politecnico.

Claude Dardanne is Executive Vice President, General Manager, Microcontrollers, Memory & Secure MCU Group, which is part of our Industrial & Multisegment Sector, and has held this position since January 2007. Mr. Dardanne started his career with Thomson Semiconducteurs, a predecessor company to ST. From 1982, he was responsible for the marketing of microcontroller and microprocessor products. Between 1989 and 1994, Mr. Dardanne served as Marketing Director at Apple Computer, France, and Alcatel Mietec, Belgium, covering markets such as Education and Banking, as well as Automotive and Industrial. In 1994, he rejoined ST as Director of Central Marketing for the Memory Products Group. In 1998, Mr. Dardanne became Head of the EEPROM (Electrically Erasable Programmable Read Only Memory) Division and was promoted to Group Vice President and General Manager of the Serial Non Volatile Memories Division in 2002. Two years later, he was appointed Group Deputy General Manager and Head of the Smartcard Division. Mr. Dardanne graduated with a degree in Electronic Engineering from the Ecole Supérieure d'Ingénieurs en Génie Electrique in Rouen, France.

Stephane Delivré is Corporate Vice President, Global Chief Information Officer and has held this position since December 2011. Mr. Delivré started his career in 1984 as an optoelectronic engineer in the Aerospace Division of Thomson, a French holding company. In 1988, he joined IBM and held various managerial positions at the company's semiconductor manufacturing plant in Corbeil Essonnes, France. In 1997, Mr. Delivré was appointed Manager of Joint Venture Operation and Strategy at IBM Microelectronics HQ in Fishkill, NY. Two years later he moved to IBM Global Services where he was promoted to Director of EMEA Business Operations for the e Business Hosting division. From 2005 to 2011, Stephane Delivré served as Vice President, Business Operations, and Chief Information Officer of Bull, a French based IT group. Mr. Delivré graduated from the Orsay Paris Sud University with a degree in Physics & Optoelectronics.

**Table of Contents**

Carlo Ferro is Executive Vice President, Corporate Projects. Mr. Ferro served as our Chief Financial Officer from May 2003 until February 20, 2012, at which time he was temporarily assigned to ST-Ericsson to assume the position of its Chief Operating Officer. During his tenure as our Chief Financial Officer, Mr. Ferro progressively expanded his responsibility with Communication and Corporate Infrastructures and Services also reporting to him. From 1984 through 1996, Mr. Ferro held a series of positions in finance and control at Istituto per la Ricostruzione Industriale IRI S.p.A. (I.R.I.), and Finmeccanica. Mr. Ferro served as one of our Supervisory Board Controllers from 1992 to 1996. From 1996 to 1999, Mr. Ferro held positions at EBPA NV, a process control company listed on the NYSE, rising to Vice President Planning and Control and principal financial officer. Mr. Ferro joined us in June 1999 as Group Vice President Corporate Finance, overseeing finance and accounting for all affiliates worldwide, and served as Deputy CFO from April 2002 through April 2003. Mr. Ferro holds positions on the board of directors of several of our affiliates. Mr. Ferro was also a part-time university professor of Planning and Control and, later, of Finance at the University LUISS Guido Carli in Rome (Italy). From February 1, 2009 until February 2012 he was a member of ST-Ericsson's Board of Directors, as well as Chair of its Audit Committee. Previously he has been the Chairman of Incard SA, our fully owned affiliate. Mr. Ferro graduated with a degree in Business and Economics from the LUISS Guido Carli University in Rome, Italy in 1984, and has a professional qualification as a Certified Public Accountant in Italy.

Lorenzo Grandi is Corporate Vice President, Corporate Control and has held his position since February 2012. Mr. Grandi joined ST in 1987 as a process engineer working on BCD Technology development. In 1990, he moved to the Memory Product Group as Financial Analyst. In 1995, Mr. Grandi was promoted to the position of Group Controller of the Memory Product Group contributing to the expansion of the Flash/Memory business. In 2005, Mr. Grandi joined Corporate Finance with the responsibility for Budgeting and Reporting. He also contributed to the carve out and deconsolidation of the ST Flash memory business. Mr. Grandi graduated cum laude in Physics from the University of Modena and holds a Master of Business Administration from SDA Bocconi Milano.

Paul Grimme is Executive Vice President, Member of the Corporate Strategic Committee, General Manager, Sales & Marketing Europe, Middle East and Africa. He has held this position since January 2012. Mr. Grimme began his career at Motorola, where he held positions of increasing responsibility in product engineering, marketing and operations management. He served as Corporate Vice President and General Manager of the 8/16-bit Products Division. In 1999, Mr. Grimme was promoted to Vice President and General Manager of the Advanced Vehicle Systems Division. He was later appointed Senior Vice President of the Transportation and Standard Products Group and continued in that role at Freescale Semiconductor after Motorola spun off its semiconductor business. Mr. Grimme also served as Senior Vice President and General Manager of Freescale Semiconductor's Microcontroller Solutions Group. Mr. Grimme joined STMicroelectronics as Deputy General Manager of the Automotive Product Group in early 2009. Mr. Grimme was promoted to General Manager of this Group in September 2009. Mr. Grimme graduated from the University of Nebraska (Lincoln) with a degree in Electrical Engineering and from the University of Texas (Austin) with a Master of Business Administration.

Fabio Gualandris is Executive Vice President, Product Quality Excellence and has held this position since February 2011. Mr. Gualandris joined the R&D organization of SGS Microelettronica, a predecessor company to ST, in 1984, and was promoted to R&D Director of Operations in 1989. In 1996, Mr. Gualandris became Automotive Business Unit Director, focusing on product quality and development. After two years in the U.S. as President and CEO of Semitool, a semiconductor manufacturing equipment vendor, he rejoined ST in 2000 as Group VP responsible for the RAM/PSRAM Product Division and the Flash Automotive Business Unit. In 2005, Mr. Gualandris was appointed CEO of ST Incard, an ST Smartcard subsidiary. Two years later, he contributed to the carve out of ST's Flash Memory Group and subsequently joined Numonyx, the joint venture with Intel, as VP and Supply Chain General Manager. Mr. Gualandris has authored several technical and managerial papers, holds some international patents, and served as a board member in Incard SA, ST Incard, and the Numonyx Hynix joint venture in China. He also served as Board member and President of Numonyx Italy. Mr. Gualandris graduated in Physics from the University of Milan.

François Guibert is Executive Vice President and President, Greater China & South Asia Region. He has been leading ST operations in Asia Pacific since 2006 and his responsibilities were expanded to include Greater China in 2010. After three years at Texas Instruments, he joined Thomson Semiconducteurs in 1981 as Sales Manager Telecom. From 1983 to 1986, he was responsible for ICs and strategic marketing of telecom products in North America. In 1988 he was appointed Director of our Semi custom Business for Asia Pacific and in 1989 he became President of ST Taiwan. Since 1992 he has occupied senior positions in Business Development and Investor Relations and was Group Vice President, Corporate Business Development, which includes M&A activities from 1995 to the end of 2004. In January 2005, Mr. Guibert was promoted to the position of Corporate Vice President,

**Table of Contents**

Emerging Markets Region. In 2008, Mr. Guibert was appointed a member of Veredus Board of Directors and in May 2011 was elected Chairman. Mr. Guibert graduated from the Ecole Centrale de Marseille, France, in 1978.

Joel Hartmann is Executive Vice President, Front-End Manufacturing & Process R&D, Digital Sector, in charge of Advanced CMOS & derivatives technologies, Crolles Manufacturing Operations and the International Semiconductor Development Alliance (ISDA) management. He has held this position since February 2012. Mr. Hartmann started his career at CEA LETI in 1978 as PhD student on modelization of CMOS/SOS technology. From 1979 to 2000, he successively worked on X-ray photolithography, technology electrical characterization, and then was in charge of process integration technology programs from 1.2µm to 0.35µm CMOS. From 1998 to 2000, he acted as Microelectronics Department Director of CEA LETI. In December 2000, Mr. Hartmann joined STMicroelectronics in Crolles, France, where he acted as Director of the Crolles2 Alliance, within the alliance between STMicroelectronics, NXP (previously Philips Semiconductors) and Freescale Semiconductor (previously Motorola) from 2000 to 2007. In 2008, Mr. Hartmann was appointed Technology R&D Group VP, in charge of Advanced CMOS Logic & Derivative Technologies. In October 2010, he was also appointed as co-leader of the SRDC organization at IBM Fishkill (NY) facility in the frame of the ISDA (International Semiconductor Development Alliance) conducted by IBM. Mr. Hartmann owns 15 patents on semiconductor technology and devices and has 10 publications in international conferences and scientific publications. Mr. Hartmann was a member of the IEDM Conference Steering Committee from 1994 to 1999 (European Co Chair and Chair from 1997 to 1999), has been a Board Member of the SOI Industry Consortium Initiative since November 2007 and a member of the IEEE Electron Device Society. Mr. Hartmann graduated from ENSPG (Ecole Nationale Supérieure de Physique de Grenoble) in 1978.

Tjerk Hooghiemstra is Executive Vice President, Member of the Corporate Strategic Committee, Chief Administrative Officer, responsible for Human Resources, People Development & Learning, Legal, Compliance, Internal Communication, Sustainability and Security, as well as for the Intellectual Properties Business Unit. He has held this position since 2010. He began his career at AMRO Bank. Later he joined HayGroup, a leading global HR consultancy, where he rose through the ranks to become the European head of HayMcBer, the group's HR and leadership development arm, in 1991. Five years later, Mr. Hooghiemstra joined Philips Consumer Electronics as Managing Director of Human Resources. In 2000, he was appointed a member of Royal Philips Electronics Group Management Committee, responsible for Corporate Human Resources of the 160,000 employee global electronics group. From 2007 to 2009, Mr. Hooghiemstra served as Executive Vice President, Human Resources, at the Majid Al Futtaim retail and real estate group in Dubai, UAE. Mr. Hooghiemstra graduated with a degree in Economics from the Erasmus University in Rotterdam, The Netherlands.

Otto Kosgalwies is Executive Vice President, Member of the Corporate Strategic Committee, Company Infrastructures and Services, with responsibility for all of our corporate activities related to Capacity Planning, Logistics, Procurement and Material Management, with particular emphasis on the complete supply chain between customer demand, manufacturing execution, inventory management, and supplier relations. He has held this position since 2004. Mr. Kosgalwies has been with us since 1984. From 1992 through 1995, he served as European Manager for Distribution, from 1995 to 2000 as Sales and Distribution Director for Central Europe, and since 1997 as CEO of our German subsidiary. In 2000, Mr. Kosgalwies was appointed Vice President for Sales and Marketing in Europe and General Manager for Supply Chain Management, where he was responsible at a corporate level for the effective flow of goods and information from suppliers to end users. In December 2007, he was promoted to Executive Vice President and became responsible for capacity and investment planning at the corporate level, in addition to his responsibilities at the time. Mr. Kosgalwies graduated with a degree in Economics from Munich University.

Robert Krysiak is Executive Vice President, President, Americas Region and has held this position since 2010. Mr. Krysiak started his professional career in 1983 with INMOS, a company acquired by SGS Thomson Microelectronics (now STMicroelectronics) in 1989. He formed and led a CPU design group since 1992, and in 1997 he was appointed Group Vice President and General Manager of ST's STAR division, which incorporated 16/32/64-bit microcontrollers and DSP products. Two years later, he became Group Vice President responsible for micro cores development, including advanced System on Chip products for the digital consumer market. In 2001, Mr. Krysiak took charge of ST's DVD division. In 2004, he was promoted to Marketing Director for the Home, Personal and Communications sector, the Company's largest product organization at the time. In 2005, when ST created its Greater China regional organization, covering ST's operations in China, Hong Kong and Taiwan, Mr. Krysiak was appointed Corporate Vice President and General Manager. Mr. Krysiak graduated from Cardiff University, UK, with a degree in Electronics and holds an MBA from the University of Bath, UK.

Claudia Levo is Corporate Vice President, External Communications and has held this position since January 2011. In January 2012, she took on additional responsibility as Senior Vice President, Global

**Table of Contents**

Communications at ST-Ericsson, our joint venture with Ericsson. In 1993, Ms. Levo began her career with Marconi, a global telecommunications company, where she was responsible for a number of management roles within the Communication function, including marketing communications, and internal and external communications across wide geographies. In 2005, Ms. Levo managed the communication activities related to the integration of Marconi with Ericsson, and was subsequently appointed Vice President for Communications at the newly formed Ericsson Multimedia Business Unit. In 2008, Ms. Levo was appointed Vice President Communications at Italtel. In early 2009 she joined ST-Ericsson, as Senior Vice President and head of Global Communications. Ms. Levo holds a language school diploma in English and Russian.

Loïc Liétar is Executive Vice President, New Ventures and has held this position since January 2011. In this role, he is setting up a Strategic Corporate Venture Fund for ST. Mr. Liétar joined Thomson Semiconducteurs, a predecessor company to ST, in 1985. After working in R&D Management and Marketing, he was appointed Director of the Company's Advanced Systems Technology (AST) labs in the U.S. in 1999. Four years later, Mr. Liétar became General Manager of ST's Cellular Terminals Division, and later moved to head the Application Processor Division, which brought to market ST's leading edge Nomadik mobile multimedia processor. In 2006, he was appointed Group Vice President, Strategies, and contributed to establishing ST's R&D partnership with IBM and two joint ventures—the Numonyx flash memory joint venture with Intel and ST-Ericsson, combining the wireless operations of ST, NXP and Ericsson. He has been in charge of Corporate Strategy from January 2008 to January 2011. During this time, he was responsible for the Company's Strategic Planning, Corporate Business Development and Corporate Communication (from February 2010). Mr. Liétar also sat on the Board of Directors of ST-Ericsson from February 2009 to January 2011. Mr. Liétar sits on the Board of Directors of the Global Semiconductor Alliance (GSA). Mr. Liétar graduated with a degree in Engineering from the École Polytechnique, Paris, in 1984, a Master's degree in Microelectronics from Orsay University (1985) and holds an MBA from Columbia University, New York (1993).

Philippe Magarshack is Executive Vice President, Design Enablement & Services and has held this position since February 2012. From 1985 to 1989, Mr. Magarshack worked as a microprocessor designer at AT&T Bell Labs in the U.S. In 1989, he joined Thomson CSF in Grenoble, France, and took responsibility for libraries and ASIC design kits for the military market. In 1994, Mr. Magarshack joined the Central R&D Group of SGS THOMSON Microelectronics (now STMicroelectronics), where he has held several roles in CAD and Libraries management for advanced integrated circuit manufacturing processes. In 2005, Mr. Magarshack was promoted to Group Vice President and General Manager of Central CAD and Design Solutions at STMicroelectronics—Technology R&D and Manufacturing organization. Mr. Magarshack is ST's Enablement Executive at the IBM ISDA Technology Alliance for the development of advanced CMOS process. He sits on the boards of Silicon Integration Initiative (Si2) and ENSIMAG Engineering School in Grenoble. Mr. Magarshack graduated with an engineering degree in Physics from Ecole Polytechnique, Palaiseau, France, and with an Electronics Engineering degree from École Nationale Supérieure des Télécommunications in Paris, France.

Marco Monti is Executive Vice President, General Manager Automotive Product Group and has held this position since January 2012. Mr. Monti joined ST in Central R&D in 1986 and transferred to the Automotive Division in 1988, where he designed automotive ICs incorporating smart power technologies. He moved to Japan in 1990 working on a co-development activity designing a noise reduction system for audio applications. Subsequently, Mr. Monti transferred into marketing, contributing to the expansion of ST's Automotive business in Japan. In 2000, he became the marketing manager for the ST Automotive Division. Two years later, he started the automotive microprocessor business and in 2004 was promoted to Division General Manager for Powertrain, Safety and Chassis products. In 2009, he took responsibility for the Automotive Electronics Division inside ST's Automotive Product Group. Mr. Monti graduated cum laude in Electronic Engineering from the Polytechnic of Milan, Italy, and two years later from the University of Pavia, Italy, with a PhD in Electronics.

Giuseppe Notarnicola is Corporate Vice President, in charge of Corporate Treasury and has held this position since February 2012. He is also Managing Director of STMicroelectronics Finance B.V., the Company's funding vehicle, and a board member at several ST affiliates. Mr. Notarnicola started his career with Banca Nazionale del Lavoro (BNL), an Italian banking firm, in 1987. He managed the bank's financial operations in Singapore and later on became Head of Financial Department at BNL London. In 2001, Mr. Notarnicola was named Head of BNL's financial advisory arm for corporate and institutional customers, and in 2004 he was promoted to Head of Large Corporate, responsible for providing corporate and investment banking services to the bank's largest customers. In 2006, Mr. Notarnicola joined ST as Group Vice President responsible for corporate and worldwide treasury activities of ST and its affiliates. In this capacity, he initiated the Company's relationship with the European Investment Bank and managed the financing aspects of ST's Flash memory business spin out. Mr. Notarnicola graduated cum laude with a degree in Business Administration at the LUISS Guido Carli University in Rome, Italy.

**Table of Contents**

Pierre Ollivier is Corporate Vice President, General Counsel. Mr. Ollivier has been General Counsel of ST since 1990 and was appointed Corporate Vice President in January 2008. After graduation, he joined Clifford Turner (now Clifford Chance) and then, in 1982, joined Stein Heurtey, an engineering firm, where he was responsible for legal affairs. In 1984, Mr. Ollivier joined Thomson CSF where he first worked in the Electronics systems and equipment branch, later moving to corporate headquarters. Mr. Ollivier became general counsel of STMicroelectronics in 1990, a position he has held since. From 1994 until 2007, he also acted as Executive Secretary of the Supervisory Board. In January 2008, Mr. Ollivier was promoted Corporate Vice President. In addition to legal matters involving contracts, litigation and general corporate matters, his responsibilities include intellectual property and patents, as well as the worldwide insurance programs for ST's global group of companies. Mr. Ollivier obtained a Law Degree at Caen University in 1976 and a postgraduate degree in International Business law at Paris 1 University in 1978.

Carmelo Papa is Executive Vice President, Member of the Corporate Strategic Committee, General Manager Industrial & Multisegment Sector, which comprises power and analog devices, microcontrollers, MEMS, as well as discrete, special non volatile memory and Smartcard products. He has held this position since January 2007. Since January 2012, he also leads the Industrial & Power Discretes Group, within the IMS sector. Mr. Papa started his professional career with ICL (International Computers Limited). He joined SGS Microelettronica, a predecessor company to STMicroelectronics, in 1983, and three years later was promoted to Director of Product Marketing and Customer Service for Transistors and Standard ICs. In 2000, he was appointed Corporate Vice President, Emerging Markets, comprising Africa and the Middle East, India, Latin America, Russia and the Eastern European countries. In 2005, he was appointed to lead the Micro, Power and Analog Group, serving a broad customer base in a large variety of applications with a special emphasis on the industrial segment. In October 2010, Mr. Papa was appointed Chairman of the European Platform on Smart Systems, an industry driven initiative focused on innovation in nanotechnologies and smart systems integration. He also sits on the Board of Directors of ST New Ventures SA. Mr. Papa graduated with a degree in Nuclear Physics from the University of Catania.

Georges Penalver is Executive Vice President, Member of the Corporate Strategic Committee, Corporate Strategy Officer and has held this position since September 2012. He started his career in 1980 with Sagem, where he developed the Broadband Communications Business, overseeing the launch of telecommunication products, the international industrial deployments, and the development of global sales networks. Mr. Penalver was appointed to Sagem's Management Board in 2001 and served as Deputy CEO, pushing the mass development of mobile and internet services. In 2005, he joined the France Telecom Orange Group, as Deputy CEO for Strategy and Business Development at the group level. Mr. Penalver's responsibilities included all product marketing and management of services in France Telecom, product creation and development for the entire group, and Orange Labs' activities worldwide. In 2011, Mr. Penalver used his extensive experience to become a co-founder and managing partner of Cathaya Capital Fund. Mr. Penalver serves as EMEA Regional Leadership Director for the Global Semiconductor Alliance. He is a Knight of the French Ordre National du Mérite. Mr. Penalver holds a degree from the Ecole Nationale Supérieure d'Arts et Métiers (Gold) and from the Ecole Nationale Supérieure des Télécommunications in Paris.

Jerome Roux is Corporate Vice President, Global Procurement & Outsourcing. He has held this position since 2008 and was promoted to Corporate Vice President in February 2012. Mr. Roux began his career in 1988 in SGS Thomson Tours, a predecessor company to STMicroelectronics, in the Planning department. After 5 years, he moved to the factory in Casablanca, Morocco as Material Manager taking care of Planning, Procurement & Material Warehousing. From 1999 to 2002, he was the Asia Pacific Marketing Director for the DSG Group of STMicroelectronics based in Singapore and then in Shanghai. In 2003, he moved to a supplier company of STMicroelectronics as Managing Director and Member of the Board. In 2006, he returned to STMicroelectronics as a Group Vice President in charge of Assembly & Testing Outsourcing Operations (GOBM). Mr. Roux is serving as Advisor for the French Government on Foreign Trades, CCEF (Conseiller du Commerce Extérieur pour la France) Vice President and Board Member of the Singapore sector. Mr. Roux graduated from ISG Business School in Paris (Institut Supérieur de Gestion), with a Master in Commerce.

Benedetto Vigna is Executive Vice President, General Manager, Analog, MEMS and Sensors Group and has held this position since September 2011. In 1995, Mr. Vigna joined STMicroelectronics' R&D Labs and launched ST's efforts in MEMS. Six years later, he was appointed Director of the MEMS Business Unit, responsible for design, manufacturing and marketing of ST's MEMS accelerometers and gyroscopes. These have been successfully adopted by large consumer equipment manufacturers for motion activated user interfaces in many popular devices, including the Nintendo Wii game console and a wide range of smartphones and tablets. In 2007, Mr. Vigna's scope was enlarged to include management of Sensors, RF, High Performance Analog and

**Table of Contents**

Mixed Signal, as well as Interface, Audio for Portable, and General Purpose Analog products. Mr. Vigna has filed more than 150 patents on micromachining to date in this field. He has served as an industrial consultant for the President of the Italian Scientific Research Center and sits on the industrial boards of several EU-funded programs. Mr. Vigna graduated with a degree in Subnuclear Physics from the University of Pisa, Italy.

As is common in the semiconductor industry, our success depends to a significant extent upon, among other factors, the continued service of our key senior executives and research and development, engineering, marketing, sales, manufacturing, support and other personnel, and on our ability to continue to attract, retain and motivate qualified personnel. The competition for such employees is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on us. We do not maintain insurance with respect to the loss of any of our key personnel. See Item 3. Key Information Risk Factors Risks Related to Our Operations Loss of key employees could hurt our competitive position .

**Compensation**

The aggregate compensation for the members and former members of our Supervisory Board in respect of service in 2012 was 888,750 before any withholding taxes and applicable mandatory social contributions, as set forth in the following table.

| <b>Supervisory Board Member</b>  | <b>Directors Fees<sup>(1)</sup></b> |
|----------------------------------|-------------------------------------|
| Didier Lombard                   | 151,750                             |
| Bruno Steve                      | 149,875                             |
| Jean d Arthuys                   | 0 <sup>(2)</sup>                    |
| Raymond Bingham                  | 89,750                              |
| Douglas Dunn <sup>(3)</sup>      | 8,625                               |
| Jean Georges Malcor              | 84,375                              |
| Alessandro Ovi                   | 89,375                              |
| Alessandro Rivera                | 83,125                              |
| Martine Verluyten <sup>(4)</sup> | 76,875                              |
| Tom de Waard                     | 155,000                             |
| <b>Total</b>                     | <b>888,750</b>                      |

- (1) These amounts include the fixed annual compensation for the directors mandate, together with attendance fees from January 1, 2012 until December 31, 2012.
- (2) Mr. d Arthuys would have been entitled to receive 85,875 in 2012, but he waived his right to receive any compensation from the Company in relation to his mandate as a member of the Supervisory Board.
- (3) Mr. Dunn was a member of the Supervisory Board until May 30, 2012.
- (4) Ms. Verluyten was appointed as a member of the Supervisory Board on May 30, 2012.
- We do not have any service agreements with members of our Supervisory Board.

The total amount paid as compensation in 2012 to our executive officers, including Mr. Carlo Bozotti, the sole member of our Managing Board and our President and CEO, was approximately \$20.4 million before any withholding taxes. Such amount also includes the amounts of EIP paid to the executive officers pursuant to a Corporate Executive Incentive Program (the EIP ) that entitles selected executives to a yearly bonus based upon the individual performance of such executives. The maximum bonus awarded under the EIP is based upon a percentage of the executive s salary and is adjusted to reflect our overall performance. The participants in the EIP must satisfy certain personal objectives that are focused, inter alia, on return on net assets, customer service, profit, cash flow and market share. The relative charges and non-cash benefits were approximately \$11.4 million. Within such amount, the remuneration of the current sole member of our Managing Board and President and CEO in 2012 was:

| <b>Sole Member of Our Managing Board and President and CEO</b> | <b>Salary</b> | <b>Bonus<sup>(1)</sup></b> | <b>Charges and</b> | <b>Total</b> |
|--|---------------|----------------------------|--------------------|--------------|
|--|---------------|----------------------------|--------------------|--------------|



Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|               |              |            | <b>Non-Cash<br/>Benefits<sup>(2)</sup></b> |              |
|---------------|--------------|------------|--|--------------|
| Carlo Bozotti | \$ 1,028,792 | \$ 823,035 | \$ 655,807                                 | \$ 2,507,634 |

(1) The bonus paid to the sole member of our Managing Board and President and CEO during the 2012 financial year was approved by the Compensation Committee, and approved by the Supervisory Board in respect of the 2011 financial year, based on fulfillment of a number of pre-defined objectives for 2011.

(2) Including stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances.

## **Table of Contents**

Mr. Bozotti was re-appointed as sole member of our Managing Board and President and Chief Executive Officer of our company by our annual shareholders meeting on May 3, 2011 for a three year period. In each of the years 2009, 2010 and 2011, Mr. Bozotti was granted, in accordance with the compensation policy approved by the shareholders meeting, up to 100,000 nonvested Stock Awards. The vesting of such stock awards is conditional upon certain performance criteria, fixed by our Supervisory Board, being achieved as well as Mr. Bozotti's continued service with us.

In 2009, our Supervisory Board approved the terms of Mr. Bozotti's employment by us, which are consistent with the compensation policy approved by our 2005 annual shareholders meeting.

Effective May 1, 2011, the terms of Mr. Bozotti's employment were further modified and reviewed by our Supervisory Board.

Mr. Bozotti has two employment agreements with us, the first with our Dutch parent company, which relates to his activities as sole member of our Managing Board and representative of the Dutch legal entity, and the second in Switzerland, which relates to his activities as President and CEO, EIP, Pension and other items covered by the compensation policy approved by our shareholders.

As of January 1, 2013, the relationship between a member of the managing board and a listed Dutch company can no longer be treated as an employment agreement. In practice, it will be treated as a mandate agreement. However, existing employment agreements, including the employment agreement between us and our sole member of the Managing Board, will remain in effect.

Consistent with this compensation policy, the Supervisory Board, upon the recommendation of its compensation committee, set the criteria to be met for Mr. Bozotti for attribution of his 2012 bonus (based on new product introductions, market share and budget targets, as well as corporate governance initiatives). The Supervisory Board, however, has not yet determined the amount of the CEO bonus for 2012.

With regard to Mr. Bozotti's 2009 stock awards, the Supervisory Board, upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. The Supervisory Board noted that only two out of the three performance criteria linked to sales, operating income and cash flow had been met under the employee stock award plan and concluded that Mr. Bozotti was entitled to 66,672 stock awards, which vest as defined by the plan one year, two years and three years, respectively, after the date of the grant provided Mr. Bozotti is still an employee at such time (subject to the acceleration provisions in the event of a change in control).

With regard to Mr. Bozotti's 2010 stock awards, the Supervisory Board, upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. The Supervisory Board noted that only two out of the three performance criteria linked to sales, operating income and cash flow had been met under the employee stock award plan and concluded that Mr. Bozotti was entitled to 66,672 stock awards, which vest as defined by the plan one year, two years and three years, respectively, after the date of the grant provided Mr. Bozotti is still an employee at such time (subject to the acceleration provisions in the event of a change in control).

With regard to Mr. Bozotti's 2011 stock awards, the Supervisory Board, upon recommendation of the Compensation Committee, noted that none of the three performance criteria linked to sales, operating income and return on net assets had been met under the employee stock award plan and concluded that Mr. Bozotti was not entitled to any stock award.

With regard to Mr. Bozotti's 2012 stock awards, the Supervisory Board, upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. The Supervisory Board, however, has not yet determined whether the performance criteria which condition the vesting (and which, as for all employees benefiting from nonvested share awards, are linked to sales, operating income and cash flow) have been met.

During 2012, Mr. Bozotti did not exercise any stock options granted to him, and did not sell any vested stock awards or purchase or sell any of our shares.

Our Supervisory Board has approved the establishment of a complementary pension plan for our top executive management, comprising the CEO, COO and other key executives to be selected by the CEO according

## **Table of Contents**

to the general criteria of eligibility and service set up by the Supervisory Board upon the proposal of its Compensation Committee. In respect to such plan, we have set up an independent foundation under Swiss law which manages the plan and to which we make contributions. Pursuant to this plan, in 2012 we made a contribution of \$0.3 million to the plan of our current President and Chief Executive Officer, \$0.2 million to the plan of our Chief Operating Officer, and \$0.8 million to the plan for all other beneficiaries. The amount of pension plan payments made for other beneficiaries, such as former employees retired in 2012 and no longer salaried in 2012, was \$0.7 million.

We did not extend any loans or overdrafts to our Supervisory Board members or to the sole member of our Managing Board and President and CEO. Furthermore, we have not guaranteed any debts or concluded any leases with our Supervisory Board members or their families, or the sole member of the Managing Board or his family.

For information regarding stock options and other stock based compensation granted to members of our Supervisory Board, the Managing Board and our executive officers, please refer to [Stock Awards and Options](#) below.

The current members of our Executive Committee and the Managing Board were covered in 2012 under certain group life and medical insurance programs provided by us. The aggregate additional amount set aside by us in 2012 to provide pension, retirement or similar benefits for our Executive Committee and our Managing Board as a group is in addition to the amounts allocated to the complementary pension plan described above and is estimated to have been approximately \$5.1 million, which includes statutory employer contributions for state run retirement, similar benefit programs and other miscellaneous allowances.

## **Share Ownership**

None of the members of our Supervisory Board and Managing Board or our executive officers holds shares or options to acquire shares representing more than 1% of our issued share capital.

## **Stock Awards and Options**

Our stock options and stock award plans are designed to incentivize, attract and retain our executives and key employees by aligning compensation with our performance and the evolution of our share price. We have adopted stock based compensation plans comprising either stock options or nonvested stock awards that benefit our President and CEO as well as key employees (employee stock options and/or employee nonvested stock award plans) and stock options or vested stock awards that benefit our Supervisory Board members and professionals (Supervisory Board stock options and/or stock award plans).

Pursuant to the shareholders' resolutions adopted by our annual shareholders' meetings, our Supervisory Board, upon the proposal of the Managing Board and the recommendation of the Compensation Committee, took the following actions:

approved, for a five year period, our 2008 nonvested Stock Award Plan for Executives and Key Employees, under which directors, managers and selected employees may be granted stock awards upon the fulfillment of restricted criteria, such as those linked to our performance and continued service with us;

approved conditions relating to our 2009 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance;

approved conditions relating to our 2010 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance;

approved conditions relating to our 2011 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance; and

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

approved conditions relating to our 2012 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance.

We use our treasury shares to cover the stock awards granted under the Employee USA Plans. In the year ended as of December 31, 2012, 2,958,108 stock awards granted in relation to 2009 and 2010 had vested, leaving 22,606,603 treasury shares outstanding. The stock award allocation for 2012 generated an additional charge of

**Table of Contents**

\$6 million in the consolidated statement of income for 2012, which corresponds to the cost per service in the year for all granted shares that are (or are expected to be) vested pursuant to the financial performance criteria being met.

The exercise of stock options and the sale or purchase of shares of our stock by the members of our Supervisory Board, the sole member of our Managing Board and President and CEO, and all our employees are subject to an internal policy which involves, inter alia, certain blackout periods.

**Employee and Managing Board Stock Based Compensation Plans**

**2001 Stock Option Plan.** At the annual shareholders' meeting on April 25, 2001, our shareholders approved resolutions authorizing the Supervisory Board, for a period of five years, to adopt and administer a stock option plan (in the form of five annual tranches) that provided for the granting to our managers and professionals of options to purchase up to a maximum of 60 million common shares (the 2001 Stock Option Plan). The amount of options granted to the sole member of our Managing Board and President and CEO is determined by our Compensation Committee, upon delegation from our Supervisory Board and, since 2005, has been submitted for approval by our annual shareholders' meeting. The amount of stock options granted to other employees was made by our Compensation Committee on delegation by our Supervisory Board and following the recommendation of the sole member of our Managing Board and President and CEO. In addition, the Supervisory Board delegated to the sole member of our Managing Board and President and CEO the flexibility to grant, each year, up to a determined number of share awards to our employees pursuant to the 2001 Stock Option Plan in special cases or in connection with an acquisition.

In 2005, our shareholders at our annual shareholders' meeting approved a modification to our 2001 Stock Option Plan so as to provide the grant of up to four million nonvested stock awards instead of stock options to our senior executives and certain of our key employees, as well as the grant of up to 100,000 nonvested Stock Awards instead of stock options to our President and CEO. A total of 4,159,915 shares have been awarded pursuant to the modification of such plan, which includes shares that were awarded to employees who subsequently left our Company thereby forfeiting their awards. Certain forfeited share awards were subsequently awarded to other employees.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board, approved the conditions that apply to the vesting of such awards. These conditions related to both our financial performance, pursuant to certain defined criteria in 2005 and during the first quarter of 2006, and the continued presence of the beneficiaries of the nonvested stock awards at the defined vesting dates in 2006, 2007 and 2008. Of the shares awarded, none remain outstanding and nonvested as of December 31, 2012.

**2001 Plan (Employees)****April 25, 2001****(outstanding grants)**

|  | <b>Tranche<br/>10</b> | <b>Tranche<br/>11</b> | <b>Tranche<br/>12</b> | <b>Tranche<br/>13</b> | <b>Tranche<br/>14</b> | <b>Tranche<br/>15</b> | <b>Tranche<br/>16</b> | <b>Tranche<br/>17</b> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Date of the grant  | 14 Mar 03             | 3 Jun 03              | 24 Oct 03             | 2 Jan 04              | 26 Apr 04             | 1 Sep 04              | 31 Jan 05             | 17 Mar 05             |
| Total Number of Shares which may be purchased                                    | 11,533,960            | 306,850               | 135,500               | 86,400                | 12,103,490            | 175,390               | 29,200                | 13,000                |
| Vesting Date   | 14 Mar 05             | 3 Jun 05              | 24 Oct 05             | 2 Jan 06              | 26 Apr 06             | 1 Sep 06              | 31 Jan 07             | 17 Mar 07             |
| Expiration Date  | 14 Mar 13             | 3 Jun 13              | 24 Oct 13             | 2 Jan 14              | 26 Apr 14             | 1 Sep 14              | 31 Jan 15             | 17 Mar 15             |
| Exercise Price   | \$19.18               | \$22.83               | \$25.90               | \$27.21               | \$22.71               | \$17.08               | \$16.73               | \$17.31               |
| Terms of Exercise  | 32% on 14<br>Mar 05   | 32% on<br>3 Jun 05    | 32% on<br>24 Oct 05   | 32% on<br>2 Jan 06    | 32% on<br>26 Apr 06   | 32% on<br>1 Sep 06    | 32% on<br>31 Jan 07   | 32% on<br>17 Mar 07   |
|  | 32% on 14<br>Mar 06   | 32% on<br>3 Jun 06    | 32% on<br>24 Oct 06   | 32% on<br>2 Jan 07    | 32% on 26<br>Apr 07   | 32% on<br>1 Sep 07    | 32% on<br>31 Jan 08   | 32% on<br>17 Mar 08   |
|  | 36% on 14<br>Mar 07   | 36% on<br>3 Jun 07    | 36% on<br>24 Oct 07   | 36% on<br>2 Jan 08    | 36% on 26<br>Apr 08   | 36% on<br>1 Sep 08    | 36% on<br>31 Jan 09   | 36% on<br>17 Mar 09   |
| Number of Shares to be acquired with Outstanding Options as of December 31, 2012 | 7,862,706             | 147,000               | 72,900                | 11,200                | 8,246,055             | 93,311                | 17,300                | 0                     |
| Held by Managing Board/Executive Officers  | 377,250               | 0                     | 20,000                | 0                     | 441,500               | 0                     | 0                     | 0                     |

## **Table of Contents**

### ***2008 nonvested Stock Award Plan 2009 Allocation***

In 2009, in accordance with the Employee Unvested Share Award Plan as approved by our shareholders at our annual shareholders meeting in 2008 and further approved by our shareholders at our annual shareholders meeting in 2009, up to six million nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders meeting in 2009 also approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,583,540 shares have been awarded under such allocation as of December 31, 2012, out of which none remain outstanding and nonvested as of December 31, 2012.

### ***2008 nonvested Stock Award Plan 2010 Allocation***

In 2010, in accordance with the Employee Unvested Share Award Plan as approved by our shareholders at our annual shareholders meeting in 2008 and further approved by our shareholders at our annual shareholders meeting in 2010, up to 6,516,460 nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders meeting in 2010 approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 6,566,375 shares have been awarded under such allocation as of December 31, 2012 out of which up to 1,485,836 remain outstanding but nonvested as of December 31, 2012.

### ***2008 nonvested Stock Award Plan 2011 Allocation***

In 2011, in accordance with the Employee Unvested Share Award Plan as approved by our shareholders at our annual shareholders meeting in 2008 and further approved by our shareholders at our annual shareholders meeting in 2011, up to 6,150,000 nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders meeting in 2011 approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,976,630 shares have been awarded under such allocation as of December 31, 2012, out of which up none remain outstanding and nonvested as of December 31, 2012.

### ***2008 nonvested Stock Award Plan 2012 Allocation***

In 2012, in accordance with the Employee Unvested Share Award Plan as approved by our shareholders at our annual shareholders meeting in 2008 and further approved by our shareholders at our annual shareholders meeting in 2012, up to 6,500,000 nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders meeting in 2012 approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 6,520,765 shares have been awarded under such allocation as of December 31, 2012, out of which 6,473,520 remain outstanding but nonvested as of December 31, 2012.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board, has approved the conditions which shall apply to the vesting of such awards. These conditions relate both to our financial performance meeting certain defined criteria in 2012, and to the continued presence at the defined vesting dates in 2013, 2014 and 2015 of the beneficiaries of the nonvested stock awards.

Furthermore, the Compensation Committee, on behalf of the entire Supervisory Board and with the approval of the entire Supervisory Board, approved the list of beneficiaries of the unvested stock awards and delegated to our President and Chief Executive Officer the right to grant certain additional unvested stock awards to key employees, in exceptional cases, provided that the total number of unvested stock awards granted to executives and key employees shall not exceed 6,500,000 for 2012 shares.

The implementation of our Stock Based Compensation Plan for Employees is subject to periodic proposals from our Managing Board to our Supervisory Board, and recommendations by the Compensation Committee of our Supervisory Board.

### ***Supervisory Board Stock Option Plans***

*2002 Stock Option Plan for members and professionals of our Supervisory Board.* A 2002 plan was adopted on March 27, 2002 (the 2002 Stock Option Plan ). Pursuant to the 2002 Stock Option Plan, the annual shareholders meeting authorized the grant of 12,000 options per year to each member of our Supervisory Board during the course of his three year tenure (during the three year period from 2002 to 2005), and 6,000 options per year to all of the professionals. Pursuant to the 2002 Stock Option Plan, stock options for the subscription of

**Table of Contents**

819,000 shares were granted to the members of the Supervisory Board and professionals. Options were granted to members and professionals of our Supervisory Board under the 2002 Stock Option Plan as shown in the table below:

**2002 Plan****(for Supervisory Board Members and Professionals)****(outstanding grants)**

| Date of Annual Shareholders Meeting  | March 27, 2002                  |                                 |                                 |
|--|---------------------------------|---------------------------------|---------------------------------|
|  | Tranche 1                       | Tranche 2                       | Tranche 3                       |
| Date of the grant  | 25 Apr 02                       | 14 Mar 03                       | 26 Apr 04                       |
| Total Number of Shares which may be purchased                                    | 132,000                         | 132,000                         | 132,000                         |
| Vesting Date   | 25 May 02                       | 14 Apr 03                       | 26 May 04                       |
| Expiration Date  | 25 Apr 12                       | 14 Mar 13                       | 26 Apr 14                       |
| Exercise Price   | \$31.11                         | \$19.18                         | \$22.71                         |
| Terms of Exercise  | All exercisable<br>after 1 year | All exercisable<br>after 1 year | All exercisable<br>after 1 year |
| Number of Shares to be acquired with Outstanding Options as of December 31, 2012 | 0                               | 108,000                         | 132,000                         |

At December 31, 2012, options to purchase a total of 240,000 common shares were outstanding under the 2002 Stock Option Plan.

*2005, 2006 and 2007 Stock based Compensation for members and professionals of the Supervisory Board.* Our 2005 Annual Shareholders meeting approved the adoption of a three-year stock-based compensation plan for Supervisory Board members and Professionals. The plan provided for the grant of a maximum number of 6,000 newly issued shares per year for each member of the Supervisory Board and 3,000 newly issued shares for each of the Professionals of the Supervisory Board at a price of 1.04 per share, corresponding to the nominal value of our share. Pursuant to our 2007 annual shareholders meeting, the 2005 plan was modified and the maximum number was increased to 15,000 newly issued shares per year for each member of the Supervisory Board and 7,500 newly issued shares per year for each professional of the Supervisory Board for the remaining year of the plan.

In 2005, 66,000 shares were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2008. In 2006, 66,000 shares were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2009. In 2007, 165,000 shares were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2010.

The table below reflects the grants to the Supervisory Board members and professionals under the 2005 Stock Based Compensation Plan as of December 31, 2012. See Note 16 to our Consolidated Financial Statements.

|                                    | 2005      | 2006      | 2007      |
|------------------------------------|-----------|-----------|-----------|
| Total number of Shares outstanding | 0         | 0         | 0         |
| Expiration date                    | 25 Oct 15 | 29 Apr 16 | 28 Apr 17 |

*2008, 2009 and 2010 Stock based Compensation for members and professionals of the Supervisory Board.* Our 2008 annual shareholders meeting approved the adoption of a new three year stock based compensation plan for Supervisory Board members and professionals. This plan provides for the grant of a maximum number of 15,000 newly issued shares per year for each member of the Supervisory Board and 7,500 newly issued shares for each of the professionals of the Supervisory Board at a price of 1.04 per share, corresponding to the nominal value of our shares. In 2008, 165,000 shares were granted to the beneficiaries under such plan, out of which none were outstanding as of December 31, 2012. In 2009, 165,000 shares were granted to the beneficiaries under such plan, out of which none were outstanding as of December 31, 2012. In 2010, 172,500 shares were granted to the beneficiaries under such plan, out of which 30,000 were outstanding as of December 31, 2012.

**Table of Contents**

The table below reflects the grants to the Supervisory Board members and professionals under the 2008 Stock Based Compensation Plan as of December 31, 2012. See Note 16 to our Consolidated Financial Statements.

|                                    | 2008      | 2009      | 2010      |
|------------------------------------|-----------|-----------|-----------|
| Total number of Shares outstanding | 0         | 0         | 30,000    |
| Expiration date                    | 16 May 18 | 20 May 19 | 27 May 20 |

*2011, 2012 and 2013 Stock-based Compensation for members and professionals of the Supervisory Board.* Our 2011 annual shareholders meeting approved the adoption of a new three year stock based compensation plan for Supervisory Board members and professionals. This plan provides for the grant of a maximum number of 15,000 newly issued shares per year for each member of the Supervisory Board and 7,500 newly issued shares for each of the professionals of the Supervisory Board at a price of 1.04 per share, corresponding to the nominal value of our shares. In 2011, 172,500 shares were granted to the beneficiaries under such plan, out of which 80,000 were outstanding as of December 31, 2012. In 2012, 180,000 shares were granted to the beneficiaries under such plan, out of which 157,500 were outstanding as of December 31, 2012.

|                                    | 2011      | 2012       | 2013 |
|------------------------------------|-----------|------------|------|
| Total number of Shares outstanding | 80,000    | 157,500    |      |
| Expiration date                    | 05 May 21 | 02 June 22 |      |

**Employees**

The tables below set forth the breakdown of employees, including the employees of the consolidated entities of ST-Ericsson JVS, by main category of activity and geographic area for the past three years.

|   | At December 31, |        |        |
|---|-----------------|--------|--------|
|   | 2012            | 2011   | 2010   |
| France                                  | 10,430          | 10,570 | 11,080 |
| Italy                                   | 8,840           | 8,780  | 8,620  |
| Rest of Europe                          | 2,190           | 2,630  | 2,760  |
| United States                           | 1,280           | 1,310  | 1,870  |
| Mediterranean (Malta, Morocco, Tunisia) | 4,440           | 4,440  | 4,760  |
| Asia                                    | 21,280          | 21,720 | 24,210 |
| Total                                   | 48,460          | 49,450 | 53,300 |

|                                     | At December 31, |        |        |
|-------------------------------------|-----------------|--------|--------|
|                                     | 2012            | 2011   | 2010   |
| Research and Development            | 11,490          | 11,940 | 11,910 |
| Marketing and Sales                 | 2,460           | 2,510  | 2,540  |
| Manufacturing                       | 29,450          | 29,810 | 33,580 |
| Administration and General Services | 2,520           | 2,580  | 2,620  |
| Divisional Functions                | 2,540           | 2,610  | 2,650  |
| Total                               | 48,460          | 49,450 | 53,300 |

Our future success, particularly in a period of strong increased demand, will partly depend on our ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and management personnel. Unions are represented at several of our manufacturing facilities. We use temporary employees, if required, during production spikes and, in Europe, during summer vacations. We have not experienced any significant strikes or work stoppages in recent years. Management believes that our relations with employees are good.



**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****Major Shareholders**

The following table sets forth certain information with respect to the ownership of our issued common shares based on information available to us as of February 14, 2013:

| Shareholders    | Common Shares Owned |            |
|-----------------|---------------------|------------|
|                 | Number              | %          |
| ST Holding      | 250,704,754         | 27.53      |
| Public          | 637,248,448         | 69.99      |
| Treasury shares | 22,606,603          | 2.48       |
| <b>Total</b>    | <b>910,559,805</b>  | <b>100</b> |

Our principal shareholders do not have different voting rights from those of our other shareholders.

As of December 31, 2012, FT1CI (the French Shareholder), which is controlled by FSI and CEA, and the Italian Ministry of the Economy and Finance (the Italian Shareholder), each directly held 50% in ST Holding. The indirect interest of the French Shareholder and the Italian Shareholder in us is split on a 50%-50% basis. Through a structured tracking stock system implemented in the Articles of Association of ST Holding, the French Shareholder and the Italian Shareholder each indirectly hold 125,352,377 of our common shares, representing approximately 13.7% of our issued share capital as of December 31, 2012. Any disposals or, as the case may be, acquisitions by ST Holding on behalf of the French Shareholder or the Italian Shareholder, will decrease or, as the case may be, increase the indirect interest of, respectively, the French Shareholder or the Italian Shareholder, in our issued share capital. FT1CI is a jointly held company established to control the interest of French shareholders in ST Holding. As of December 31, 2012, FSI and CEA are the sole shareholders of FT1CI, holding respectively 79.2% and 20.8% of FT1CI's share capital. FSI is a strategic investment fund 51% owned by *Caisse des dépôts et consignations* and 49% owned by the French State. CEA is a French government-funded technological research organization.

ST Holding II owned 90% of our shares before our initial public offering in 1994, and over time, gradually reduced its participation, going below the 66% threshold in 1997 and below the 50% threshold in 1999. On June 1, 2012, ST Holding II merged with ST Holding, as a result of which, ST Holding acquired all of the assets and liabilities of ST Holding II, including our common shares held by ST Holding II, by universal transfer of title, and ST Holding II ceased to exist. ST Holding may dispose of our shares as provided below in Shareholders Agreement Disposals of our Common Shares. Set forth below is a table of ST Holding's holdings (as successor to ST Holding II) in us as of the end of 2012 and ST Holding II's holdings as at the end of 2011 and 2010:

|                   | Common Shares Owned |      |
|-------------------|---------------------|------|
|                   | Number              | %    |
| December 31, 2012 | 250,704,754         | 27.5 |
| December 31, 2011 | 250,704,754         | 27.5 |
| December 31, 2010 | 250,704,754         | 27.5 |

Announcements about additional disposals of our shares by ST Holding on behalf of one or more of its indirect shareholders, FSI, CEA, the Ministry of the Economy and Finance or FT1CI may come at any time.

## **Table of Contents**

The chart below illustrates the shareholding structure as of December 31, 2012:

(1) In addition to the 27.5% held by ST Holding and the 70% held by the Public, 2.5% are held by us as Treasury Shares. Announcements about additional disposals by ST Holding or our indirect shareholders may come at any time, and we may not be informed of such beforehand. See Item 3. Key Information Risk Factors Risks Related to Our Operations Our direct or indirect shareholders may sell our existing common shares or issue financial instruments exchangeable into our common shares at any time. In addition, substantial issuances by us of new common shares or convertible bonds could cause our common share price to drop significantly .

### ***Shareholders Agreement***

#### ***STH Shareholders Agreement***

We were formed in 1987 as a result of the decision by Thomson CSF (now called Thales) and STET (now called Telecom Italia S.p.A.) to combine their semiconductor businesses and to enter into a shareholders agreement on April 30, 1987, which was amended on December 10, 2001, restated on March 17, 2004 and further amended on February 26, 2008. The February 26, 2008 amended and restated agreement (as amended, the STH Shareholders Agreement ) supersedes and replaces all previous agreements. The current parties to the STH Shareholders Agreement are FSI, CEA and their joint company FT1CI (the French Shareholder ) and the Ministry of the Economy and Finance (the Italian Shareholder ).

Pursuant to the terms of the STH Shareholders Agreement, the parties have agreed to certain corporate governance rights provided that they maintain certain levels of respective interests in ST Holding and in the Company s share capital. See further details below.

#### ***Merger of the Holding Companies***

The French Shareholder and the Italian Shareholder merged the two holding companies (ST Holding and ST Holding II), effective June 1, 2012, in order to simplify the structure through which they own their interests in us. ST Holding II ceased to exist, while ST Holding continues to hold our common shares. The company that now holds or may hold our common shares in the future for indirect shareholders is referred to below as the holding company .

#### ***Standstill***

The STH Shareholders Agreement contains a standstill provision that precludes any of the parties and the parties affiliates from acquiring, directly or indirectly, any of our common shares or any instrument providing for the right to acquire any of our common shares other than through the holding company. The standstill is in effect for as long as such party holds our common shares through ST Holding. The parties agreed to continue to hold their stakes in us at all times through the current holding structure of ST Holding, subject to certain limited exceptions.

**Table of Contents**

*Corporate Governance*

The STH Shareholders Agreement provides for a balanced corporate governance between FT1CI and the Ministry of the Economy and Finance (FT1CI and the Ministry of the Economy and Finance are collectively defined as STH Shareholders and individually defined as STH Shareholder ) for the duration of the Balance Period , despite actual differences in indirect economic interest in us. The Balance Period lasts as long as each STH Shareholder owns at any time a voting stake in ST Holding equal to at least 47.5% of the total voting stakes of ST Holding.

As of January 1, 2012, if any STH Shareholder falls under this threshold, it will not be able to restore the Balance Period by subsequently increasing its voting stake, and the Balance Period will terminate, unless the parties agree otherwise. The STH Shareholders Agreement provides that during the Balance Period, ST Holding will have a managing board comprised of two members (one member designated by FT1CI, and one designated by the Ministry of the Economy and Finance) and a supervisory board comprised of six members (three designated by FT1CI and three designated by the Ministry of the Economy and Finance). The chairman of the supervisory board of the holding company shall be designated for a three-year term by one shareholder (with the other shareholder entitled to designate the Vice-Chairman), such designation to alternate between the Ministry of the Economy and Finance on the one hand and FT1CI on the other hand. The current Chairman of ST Holding is Mr. Alain Dutheil and the Vice-Chairman is Mr. Luciano Acciari.

As regards STMicroelectronics N.V., the STH Shareholders Agreement provides that during the Balance Period: (i) each of the STH Shareholders (FT1CI, on the one hand, and the Ministry of the Economy and Finance, on the other hand) shall have the right to insert on a list prepared for proposal by the holding company to our annual shareholders meeting the same number of members for election to the Supervisory Board, and the holding company shall vote in favor of such members; (ii) the STH Shareholders will cause the holding company to submit to our annual shareholders meeting and to vote in favor of a common proposal for the appointment of the Managing Board; and (iii) any decision relating to the voting rights of the holding company in us shall require the unanimous approval of the holding company shareholders and shall be submitted by the holding company to our annual shareholders meeting. The STH Shareholders Agreement also provides that the Chairman of our Supervisory Board will be designated upon proposal of an STH Shareholder for a three-year term, and the Vice-Chairman of our Supervisory Board will be designated upon proposal of the other STH Shareholder for the same period, and vice-versa for the following three-year term. The STH Shareholders further agreed that the STH Shareholder proposing the appointment of the Chairman be entitled to propose the appointment of the Assistant Secretary of our Supervisory Board, and the STH Shareholder proposing the appointment of the Vice-Chairman be entitled to propose the appointment of the Secretary of our Supervisory Board. Finally, each STH Shareholder is entitled to appoint a Financial Controller to the Supervisory Board. Our Secretary, Assistant Secretary and two Financial Controllers are referred to as professionals (not members) of our Supervisory Board.

During the Balance Period, any other decision, to the extent that a resolution of the holding company is required, must be pursuant to the unanimous approval of the shareholders, including but not limited to the following: (i) the definition of the role and structure of our Managing Board and Supervisory Board, and those of the holding company; (ii) the powers of the Chairman and the Vice-Chairman of our Supervisory Board, and that of the holding company; (iii) information by the holding company s managing board and supervisory board, and those of us; (iv) treatment of confidential information; (v) appointment of any additional members of our Managing Board and that of the holding company; (vi) remuneration of the members of our Managing Board and those of the holding company; (vii) internal audit of STMicroelectronics N.V. and of the holding company; (viii) industrial and commercial relationships between STMicroelectronics N.V. and the Ministry of the Economy and Finance or STMicroelectronics N.V. and either or both FT1CI shareholders, or any of their affiliates; and (ix) any of the decisions listed in article 16.1 of our Articles of Association including our budget and pluri-annual plans.

In addition, the following resolutions, to the extent that a resolution of the holding company is required, must be resolved upon by a shareholders resolution of the holding company, which shall require the unanimous approval of the STH Shareholders: (i) any alteration in the holding company s articles of association; (ii) any issue, acquisition or disposal by the holding company of its shares or change in share rights; (iii) any alteration in our authorized share capital or issue by us of new shares and/or of any financial instrument giving rights to subscribe for our common shares; any acquisition or disposal by the holding company of our shares and/or any right to subscribe for our common shares; any modification to the rights attached to our common shares; any merger, acquisition or joint venture agreement to which we are or are proposed to be a party; and any other items on the agenda of our general shareholders meeting; (iv) the liquidation or dissolution of the holding company;

---

**Table of Contents**

(v) any legal merger, legal de-merger, acquisition or joint venture agreement to which the holding company is proposed to be a party; and  
(vi) the adoption or approval of our annual accounts or those of the holding company or a resolution concerning a dividend distribution by us.

At the end of the Balance Period (i.e., once a shareholder's voting stake in ST Holding has decreased under the 47.5% threshold (such STH Shareholder being thereafter referred to as minority shareholder and the other one being referred to as majority shareholder)), the members of our Supervisory Board and those of the holding company designated by the minority shareholder of the holding company will immediately resign upon request of the holding company's majority shareholder, subject to the rights described in the following paragraph.

After the end of the Balance Period, unanimous approval by the shareholders of the holding company remains required to approve:

- (i) As long as any of the STH Shareholders indirectly owns at least the lesser of 3% of our issued and outstanding share capital or 10% of the STH Shareholders' aggregate stake in us at such time, with respect to the holding company, any changes to the articles of association, any issue, acquisition or disposal of shares in the holding company or change in the rights of its shares, its liquidation or dissolution and any legal merger, de-merger, acquisition or joint venture agreement to which the holding company is proposed to be a party.
- (ii) As long as any of the STH Shareholders indirectly owns at least 33% of the STH Shareholders' aggregate stake in us, certain changes to our articles of association (including any alteration in our authorized share capital, or any issue of share capital and/or financial instrument giving the right to subscribe for our common shares, changes to the rights attached to our shares, changes to the preemptive rights, issues relating to the form, rights and transfer mechanics of the shares, the composition and operation of the Managing and Supervisory Boards, matters subject to the Supervisory Board's approval, the Supervisory Board's voting procedures, extraordinary meetings of shareholders and quorums for voting at shareholders meetings).
- (iii) Any decision to vote our shares held by the holding company at any general meeting of our shareholders with respect to any substantial and material merger decision. In the event of a failure by the STH Shareholders to reach a common decision on the relevant merger proposal, our shares attributable to the minority shareholder and held by the holding company will be counted as present for purposes of a quorum of shareholders at one of our shareholders meetings, but will not be voted (i.e., will be abstained from the vote in a way that they will not be counted as a negative vote or as a positive vote).
- (iv) In addition, the minority shareholder will have the right to designate at least one member of the list of candidates for our Supervisory Board to be proposed by the holding company if that shareholder indirectly owns at least 3% of our total issued and outstanding share capital, with the majority STH Shareholder retaining the right to appoint that number of members to our Supervisory Board that is at least proportional to such majority shareholder's voting stake.

Finally, at the end of the Balance Period, the unanimous approval required for other decisions taken at the STMicroelectronics N.V. level shall only be compulsory to the extent possible, taking into account the actual power attached to the direct and indirect shareholding together held by the STH Shareholders in our company.

*Disposals of our Common Shares*

The STH Shareholders' Agreement provides that each STH Shareholder retains the right to cause the holding company to dispose of its stake in us at its sole discretion, provided it is pursuant to either (i) the issuance of financial instruments, (ii) an equity swap, (iii) a structured finance deal or (iv) a straight sale. The holding company may enter into escrow arrangements with STH Shareholders with respect to our shares, whether this be pursuant to exchangeable notes, securities lending or other financial instruments. STH Shareholders that dispose of our shares through the issuance of exchangeable instruments, an equity swap or a structured finance deal maintain the voting rights of the underlying shares in their ST Holding voting stake provided that such rights remain freely and continuously held by the holding company as though the holding company were still holding the full ownership of the shares.

As long as any of the parties to the STH Shareholders' Agreement has a direct or indirect interest in us, except in the case of a public offer, no sales by a party may be made of any of our shares or of FT1CI, ST Holding or to any of our top ten competitors, or any company that controls such competitor.



**Table of Contents***Change of Control Provision*

The STH Shareholders Agreement provides for tag-along rights, preemptive rights, and provisions with respect to a change of control of any of the shareholders or any controlling shareholder of FT1CI, on the one hand, and the Ministry of the Economy and Finance, on the other hand. The shareholders may transfer shares of the holding company or FT1CI to any of the shareholders' affiliates, which would include the Italian state or the French state with respect to entities controlled by a state. The shareholders and their ultimate shareholders will be prohibited from launching any takeover process on any of the other shareholders.

*Deadlock*

In the event of a disagreement that cannot be resolved between the parties as to the conduct of the business and actions contemplated by the STH Shareholders Agreement, each party has the right to offer its interest in ST Holding to the other, which then has the right to acquire, or to have a third party acquire, such interest. If neither party agrees to acquire or have acquired the other party's interest, then together the parties are obligated to try to find a third party to acquire their collective interests, or such part thereof as is suitable to resolve the deadlock.

*Duration*

The STH Shareholders Agreement will remain in force as long as the Ministry of the Economy and Finance, on the one hand, and any of FSI, FT1CI or CEA, on the other hand, are shareholders of the holding company.

*Statutory Considerations*

As is the case with other companies controlled by the French government, the French government may appoint a Commissaire du Gouvernement and a Contrôleur d'Etat for FT1CI. Pursuant to Decree No. 94-214, dated March 10, 1994, these government representatives have the right (i) to attend any board meeting of FT1CI, and (ii) to veto any board resolution or any decision of the president of FT1CI within ten days of such board meeting (or, if they have not attended the meeting, within ten days of the receipt of the board minutes or the notification of such president's decision); such veto lapses if not confirmed within one month by the Ministry of the Economy or the Ministry of the Industry. FT1CI is subject to certain points of the Decree of August 9, 1953 pursuant to which the Ministry of the Economy and any other relevant ministries have the authority to approve decisions of FT1CI relating to budgets or forecasts of revenues, operating expenses and capital expenditures. The effect of these provisions may be that the decisions taken by us and our subsidiaries that, by the terms of the STH Shareholders Agreement, require prior approval by FT1CI, may be adversely affected by these veto rights under French law.

*Preference Shares*

On November 22, 2006, our Supervisory Board decided to authorize us to enter into an option agreement with an independent foundation, Stichting Continuïteit ST (the "Stichting"). This is a common practice used by a majority of publicly traded Dutch companies. Our Managing Board and our Supervisory Board, along with the board of the Stichting, have declared that they are jointly of the opinion that the Stichting is legally independent of our Company and our major shareholders. Our Supervisory Board approved this option agreement, entered into on January 22, 2007, with a duration of ten years, to reflect changes in Dutch legal requirements, not in response to any hostile takeover attempt. It provides for the issuance of up to a maximum of 540,000,000 preference shares.

The Stichting would have the option, which it shall exercise in its sole discretion, to take up the preference shares. The preference shares would be issuable in the event of actions considered hostile by our Managing Board and Supervisory Board, such as a creeping acquisition or an unsolicited offer for our common shares, which are unsupported by our Managing Board and Supervisory Board and which the board of the Stichting determines would be contrary to the interests of our Company, our shareholders and our other stakeholders. If the Stichting exercises its call option and acquires preference shares, it must pay at least 25% of the par value of such preference shares. The preference shares may remain outstanding for no longer than two years.

No preference shares have been issued to date. The effect of the preference shares may be to deter potential acquirers from effecting an unsolicited acquisition resulting in a change of control. In addition, any issuance of additional capital within the limits of our authorized share capital, as approved by our shareholders, is subject to approval by our Supervisory Board, other than pursuant to an exercise of the call option granted to the Stichting.

---

## **Table of Contents**

### **Related Party Transactions**

One of the members of our Supervisory Board is a member of the Board of Directors of Technicolor, one of the members of our Supervisory Board is a member of the Supervisory Board of BESI and one of the members of our Supervisory Board is a director of Oracle Corporation ( Oracle ) and Flextronics International. One of our executive officers is a member of the Board of Directors of Soitec and Adecco. Adecco, as well as Oracle s subsidiary PeopleSoft, supply certain services to our Company. We have also conducted transactions with Soitec and BESI as well as with Technicolor and Flextronics. Each of the aforementioned arrangements and transactions is negotiated without the personal involvement of our Supervisory Board members or, where applicable, the executive officer concerned, and we believe that they are made on an arm s length basis in line with market practices and conditions.

For the years ended December 31, 2012, December 31, 2011 and December 31, 2010, in the ordinary course of our business, we entered into transactions with the following related parties: Adecco, Areva, BESI, France Telecom, Flextronics, Oracle, Orange and Technicolor.

See Note 25 to Our Consolidated Financial Statements for transactions with significant shareholders, their affiliates and other related parties, which also include transactions between us and our equity-method investments.

### **Item 8. Financial Information Financial Statements**

Please see Item 18. Financial Statements for a list of the financial statements filed with this Form 20-F.

### **Legal Proceedings**

As is the case with many companies in the semiconductor industry, we have from time to time received, and may in the future receive, communications from other semiconductor companies or third parties alleging possible infringement of third party patents or other third party intellectual property rights. In addition, from time to time, we enter into discussions regarding broad patent cross-license arrangements with other industry participants and there can be no assurance that such discussions will be brought to a successful conclusion and result in the intended agreement. Furthermore, we may become involved in costly litigation brought against us regarding patents, copyrights, trademarks, trade secrets or mask works. In the event that the outcome of such IP litigation would be unfavorable to us, we may be required to take a license for third party patents or other IP rights upon economically unfavorable terms and conditions, and possibly pay damages for prior use, and/or face an injunction, all of which singly or in the aggregate could have a material adverse effect on our results of operations and ability to compete. See Item 3. Key Information Risk Factors Risks Related to Our Operations We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others included in this Form 20-F, which may be updated from time to time in our public filings. We are also party to certain disputes which are not related to patents or other IP rights.

We record a provision when, based on our best estimate, we consider it probable that a liability has been incurred and when the amount of the probable loss can be reasonably estimated. As of December 31, 2012, provisions for estimated probable losses and possible losses with respect to legal proceedings were not considered material. We regularly evaluate losses and claims to determine whether they need to be adjusted based on the most current information available to us and using our best judgment. There can be no assurance that our recorded reserves will be sufficient to cover the extent of our potential liabilities. Legal costs associated with claims are expensed as incurred.

#### ***We are a party to legal proceedings with Tessera, Inc. ( Tessera )***

In 2006, Tessera initiated a patent infringement lawsuit against us and numerous other semiconductor manufacturers in the U.S. District Court for the Northern District of California. Tessera then filed a complaint in 2007 with the International Trade Commission in Washington, D.C. ( ITC ) against us and numerous other parties. During the ITC proceedings, the District Court action was stayed. On May 20, 2009, the ITC issued a

**Table of Contents**

limited exclusion order as well as a cease and desist order, both of which were terminated when the Tessera patents expired. The patents asserted by Tessera in both the ITC and District Court actions, which relate to ball grid array packaging technology, expired in September 2010. The Court of Appeal subsequently affirmed the ITC's decision and on November 28, 2011, the U.S. Supreme Court denied the defendants' petition for review, and the ITC decision became final.

In January 2012, the District Court proceedings were revived in California. The Court has appointed a special master to advise it on technical issues and the case is currently proceeding through the discovery phase. Trial has been tentatively scheduled for April 2014. Pursuant to these proceedings, Tessera is seeking an unspecified amount of monetary damages as compensation for alleged infringement of its asserted patents now expired.

***We are a party to legal proceedings with Rambus Inc. ( Rambus )***

On December 1, 2010, Rambus filed a complaint with the ITC against us and numerous other parties, asserting that we engaged in unfair trade practices by importing certain semiconductor chips that include memory controllers and/or certain peripheral interface technologies such as SerDes, PCI Express, SATA and SAS that allegedly infringe certain patents owned by Rambus. The complaint sought an exclusion order to bar importation into the United States of all accused semiconductor chips that infringe any claim of the asserted patents, as well as products of certain party customers incorporating the same. The complaint further sought a cease and desist order directing us and other parties to cease and desist from importing, marketing, advertising, demonstrating, sampling, warehousing inventory for distribution, offering for sale, selling, distributing, licensing, or using the accused semiconductor chips, and products of certain party customers containing such semiconductor chips, that infringe any claim of the asserted patents. On December 29, 2010, the ITC voted to institute an investigation based on Rambus' complaint. A trial was held before the ITC from October 11, 2011 until October 20, 2011. On March 2, 2012, an administrative law judge ( ALJ ) issued an Initial Determination ruling that we, along with our other co-defendants, did not violate section 337 of the Tariff Act of 1930. On July 25, 2012, the ITC elected to terminate the ITC investigation with a finding of no violation of section 337 of the Tariff Act of 1930. The ITC affirmed the ALJ's findings that all of Rambus' asserted patent claims were invalid, except for one, for which it found that Rambus had not demonstrated infringement. In addition, the ITC reversed a determination that Rambus had demonstrated the existence of a domestic industry and affirmed a determination that certain patents are unenforceable under the doctrine of unclean hands. On September 25, 2012, Rambus filed a notice of appeal with the Court of Appeals for the Federal Circuit, which is currently pending.

Also on December 1, 2010, Rambus filed a lawsuit against us and other co-defendants in the U.S. District Court for the Northern District of California alleging infringement of nineteen Rambus patents. On June 13, 2011, the District Court issued an order granting in part and denying in part defendants' motion to stay the action concerning Rambus' patent infringement claims pending completion of the aforementioned ITC proceedings, including all appeals. The case is currently stayed as to nine of the asserted patents, and moving forward as to the remaining patents. No trial date has yet been set. We intend to vigorously defend our rights and position in these matters.

***We and our subsidiaries are also involved in other legal proceedings, claims and litigation arising in the ordinary course of business.***

All pending claims and litigation proceedings involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible, including the risk of an injunction. The resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or ongoing royalties, which could adversely impact our product gross margins in future periods, or could prevent us from manufacturing or selling some of our products or limit or restrict the focus of employees involved in such litigation with regard to the work they normally perform for us. From time to time we may enter into confidential discussions regarding the potential settlement of pending litigation or other proceedings; however, there can be no assurance that any such discussions will occur or will result in a settlement. The settlement of any pending litigation or other proceeding could require us to incur substantial settlement payments and costs. Furthermore, the settlement of any intellectual property proceeding may require us to grant a license to certain of our intellectual property rights to the other party under a cross-license agreement. If any of those events were to occur, our business, financial condition and results of operations could be materially and adversely affected. In addition, from time to time we are approached by holders of intellectual property to engage in discussions about



## **Table of Contents**

our obtaining licenses to their intellectual property. We will disclose the nature of any such discussion if we believe that (i) it is probable an intellectual property holder will assert a claim of infringement, (ii) there is a reasonable possibility the outcome (assuming assertion) will be unfavorable, and (iii) the resulting liability would be material to our financial condition. We also constantly review the merits of litigation and claims which we are facing and decide to make an accrual when we are able to reasonably determine that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. To date, we have not determined on such basis that any of the litigation or claims which we are facing gives rise to a material liability, singly or in the aggregate.

### **Risk Management and Insurance**

We cover our industrial and business risks through insurance contracts with top-ranking insurance carriers, to the extent reasonably permissible by the insurance market which does not provide insurance coverage for certain risks and imposes certain limits, terms and conditions on coverage that it does provide.

Risks may be covered either through local policies or through corporate policies negotiated on a worldwide level for the ST Group of Companies. Corporate policies are negotiated when the risks are recurrent in several of our affiliated companies.

Currently we have four corporate policies covering the following risks:

Property damage and business interruption;

General liability and product liability;

Directors and officers liability; and

Transportation risks.

Our policies generally cover a twelve-month period although may be subscribed for a longer period if conditions for a longer term arrangement are deemed beneficial to us. Such policies are subject to certain terms and conditions, exclusions and limitations, generally in line with prevailing conditions, exclusions and limitations, in the insurance market. Pursuant to such conditions, risks such as terrorism, earthquake, fire, floods, consequential damages and loss of production, may not be fully insured and we may not, in the event of a claim under a policy, receive an indemnification from our insurers commensurate with the full amount of the damage we have incurred. Furthermore, our product liability insurance covers physical and direct damages, which may be caused by our products; however, immaterial, non-consequential damages resulting from failure to deliver or delivery of defective products are generally not covered because such risks are considered to occur in the ordinary course of business and cannot be insured. We may decide to subscribe for excess coverage in addition to the coverage provided by our standard policies. If we suffer damage or incur a claim, which is not covered by one of our corporate insurance policies, this may have a material adverse effect on our results of operations.

We also perform annual assessments through an external consultant of our risk exposure in the field of property damage/business interruption in our production sites, to assess potential losses and actual risk exposure. Such assessments are provided to our underwriters. We do not own or operate any insurance captive, which acts as an insurer for our own risks, although we may consider such an option in the future.

We have also launched, under the direction of our CEO and supervision of the Audit Committee of our Supervisory Board, a corporate Enterprise Risk Management (ERM) program, which is lead by our Chief Audit and Risk Executive. A corporate top-down risk map has been developed and risk owners have been appointed to ensure the development, implementation and monitoring of risk mitigation action plans.

### **Reporting Obligations in IFRS**

We are incorporated in The Netherlands and our shares are listed on Euronext Paris and Borsa Italiana. Consequently, we are subject to an EU regulation issued on September 29, 2003 requiring us to report our results of operations and Consolidated Financial Statements using IFRS. As from January 1, 2009 we are also required to prepare a semi-annual set of accounts using IFRS reporting standards.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

We use U.S. GAAP as our primary set of reporting standards, as U.S. GAAP has been our reporting standard since our creation in 1987. Until the SEC adopted rules allowing foreign private issuers to file financial statements prepared in accordance with IFRS without reconciliation to U.S. GAAP, U.S. GAAP was the sole admitted reporting standard for companies like us whose shares are listed on the NYSE.

## **Table of Contents**

The obligation to report our Consolidated Financial Statements under IFRS requires us to prepare our results of operations using two different sets of reporting standards, U.S. GAAP and IFRS, which are currently not consistent. Such dual reporting could materially increase the complexity of our investor communications.

### **Dividend Policy**

We seek to use our available cash in order to develop and enhance our position in the very capital-intensive semiconductor market while at the same time managing our cash resources to reward our shareholders for their investment and trust in us.

Based on our annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes each year to the Supervisory Board the allocation of our earnings involving, whenever deemed possible and desirable in line with our objectives and financial situation, the distribution of a cash dividend.

The Supervisory Board, upon the proposal of the Managing Board, decides each year, in accordance with this policy, which portion of the profits shall be retained in reserves to fund future growth or for other purposes and makes a proposal to the shareholders concerning the amount, if any, of the annual cash dividend. See Item 10. Additional Information Memorandum and Articles of Association Articles of Association Distribution of Profits (Articles 37, 38, 39 and 40) .

In the past five years, we have paid the following dividends:

On May 30, 2012, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2011 of \$0.40 per share.

On May 3, 2011, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2010 of \$0.40 per share.

On May 25, 2010, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2009 of \$0.28 per share.

On May 20, 2009, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2008 of \$0.12 per share.

On May 14, 2008, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2007 of \$0.36 per share.

Future dividends will depend on our accumulated profits, our capacity to generate cash flow, our financial situation, the general economic situation and prospects and any other factors that the Supervisory Board, upon the recommendation of our Managing Board, shall deem important.

### **Item 9. Listing**

Since 1994, our common shares have been traded on the NYSE under the symbol STM and CUSIP #861012102 and listed on the compartment A (large capitalizations) of the Euronext Paris under the ISIN Code NL0000226223. On June 5, 1998, our common shares began trading on the Borsa Italiana.

Since November 12, 1997, our common shares have been included in the CAC 40 Index, the main benchmark for Euronext Paris. Tracking a sample of Blue Chip stocks, its performance is closely correlated to that of the market as a whole. The index contains 40 stocks selected among the top 100 market capitalization and the most active stocks listed on Euronext Paris, and is the underlying asset for options and futures

contracts. The base value is 1,000 at December 31, 1987.

Since March 18, 2002, our common shares have been included in the FTSE MIB Index (formerly the S&P/MIB and MIB 30 Index, respectively). The FTSE MIB Index measures the performance of 40 Italian equities and seeks to replicate the broad sector weights of the Italian stock market. The Index is derived from the universe of stocks trading on the Borsa Italiana main equity market. Each stock is analyzed for size and liquidity, and the overall Index has appropriate sector representation. The FTSE MIB Index is market cap-weighted after adjusting constituents for float. Since January 29, 2010, our common shares have been included in the FTSE MIB Dividend Index, the index which represents the cumulative value of ordinary gross dividends paid by the individual constituents of the underlying FTSE MIB Index, expressed in terms of index points.

**Table of Contents**

On June 23, 2003, we were admitted into the PHLX Semiconductor Sector Index ( SOX ). The SOX is a widely followed, modified capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture and sale of semiconductors in the U.S. markets.

Our common shares could be removed from the CAC 40, the FTSE MIB Indices and the SOX at any time, and the exclusion or the announcement thereof could cause the market price of our common shares to drop significantly.

The following table sets forth, for the periods indicated, the high and low closing prices of our common shares on the NYSE, on the Euronext Paris and the Borsa Italiana.

| Calendar Period  | New York Stock Exchange Price Ranges |            | Euronext Paris Price Ranges |         | Borsa Italiana (Milan) Price Ranges |         |
|--|--------------------------------------|------------|-----------------------------|---------|-------------------------------------|---------|
|  | High (US\$)                          | Low (US\$) | High (€)                    | Low (€) | High (€)                            | Low (€) |
| <b>Annual Information for the Past Five Years</b>        |                                      |            |                             |         |                                     |         |
| 2008   | 14.35                                | 5.90       | 9.89                        | 4.52    | 9.90                                | 4.52    |
| 2009   | 10.28                                | 3.73       | 7.02                        | 2.97    | 7.03                                | 2.97    |
| 2010   | 10.73                                | 6.51       | 8.08                        | 5.16    | 8.09                                | 5.15    |
| 2011   | 13.53                                | 5.34       | 9.73                        | 3.96    | 9.73                                | 3.96    |
| 2012   | 8.60                                 | 4.51       | 6.46                        | 3.64    | 6.46                                | 3.62    |
| <b>Quarterly Information for the Past Two Years 2011</b> |                                      |            |                             |         |                                     |         |
| First quarter  | 13.53                                | 10.60      | 9.73                        | 7.90    | 9.73                                | 7.91    |
| Second quarter   | 12.85                                | 9.06       | 9.11                        | 6.41    | 9.11                                | 6.42    |
| Third quarter  | 10.37                                | 5.61       | 7.19                        | 3.96    | 7.20                                | 3.96    |
| Fourth quarter   | 7.65                                 | 5.34       | 5.54                        | 4.16    | 5.54                                | 4.16    |
| <b>2012</b>  |                                      |            |                             |         |                                     |         |
| First quarter  | 8.60                                 | 6.03       | 6.46                        | 4.59    | 6.46                                | 4.59    |
| Second quarter   | 8.15                                 | 4.61       | 6.19                        | 3.64    | 6.19                                | 3.62    |
| Third quarter  | 6.77                                 | 4.51       | 5.17                        | 3.68    | 5.17                                | 3.67    |
| Fourth quarter   | 7.25                                 | 5.31       | 5.45                        | 4.17    | 5.45                                | 4.18    |
| <b>Monthly Information for the Past Six Months 2012</b>  |                                      |            |                             |         |                                     |         |
| September  | 6.77                                 | 5.37       | 5.17                        | 4.18    | 5.17                                | 4.19    |
| October  | 6.51                                 | 5.54       | 5.24                        | 4.17    | 5.18                                | 4.18    |
| November   | 6.37                                 | 5.31       | 4.92                        | 4.20    | 4.91                                | 4.20    |
| December   | 7.25                                 | 6.24       | 5.45                        | 4.77    | 5.45                                | 4.73    |
| <b>2013</b>  |                                      |            |                             |         |                                     |         |
| January  | 8.88                                 | 7.22       | 6.57                        | 5.46    | 6.57                                | 5.46    |
| February (as of February 26, 2012)                       | 9.09                                 | 7.65       | 6.70                        | 5.84    | 6.78                                | 5.83    |

Source: Bloomberg

Of the 887,953,202 common shares outstanding as of December 31, 2012, 67,204,664, or 7.6%, were registered in the common share registry maintained on our behalf in New York and 570,043,784, or 64.2%, of our common shares outstanding were listed on Euroclear France and traded on Euronext Paris and on the Borsa Italiana in Milan.

**Market Information**

Since 1994, our shares have been traded on the NYSE. In addition, our shares have been listed on the Borsa Italiana since 1998 and on the Euronext Paris since 2001. Prior to their full redemption in May 2012, our 2016 Convertible Bonds were traded on the Luxembourg Stock Exchange.

---

**Table of Contents**

**Item 10. Additional Information  
Memorandum and Articles of Association**

*Applicable non-U.S. Regulations*

*Applicable Dutch Legislation*

We were incorporated under the laws of The Netherlands by deed of May 21, 1987, and we are governed by Book 2 of the Dutch Civil Code. Set forth below is a summary of certain provisions of our Articles of Association and relevant Dutch corporate law. The summary below does not purport to be complete and is qualified in its entirety by reference to our Articles of Association and relevant Dutch corporate law.

The summary below sets forth our current Articles of Association as most recently amended on May 20, 2009.

We are subject to various provisions of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*) (the FMSA) and, in particular, to the provisions summarized below.

Unless an exemption or an exception applies, we are subject to (i) a prohibition from offering securities in The Netherlands or have securities admitted to trading on a regulated market situated or operating in The Netherlands without the publication of a prospectus, which has been approved by the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten) (AFM) or by a supervisory authority of another European Union (EU) Member State or State, not being an EU Member State, that is party to the European Economic Area (EEA) Agreement (Member State) (and the same prohibition applies for such offers in other jurisdictions of the EEA); (ii) a prohibition of proceeding with any transaction in our financial instruments admitted to trading on a regulated market in the EEA or in any other financial instrument the value of which depends in part on these instruments, in the event where we would possess inside information; and (iii) certain restrictions (related to market manipulation, market abuse and insider trading) in repurchasing our shares. Furthermore, we are required to inform the AFM immediately if our issued and outstanding share capital or voting rights change by 1% or more since our previous notification. Other changes in our share capital or voting rights need to be notified periodically. Also, the sole member of our Managing Board and the members of our Supervisory Board (unless they have already been notified pursuant to the requirements described below in Shareholders Meetings, Attendance at Shareholders Meetings and Voting Rights Disclosure of holdings and capital interest under Dutch Law), certain of their relatives, entities closely related with them and (under certain circumstances) members of senior management must notify the AFM of all transactions conducted or effected on their own account relating to our shares admitted to trading on a regulated market in the EEA or in any financial instrument the value of which depends in part on the value of these shares. The AFM keeps a public register of all notifications made pursuant to the FMSA. The provisions of the FMSA regarding statements of holdings in our share capital and voting rights are described below in Shareholders Meetings, Attendance at Shareholders Meetings and Voting Rights Disclosure of holdings and capital interest under Dutch Law.

On October 28, 2007, the Dutch legislation implementing Directive 2004/25/EC on takeover bids (the Takeover Directive) entered into force. This legislation requires a shareholder who (individually or jointly) obtains control to launch an offer to all of our other shareholders. Such control is deemed present if a (legal) person is able to exercise, alone or acting in concert, at least 30% of the voting rights in our shareholders meeting. The acquisition of control does not require an act of the person who obtains control (e.g., if we repurchase shares as a consequence of which the relative stake of a major shareholder increases (and may result in control having been obtained)).

In the event control is acquired, whether or not by acting in concert, two options exist: (i) either a mandatory offer is launched or (ii) within 30 days the relevant stake is decreased below the 30% voting rights threshold, provided the voting rights have not been exercised during this period and our shares are not sold to a controlling shareholder. The Enterprise Chamber of the Amsterdam Court of Appeal (*Ondernemingskamer*) may extend this period by an additional 60 days.

The Dutch legislation contains a substantial number of exemptions to the obligation to launch a (mandatory) offer. One of those exemptions is that Stichting Continuïteit ST, an independent foundation, is allowed to cross the 30% voting rights threshold when obtaining our preference shares after the announcement of a public offer, but only for a maximum period of two years.

As of January 1, 2013, certain Dutch statutory provisions have been introduced limiting the number of supervisory positions that members of our Managing and Supervisory Boards may hold.

## Table of Contents

A member of our Supervisory Board may only be appointed as such if he/she does not hold more than four supervisory positions at other so-called large Dutch entities, which we are deemed to be. The position of chairman equals two positions. A member of our Managing Board may only be appointed as such if he/she does not hold more than two supervisory positions at other large Dutch entities and does not hold the position of Chairman of the supervisory board or one-tier board at such other entity. The term supervisory position includes the position of supervisory director, non-executive director or member of a supervisory board that has been set up pursuant to the articles of association. Supervisory positions at several entities belonging to the same group constitute one position.

Supervisory positions at non-Dutch entities are not taken into account. An appointment by the Enterprise Chamber of the Amsterdam Court of Appeal as part of corporate inquiry proceedings is not taken into account.

As of January 1, 2013, statutory provisions have been introduced that require a balanced participation by men and women on our Managing Board. Where seats on a managing board are to be divided among individuals, balanced participation is deemed to exist if at least 30% of the seats are held by men and at least 30% are held by women.

If we do not achieve the requisite gender balance, we will be required to explain this in our statutory IFRS Annual Report. Since its creation in 1987, our Managing Board has always been comprised of a sole member as result of which, gender balance cannot be reached. The provisions on gender balance will expire on January 1, 2016.

### *Applicable French Legislation*

As our registered offices are based in The Netherlands, the French *Autorité des marchés financiers* (AMF) is not the competent market authority to control our disclosure obligations. The AMF General Regulation only requires that the periodic and ongoing information to be disclosed pursuant to the EU Transparency Directive and which content is controlled by the AFM (for instance, the annual, half-yearly and quarterly financial reports or any inside information) also be disclosed at the same time in France and made available on our website.

In addition, as our shares are listed on Euronext Paris, in France, we must (i) inform the AMF of any modification of our bylaws and articles of incorporation that would add or remove a poison pill mechanism (pursuant to Article 223-20 of the AMF General Regulation); and (ii) disclose information on a monthly basis on the total number of shares and voting rights composing our capital, if those numbers have changed compared to the previously disclosed numbers (pursuant to Article 223-16 of the AMF General Regulation).

Articles 241-1 to 241-6 of the AMF General Regulation on buyback programs for equity securities admitted to trading on a regulated market and transaction reporting requirements are also applicable to our company as well as Articles 611-1 to 632-1 of the AMF General Regulation on market abuse (insider dealing and market manipulation).

As a general rule, the information disclosed to the public must be accurate, precise and fairly presented.

All financial instruments traded on Euronext Paris are distributed between three capitalization compartments, A, B, and C, whose regulations are generally applicable to us. See Item 9. Listing.

Other provisions of French securities regulations are not applicable to us.

Regarding the regulation of public tender offers, Articles 231-1 to 237-13 of the AMF General Regulation may apply to our shares, except for the provisions concerning the mandatory filing of a tender offer and the squeeze out.

### *Applicable Italian Legislation*

Our common shares are listed on the *Mercato Telematico Azionario* (the MTA), the Italian automated screen-based quotation system organized and administered by Borsa Italiana and subject to the supervision of the *Commissione Nazionale per le Società e la Borsa* (CONSOB). Because our common shares are listed on the MTA, as described in Item 9. Listing above, we are required to publish certain information in order to comply with (i) the Financial Act and related regulations promulgated by the CONSOB and (ii) certain rules of the Borsa Italiana. These requirements are related to: (i) disclosure of price-sensitive information (such as capital increases,

---

## **Table of Contents**

mergers, creation of joint subsidiaries, major acquisitions, approval of draft financial statements, proposals for dividend payments, approval of financial statements and interim reports); (ii) periodic information (such as financial statements to be provided in compliance with the jurisdiction of the country of incorporation) or information on the exercise of shareholders' rights (such as the calling of the shareholders' meeting or the exercise of pre-emptive rights); (iii) the publication of research, budgets and projections; and (iv) in certain circumstances, dissemination to the public in Italy, and communication to CONSOB, of any additional information that we provide to our shareholders in countries other than Italy where our shares are listed on a stock exchange.

As a result of our admission to the FTSE MIB Index, we must comply with certain additional stock market rules. These additional provisions require that we announce through a press release, within one month from our year-end closing (i) the month in which the payment of the dividend for the year ended, where applicable, is planned to take place (if different from the month when the previous dividend was distributed), and (ii) our intent, if any, of adopting a policy of distributing interim dividends for the current year, mentioning the months when the distribution of dividends and interim dividends will take place. In the event of a modification of the information referred to in (i) and (ii) above, we shall be required to promptly update such information in another press release. In addition, stock splits and certain other transactions must be carried out in accordance with the Borsa Italiana's calendar. We must notify the Italian stock market of any modification to the amount and distribution of our share capital. The notification must be made no later than one day after the modification has become effective under the rules to which we are subject.

We are required to communicate to the CONSOB and the Borsa Italiana the same information that we are required to disclose to the AMF and the AFM regarding transactions in our securities and any exercise of stock options by our Supervisory Board members and executive officers, as described below.

### ***Articles of Association***

#### ***Purposes of the Company (Article 2)***

Article 2 of our Articles of Association sets forth the purposes of our company. According to Article 2, our purposes shall be to participate in or take, in any manner, any interests in other business enterprises; to manage such enterprises; to carry on business in semiconductors and electronic devices; to take and grant licenses and other industrial property interests; to assume commitments in the name of any enterprises with which we may be associated within a group of companies; and to take any other action, such as but not limited to the granting of securities or the undertaking of obligations on behalf of third parties, which in the broadest sense of the term, may be related or contribute to the aforementioned objects.

#### ***Company and Trade Registry***

We are registered with the Chamber of Commerce and Industry in Amsterdam (*Kamer van Koophandel en Fabrieken voor Amsterdam*) under no. 33194537.

#### ***Supervisory Board and Managing Board***

Our Articles of Association do not include any provisions related to a Supervisory Board member's:

power to vote on proposals, arrangements or contracts in which such member is directly interested;

power, in the absence of an independent quorum, to vote on compensation to themselves or any members of the Supervisory Board; or

borrowing powers exercisable by the directors and how such borrowing powers can be varied.

Our Supervisory Board Charter, however, explicitly prohibits members of our Supervisory Board from participating in discussions and voting on matters where any such member has a conflict of interest. Our Articles of Association provide that our shareholders' meeting must adopt the compensation of our Supervisory Board members.



Neither our Articles of Association nor our Supervisory Board Charter have a requirement or policy that Supervisory Board members hold a minimum number of our common shares.

## **Table of Contents**

### *Compensation of our Managing Board (Article 12)*

Our Supervisory Board determines the compensation of the sole member of our Managing Board, within the scope of the compensation policy adopted by our shareholders' meeting upon the proposal of our Supervisory Board. Our Supervisory Board will submit for approval by the shareholders' meeting a proposal regarding the compensation in the form of shares or rights to acquire shares. This proposal sets forth at least how many shares or rights to acquire shares may be awarded to our Managing Board and which criteria apply to an award or a modification.

### *Compensation of our Supervisory Board (Article 23)*

Our shareholders' meeting determines the compensation of our Supervisory Board members. Our shareholders' meeting shall have the authority to decide whether such compensation will consist of a fixed amount and/or an amount that is variable in proportion to profits or any other factor.

### *Information from our Managing Board to our Supervisory Board (Article 18)*

At least once per year our Managing Board shall inform our Supervisory Board in writing of the main features of our strategic policy, our general and financial risks and our management and control systems.

Our Managing Board shall then submit to our Supervisory Board for approval:

our operational and financial objectives;

our strategy designed to achieve the objectives;

the parameters to be applied in relation to our strategy, *inter alia*, regarding financial ratios; and

corporate social responsibility issues that are relevant to the enterprise.

For more information on our Supervisory Board and our Managing Board, see Item 6. Directors, Senior Management and Employees .

### *Adoption of Annual Accounts and Discharge of Management and Supervision Liability (Article 25)*

Each year, within four months after the end of our financial year, our Managing Board must prepare our statutory annual accounts, certified by one or several auditors appointed by our shareholders' meeting and submit them to our shareholders' meeting for adoption. Within this period and in accordance with the statutory obligations to which we are subject, our Managing Board must make generally available: (i) our statutory annual accounts, (ii) our annual report, (iii) the auditor's statement, as well as (iv) other annual financial accounting documents which we, under or pursuant to the law, must make generally available together with our statutory annual accounts.

Each year, our shareholders' meeting votes whether or not to discharge the members of our Supervisory Board and of our Managing Board for their supervision and management, respectively, during the previous financial year. In accordance with the applicable Dutch legislation, the discharge of the members of our Managing Board and the Supervisory Board must, in order to be effective, be the subject of a specific resolution on the agenda of our shareholders' meeting. Under Dutch law, this discharge does not extend to matters not disclosed to our shareholders' meeting.

### *Distribution of Profits (Articles 37, 38, 39 and 40)*

Subject to certain exceptions, dividends may only be paid out of the profits as shown in our adopted annual accounts. Our profits must first be used to set up and maintain reserves required by Dutch law and our Articles of Association. Subsequently, if any of our preference shares are issued and outstanding, preference shareholders shall be paid a dividend, which will be a percentage of the paid up part of the par value of their preference shares. Our Supervisory Board may then, upon proposal of our Managing Board, also establish reserves out of our annual profits. The portion of our annual profits that remains after the establishment or maintenance of reserves and the payment of a dividend to our preference

shareholders is at the disposal of our shareholders meeting. No distribution may be made to our shareholders when the equity after such distribution is or becomes inferior to the fully-paid share capital, increased by the legal reserves. Our preference shares are cumulative by nature, which means that if in a financial year the dividend or the preference shares cannot be (fully) paid, the deficit must first be paid in the following financial year.

**Table of Contents**

Our shareholders meeting may, upon the proposal of our Supervisory Board, declare distributions out of our share premium reserve and other reserves available for shareholder distributions under Dutch law. Pursuant to a resolution of our Supervisory Board, distributions adopted by the shareholders meeting may be fully or partially made in the form of our new shares to be issued. Our Supervisory Board may, subject to certain statutory provisions, make one or more interim distributions in respect of any year before the accounts for such year have been adopted at a shareholders meeting. Rights to cash dividends and distributions that have not been collected within five years after the date on which they became due and payable shall revert to us.

For the history of dividends paid by us to our shareholders in the past five years, see Item 8. Financial Information Dividend Policy .

***Shareholders Meetings, Attendance at Shareholders Meetings and Voting Rights***

*Notice Convening the Shareholders Meeting (Articles 25, 26, 27, 28 and 29)*

Our ordinary shareholders meetings are held at least annually, within six months after the close of each financial year, in Amsterdam, Haarlemmermeer (Schiphol Airport), Rotterdam or The Hague, The Netherlands. Extraordinary shareholders meetings may be held as often as our Supervisory Board deems necessary, and must be held upon the written request of registered shareholders or other persons entitled to attend shareholders meetings of at least 10% of the total issued share capital to our Managing Board or our Supervisory Board specifying in detail the business to be dealt with. Such written requests may not be submitted electronically. In the event that the Managing Board or the Supervisory Board does not convene the shareholders meeting within six weeks of such a request, the aforementioned shareholders or individuals may be authorized by a competent judicial authority.

Notice of shareholders meetings shall be given by our Managing Board or by our Supervisory Board or by those who according to the law or our Articles of Association are entitled thereto. The notice shall be given in such manner as shall be authorized or required by law (including but not limited to a written notice, a legible and reproducible message sent by electronic means and an announcement published by electronic means), as well as in accordance with the regulations of a stock exchange where our shares are officially listed at our request. In addition, shareholders and other persons entitled to attend the shareholders meetings that are registered in our share register shall be notified by letter that the meeting is being convened. The notice convening the shareholders meeting shall be given with due observance of the statutory notice period, which is currently 42 days prior to the meeting.

The notice of the shareholders meeting states the business to be transacted as well as other information prescribed by law and our Articles of Association. The agenda is fixed by the author of the notice of the meeting; however, one or more shareholders or other persons entitled to attend shareholders meetings representing at least one-tenth of our issued share capital may, provided that the request was made at least five days prior to the date of convocation of the meeting, request that proposals be included on the agenda. Notwithstanding the previous sentence, proposals of persons who are entitled to attend shareholders meetings will be included on the agenda, if such proposals are made in writing to our Managing Board within a period of sixty days before that meeting by persons who are entitled to attend our shareholders meetings who, solely or jointly, represent at least 1% of our issued share capital or a market value of at least 50,000,000. The requests referred to in the previous two sentences may not be submitted electronically. The aforementioned requests must comply with conditions stipulated by our Managing Board, subject to the approval of our Supervisory Board, which shall be posted on our website.

We are exempt from the proxy solicitation rules under the United States Securities Exchange Act of 1934. Euroclear France will provide notice of shareholders meetings to, and compile voting instructions from, holders of shares held directly or indirectly through Euroclear France at the request of the Company, the Registrar or the voting Collection Agent. A voting collection agent must be appointed; TMF Netherlands B.V. (formerly known as Netherlands Management Company B.V.) acts as our voting collection agent. The Depository Trust Company ( DTC ) will provide notice of shareholders meetings to holders of shares held directly or indirectly through DTC and the New York Transfer Agent and Registrar will compile voting instructions. In order for holders of shares held directly or indirectly through Euroclear France to attend shareholders meetings in person, such holders must withdraw their shares from Euroclear France and have such shares registered directly in their name or in the name of their nominee. In order for holders of shares held directly or indirectly through DTC to attend shareholders meetings of shareholders in person, such holders need not withdraw such shares from DTC but must follow rules and procedures established by the New York Transfer Agent and Registrar.

---

**Table of Contents**

*Attendance at Shareholders Meetings and Voting Rights (Articles 6, 30, 31, 32, 33 and 34)*

Each share is entitled to one vote.

All shareholders and other persons entitled to attend and to vote at shareholders meetings are entitled to attend the shareholders meeting either in person or represented by a person holding a written proxy, to address the shareholders meeting and, as for shareholders and other persons entitled to vote, to vote, subject to our Articles of Association. Subject to the approval of our Supervisory Board, our Managing Board may resolve that shareholders and other persons entitled to attend the shareholders meetings are authorized to directly take note of the business transactions at the meeting via an electronic means of communication. Our shareholders meeting may set forth rules regulating, *inter alia*, the length of time during which shareholders may speak in the shareholders meeting. If there are no such applicable rules, the chairman of the meeting may regulate the time during which shareholders are entitled to speak if desirable for the orderly conduct of the meeting.

Our Managing Board may, subject to the approval of our Supervisory Board, resolve that each person entitled to attend and vote at shareholders meetings is authorized to vote via an electronic means of communication, either in person or by a person authorized in writing, provided that such person can be identified via the electronic means of communication and furthermore provided that such person can directly take note of the business transacted at the meeting. Our Managing Board may, subject to the approval of our Supervisory Board, attach conditions to the use of the electronic means of communication, which conditions shall be announced in the notice convening the shareholders meeting and must be posted on our website.

Dutch law prescribes a fixed registration date of 28 days prior to the shareholders meeting, which means that that shareholders and other persons entitled to attend shareholders meetings are those persons who have such rights at the 28th day prior to the shareholders meeting and, as such, are registered in a register designated by our Managing Board, regardless of who is a shareholder or otherwise a person entitled to attend shareholders meetings at the time of the meeting if a registration date as referred to in our Articles of Association had not been prescribed or determined. In the notice convening the shareholders meeting, the time of registration must be mentioned as well as the manner in which shareholders and other persons entitled to attend shareholders meetings can register themselves and the manner in which they can exercise their rights.

Our Managing Board may, subject to the approval of our Supervisory Board, also resolve that persons entitled to attend and vote at shareholders meetings may vote via an electronic means of communication determined by our Managing Board within a period to be set by our Managing Board prior to our shareholders meeting, which period cannot commence earlier than the registration date (as described above). Votes cast in accordance with the provisions of the preceding sentence are equal to votes cast at our shareholders meeting.

Shareholders and other persons entitled to attend meetings of shareholders may be represented by proxies with written authorization, which must be shown for admittance to the meeting. All matters regarding admittance to the shareholders meeting, the exercise of voting rights and the result of voting, as well as any other matters regarding the business of the shareholders meeting, shall be decided upon by the chairman of that meeting, in accordance with the requirements of Section 13 of the Dutch Civil Code.

Our Articles of Association allow for separate meetings for holders of common shares and for holders of preference shares. At a meeting of holders of preference shares at which the entire issued capital of shares of such class is represented, valid resolutions may be adopted even if the requirements in respect of the place of the meeting and the giving of notice have not been observed, provided that such resolutions are adopted by unanimous vote. Also, valid resolutions of preference shareholder meetings may be adopted outside a meeting if all persons entitled to vote on our preference shares indicate in writing that they vote in favor of the proposed resolution, provided that no depositary receipts for preference shares have been issued with our cooperation. Our Managing Board may, subject to the approval of our Supervisory Board, resolve that written resolutions may be adopted via an electronic means of communication. Our Managing Board may, subject to the approval of our Supervisory Board, attach conditions to the use of the electronic means of communication, which conditions shall be notified in writing to all holders of preference shares and other persons entitled to vote on our preference shares.

*Authority of our Shareholders Meeting (Articles 12, 16, 19, 25, 28, 32 and 41)*

Our shareholders meeting decides upon (i) the discharge of the members of our Managing Board for their management during the past financial year and the discharge of the members of our Supervisory Board for their supervision during the past financial year; (ii) the adoption of our statutory annual accounts and the distribution

**Table of Contents**

of dividends; (iii) the appointment of the members of our Supervisory Board and our Managing Board; and (iv) any other resolutions listed on the agenda by our Supervisory Board, our Managing Board or our shareholders and other persons entitled to attend shareholders meetings.

Furthermore, our shareholders meeting has to approve resolutions of our Managing Board regarding a significant change in the identity or nature of us or our enterprise, including in any event (i) transferring our enterprise or practically our entire enterprise to a third party, (ii) entering into or canceling any long-term cooperation between us or a subsidiary (*dochtermaatschappij*) of us and any other legal person or company or as a fully liable general partner of a limited partnership or a general partnership, provided that such cooperation or the cancellation thereof is of essential importance to us, and (iii) us or a subsidiary (*dochtermaatschappij*) of us acquiring or disposing of a participating interest in the capital of a company with a value of at least one-third of our total assets according to our consolidated balance sheet and notes thereto in our most recently adopted annual accounts.

Our Articles of Association may only be amended (and our liquidation can only be decided on) if amendments are proposed by our Supervisory Board and approved by a simple majority of the votes cast at a shareholders meeting at which at least 15% of the issued and outstanding share capital is present or represented. The complete proposal for the amendment (or liquidation) must be made available for inspection by the shareholders and the other persons entitled to attend shareholders meetings at our offices as from the day of the notice convening such meeting until the end of the meeting. Any amendment of our Articles of Association that negatively affects the rights of the holders of a certain class of shares requires the prior approval of the meeting of holders of such class of shares.

*Quorum and Majority (Articles 4, 13 and 32)*

Unless otherwise required by our Articles of Association or Dutch law, resolutions of shareholders meetings require the approval of a majority of the votes cast at a meeting at which at least 15% of the issued and outstanding share capital is present or represented, subject to the provisions explained below. We may not vote our common shares held in treasury. Blank and invalid votes shall not be counted.

A quorum of shareholders, present or represented, holding at least half of our issued share capital, is required to dismiss a member of our Managing Board, unless the dismissal is proposed by our Supervisory Board. In the event of the lack of a quorum, a second shareholders meeting must be held within four weeks, with no applicable quorum requirement. Any decision or authorization by the shareholders meeting which has or could have the effect of excluding or limiting preferential subscription rights must be taken by a majority of at least two-thirds of the votes cast, if at the shareholders meeting less than 50% of the issued and outstanding share capital is present or represented. Otherwise such a resolution can be taken by a simple majority at a meeting at which at least 15% of the issued and outstanding share capital is represented.

*Disclosure of holdings and capital interest under Dutch Law*

Holders of our shares or rights to acquire shares (which includes, *inter alia*, options and convertible bonds) may be subject to notification obligations under Chapter 5.3 of the FMSA.

Under Chapter 5.3 of the FMSA, any person whose direct or indirect interest (including potential interest, such as options and convertible bonds) in our share capital or voting rights reaches or crosses a threshold percentage must notify the AFM either (a) immediately, if this is the result of an acquisition or disposal by it; or (b) no later than on the 4th trading day following the entry in the AFM's public register, if this is the result of a change in our share capital or votes which the AFM has entered in its public register. The threshold percentages are 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent. Pursuant to a new Act amending the FMSA, the Dutch Civil Code and the Dutch Securities Book-Entry Administration and Transfer Act, which Act was published on November 27, 2012 and will come into force on July 1, 2013, a new lower minimum threshold of 3% will be introduced for the disclosure of capital interests and/or voting rights.

Furthermore, persons holding 5% or more in our voting rights or capital interest on December 31 at 24:00 hours must within four weeks after December 31 notify the AFM of any changes in the composition of their interest since their last notification.

The following instruments qualify as shares : (i) shares, (ii) depositary receipts for shares (or negotiable instruments similar to such receipts), (iii) negotiable instruments for acquiring the instruments under (i) or (ii) (such as convertible bonds), and (iv) options for acquiring the instruments under (i) or (ii).

## Table of Contents

Under Section 5.45 of the FMSA, a notification obligation can also arise other than through the holding of shares (or voting rights). Among others, the following shares and votes qualify as shares and votes held by a person: (i) those directly held by him; (ii) those held by his subsidiaries; (iii) shares held by a third party for such person's account and the votes such third party may exercise; (iv) the votes held by a third party if such person has concluded an oral or written agreement with such party which provides for a lasting common policy on voting; (v) the votes held by a third party if such person has concluded an oral or written agreement with such party which provides for a temporary and paid transfer of the votes; and (vi) the votes which a person may exercise as a proxy but in his own discretion. The management company of a common fund (*beleggingsfonds*) shall be deemed to have the disposal of the shares held by the depositary and the related voting rights. The depositary of a common fund shall be deemed not to have the disposal of shares or voting rights. Furthermore, special rules apply to the attribution of the ordinary shares which are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of our shares can also be subject to a notification obligation if such person has, or can acquire, the right to vote on our shares. If a pledgor or usufructuary acquires such voting rights, this may trigger a notification obligation for the holder of our shares. A person is also deemed to hold shares if he has a financial instrument (i) whose rise in value depends in part on the rise in value of the underlying shares or on dividend or other payments on those shares (in other words, a long position must be held in those shares), and (ii) which does not entitle him to acquire shares in a listed company (*i.e.*, it is a cash-settled financial instrument). In addition, a person who may, by virtue of an option, be obliged to buy shares in a listed company is also equated with a shareholder. Moreover, a person who has entered into a contract (other than a cash-settled financial instrument) that gives him an economic position comparable to that of a shareholder in a listed company is also deemed to hold shares for the purposes of the disclosure obligation. The AFM has introduced a policy rule regulating certain technical and operational aspects of this extension of the disclosure obligation.

Under Section 5.48 of the FMSA, the sole member of our Managing Board and each of the members of our Supervisory Board must without delay notify the AFM of any changes in his interest or potential interest in our share capital or voting rights.

The AFM will publish all notifications on its public website ([www.afm.nl](http://www.afm.nl)).

Non-compliance with the notification obligations of Chapter 5.3 of the FMSA can lead to imprisonment or criminal fines, or administrative fines or other administrative sanctions. In addition, non-compliance with these notification obligations may lead to civil sanctions, including, without limitation, suspension of the voting rights attaching to our shares held by the offender for a maximum of three years, (suspension and) nullification of a resolution adopted by our shareholders' meeting (if it is likely that such resolution would not have been adopted if the offender had not voted) and a prohibition for the offender to acquire our shares or votes for a period of no more than five years.

### *Share Capital*

Our shares may not be issued at less than their par value; our common shares must be fully paid up at the time of their issuance. Our preference shares must be paid up for at least 25% of their par value at the time of their issuance (and the remaining 75% if and when requested by our Managing Board). Our authorized share capital is not restricted by redemption provisions, sinking fund provisions or liability to further capital calls by us. Our Articles of Association allows for the acquisition of own shares and the cancellation of shares. There are no conditions imposed by our Memorandum and Articles of Association governing changes in capital which are more stringent than is required by law.

Type II shares are common shares in the form of an entry in our shareholders register with the issue of a share certificate consisting of a main part without a dividend coupon. In addition to type II shares, type I shares are available. Type I shares are common shares in the form of an entry in our shareholders register without the issue of a share certificate. Type II shares are only available should our Supervisory Board decide to offer them. Our preference shares are in the form of an entry in our shareholders register without issue of a share certificate.

Non-issued authorized share capital, which is different from issued share capital, allows us to proceed with capital increases excluding the preemptive rights, upon our Supervisory Board's decision. Our annual shareholders' meeting, held on May 3, 2011, authorized our Supervisory Board to proceed with capital increases excluding the preemptive rights up to a maximum of 10% of our issued common share capital as of December 31, 2011, increased with another 15% of our issued common share capital as of December 31, 2011, in case of mergers and acquisitions, but never exceeding the limits of our authorized share capital. This

---

**Table of Contents**

authorization is valid for three years as of April 25, 2012. However, it is not possible to predict if we will request such an authorization again and at what time and under what conditions. The impact of any future capital increases within the limit of our authorized share capital, upon the decision of our Supervisory Board acting on the delegation granted to it by our shareholders' meeting, cannot therefore be evaluated.

Other securities in circulation which give access to our share capital include (i) the options giving the right to subscribe to our shares granted to our employees, including the sole member of our Managing Board and our executive officers; (ii) the options giving the right to subscribe to our shares granted to the members of our Supervisory Board, its secretaries and controllers, as described in Item 6. Directors, Senior Management and Employees and (iii) our 2013 Senior Bonds as described above.

We do not have securities not representing our share capital.

*Issuance of Shares, Preemptive Rights, Preference Shares and Capital Reduction (Articles 4 and 5)*

Unless excluded or limited by the shareholders' meeting or our Supervisory Board according to the conditions described below, each holder of common shares has a pro rata preemptive right to subscribe to an offering of common shares issued for cash in proportion to the number of common shares which he owns. There is no preemptive right with respect to an offering of shares for non-cash consideration, with respect to an offering of shares to our employees or to the employees of one of our subsidiaries, or with respect to preference shares.

Our shareholders' meeting, upon proposal and on the terms and conditions set by our Supervisory Board, has the power to issue shares. The shareholders' meeting may also authorize our Supervisory Board, for a period of no more than five years, to issue shares and to determine the terms and conditions of share issuances. Our shares cannot be issued at below par and as for our common shares must be fully paid up at the time of their issuance. Our preference shares must be paid up for at least 25% of their par value.

Our shareholders' meeting, upon proposal by our Supervisory Board, also has the power to limit or exclude preemptive rights in connection with new issuances of shares. Such a resolution of the shareholders' meeting must be taken with a majority of at least two-thirds of the votes cast if at such shareholders' meeting less than 50% of the issued and outstanding share capital is present or represented. Otherwise such a resolution can be taken by a simple majority of the votes cast at a shareholders' meeting at which at least 15% of our issued and outstanding share capital is present or represented. Our shareholders' meeting may authorize our Supervisory Board, for a period of no more than five years, to limit or exclude preemptive rights.

Our annual shareholders' meeting, held on May 3, 2011, has authorized our Supervisory Board to resolve upon (i) the issuance of shares or the granting of rights to subscribe for common shares in our share capital, up to a maximum of 10% of our issued common share capital, as per December 31, 2011, increased with another 15% of our issued common share capital, as per December 31, 2011, in the case of mergers and acquisitions, (ii) upon the terms and conditions of an issuance of common shares, and (iii) upon the limitation and/or exclusion of pre-emptive rights of existing shareholders upon issuance of common shares, all for a three-year period as of April 25, 2012, but never exceeding the limits of our authorized share capital. Our Supervisory Board has not yet acted on its authorization to increase the registered capital to the limits of the authorized registered capital.

Upon the proposal of our Supervisory Board, our shareholders' meeting may, in accordance with the legal provisions, reduce our issued capital by canceling the shares that we hold in treasury, by reducing the par value of the shares or by canceling our preference shares.

See Item 7. Major Shareholders and Related Party Transactions for details on changes in the distribution of our share capital over the past three years.

We may issue preference shares in certain circumstances. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements Preference Shares .

The effect of the preference shares may be to deter potential acquirers from effecting an unsolicited acquisition resulting in a change of control or otherwise taking action as considered hostile by our Managing Board and Supervisory Board. See Item 3. Key Information Risk Factors Risks Related to Our Operations Our shareholder structure and our preference shares may deter a change of control .

No preference shares have been issued to date and therefore none are currently outstanding.





---

## **Table of Contents**

### *Liquidation Rights (Articles 42 and 43)*

In the event of our dissolution and liquidation, after payment of all debts and liquidation expenses, the holders of preference shares if issued, would receive the paid up portion of the par value of their preference shares. Any assets then remaining shall be distributed among the registered holders of common shares in proportion to the par value of their shareholdings.

### *Acquisition of Shares in Our Own Share Capital (Article 5)*

We may acquire our own shares, subject to certain provisions of Dutch law and of our Articles of Association, if and to the extent that (i) the shareholders' equity less the payment required to make the acquisition does not fall below the sum of the paid-up and called-up portion of the share capital and any reserves required by Dutch law and (ii) the aggregate nominal value of shares that we or our subsidiaries acquire, hold or hold in pledge would not exceed one-tenth of our issued share capital. Share acquisitions may be effected by our Managing Board, subject to the approval of our Supervisory Board, only if the shareholders' meeting has authorized our Managing Board to effect such repurchases, which authorization may apply for a maximum period of 18 months. We may not vote shares we hold in treasury. Our purchases of our own shares are subject to acquisition price conditions as authorized by our shareholders' meeting. Pursuant to a shareholders' resolution adopted at our annual shareholders' meeting held on May 30, 2012, our Managing Board, subject to the approval of our Supervisory Board, is authorized for a period up to November 29, 2013 (inclusive) to acquire ST shares subject to the limits set forth above and the acquisition price conditions set forth in such shareholders' resolution.

Our Articles of Association provide that we shall be able to acquire shares in our own share capital in order to transfer these shares under employee stock option or stock purchase plans, without an authorization of our shareholders' meeting.

### *Limitations on Right to Hold or Vote Shares*

There are currently no limitations imposed by Dutch law or by our Articles of Association on the right of non-resident holders to hold or vote the shares.

## **Material Contracts**

None.

## **Exchange Controls**

None.

## **Taxation**

### *Dutch Taxation*

*The following is a general summary and the tax consequences as described herein may not apply to a holder of common shares. Any potential investor should consult his tax adviser for more information about the tax consequences of acquiring, owning and disposing of common shares in his particular circumstances.*

This taxation summary solely addresses the principal Dutch tax consequences of the acquisition, ownership and disposal of common shares. It does not consider every aspect of taxation that may be relevant to a particular holder of common shares under special circumstances or who is subject to special treatment under applicable law. Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. Where in this Dutch Taxation summary the terms "The Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of the Netherlands. This summary also assumes that we are organized, and that our business will be conducted, in the manner outlined in this Form 20-F. A change to such organizational structure or to the manner in which we conduct our business may invalidate the contents of this summary, which will not be updated to reflect any such change.

This summary is based on the tax law of The Netherlands (unpublished case law not included) as it stands at the date of this Form 20-F. The law upon which this summary is based is subject to change, perhaps with retroactive effect. Any such change may invalidate the contents of this summary, which will not be updated to reflect such change.



---

**Table of Contents**

Where in this Dutch Taxation paragraph reference is made to your common shares, that concept includes, without limitation, that:

1. you own one or more common shares and in addition to the title to such common shares, you have an economic interest in such common shares;
2. you hold the entire economic interest in one or more common shares;
3. you hold an interest in an entity, such as a partnership or a mutual fund, that is transparent for Dutch tax purposes, the assets of which comprise one or more common shares, within the meaning of 1. or 2. above; or
4. you are deemed to hold an interest in common shares, as referred to under 1. to 3., pursuant to the attribution rules of article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), with respect to property that has been segregated, for instance in a trust or a foundation.

**Taxes on income and capital gains**

The summary set out in this section Dutch Taxation applies only to a holder of common shares who is a Non-resident holder of common shares.

For the purposes of this section, you are a Non-resident holder of common shares if you satisfy the following tests:

- (a) you are neither resident, nor deemed to be resident, in The Netherlands for purposes of Dutch income tax or corporation tax, as the case may be, and, if you are an individual, you have not elected to be treated as a resident of The Netherlands for Dutch income tax purposes;
- (b) your common shares and any benefits derived or deemed to be derived from such common shares have no connection with your past, present or future employment or membership of a management board (*bestuurder*) or a supervisory board (*commissaris*);
- (c) your common shares do not form part of a substantial interest or a deemed substantial interest in us, within the meaning of Chapter 4 of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), with the predominant objective to avoid levy of income taxation or dividend withholding tax of another person and this substantial interest is not attributable to an enterprise; and
- (d) if you are not an individual, no part of the benefits derived from your common shares is exempt from Dutch corporation tax under the participation exemption as laid down in the Dutch Corporation Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

Generally, if a person holds an interest in us, such interest forms part of a substantial interest, or a deemed substantial interest, in us if any one or more of the following circumstances is present:

1. You either alone or, in the case of an individual, together with your partner (partner), if any, or pursuant to article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) own or are deemed to own, directly or indirectly, either a number of shares in us representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of our shares), or rights to acquire, directly or indirectly, shares, whether or not already issued, representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of our shares), or profit participating certificates (*winstbewijzen*) relating to 5% or more of our annual profit or to 5% or more of our liquidation proceeds.
2. Your shares, profit participating certificates or rights to acquire shares in us are held by you or deemed to be held by you following the application of a non-recognition provision.
3. Your partner or any of your relatives by blood or by marriage in the direct line (including foster children) or of those of your partner has a substantial interest (as described under 1. and 2. above) in us.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

If you are entitled to the benefits from shares or profit participating certificates (for instance if you are a holder of a right of usufruct), you are deemed to be a holder of shares or profit participating certificates, as the case may be, and your entitlement to benefits is considered a share or profit participating certificate, as the case may be.

If you are a holder of common shares and you satisfy test a., but do not satisfy any one or more of tests (b), (c), and (d), your Dutch income tax position or corporation tax position, as the case may be, is not discussed in this Form 20-F.

---

## Table of Contents

If you are a Non-resident holder of common shares you will not be subject to any Dutch taxes on income or capital gains (other than the dividend withholding tax described below) in respect of any benefits derived or deemed to be derived by you from your common shares, including any capital gain realized on the disposal thereof, except if:

1. you derive profits from an enterprise, directly, or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, if you are an individual, or other than as a holder of securities, if you are not an individual, such enterprise is either managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and your common shares are attributable to such enterprise; or
2. you are an individual and you derive benefits from common shares that are taxable as benefits from miscellaneous activities in The Netherlands.

You may, inter alia, derive, or be deemed to derive, benefits from your common shares that are taxable as benefits from miscellaneous activities in the following circumstances:

- a. if your investment activities go beyond the activities of an active portfolio investor, for instance in the case of use of insider knowledge (*voorkennis*) or comparable forms of special knowledge, on the understanding that such benefits will be taxable in The Netherlands only if such activities are performed or deemed to be performed in The Netherlands; or
- b. if you hold common shares, whether directly or indirectly, and any benefits to be derived from such common shares are intended, in whole or in part, as remuneration for activities performed or deemed to be performed in The Netherlands by you or by a person who is a connected person to you as meant by article 3.92b, paragraph 5, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*).

### *Attribution rule*

Benefits derived or deemed to be derived from certain miscellaneous activities by a child or a foster child who is under eighteen years of age are attributed to the parent who exercises, or the parents who exercise, authority over the child, irrespective of the country of residence of the child.

### Dividend withholding tax

We are generally required to withhold Dutch dividend withholding tax at a rate of 15% from dividends distributed by us.

The concept "dividends distributed by us" as used in this section "Dutch Taxation" includes, but is not limited to, the following:

distributions in cash or in kind, deemed and constructive distributions and repayments of capital not recognized as paid-in for Dutch dividend withholding tax purposes;

liquidation proceeds and proceeds of repurchase or redemption of shares in excess of the average capital recognized as paid-in for Dutch dividend withholding tax purposes;

the par value of shares issued by us to a holder of common shares or an increase of the par value of shares, as the case may be, to the extent that it does not appear that a contribution, recognized for Dutch dividend withholding tax purposes, has been made or will be made; and

partial repayment of capital, recognized as paid-in for Dutch dividend withholding tax purposes, if and to the extent that there are net profits (*zuivere winst*), unless (a) the general meeting of our shareholders has resolved in advance to make such repayment and (b) the par value of the shares concerned has been reduced by an equal amount by way of an amendment to our articles of association.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

If you are a Non-resident holder of common shares and if you are resident in the non-European part of the Kingdom of the Netherlands or in a country that has concluded a double taxation treaty with The Netherlands, you may be eligible for a full or partial relief from the dividend withholding tax, provided such relief is timely and duly claimed.

Pursuant to domestic rules to avoid dividend stripping, dividend withholding tax relief will only be available to you if you are the beneficial owner (*uiteindelijk gerechtigde*) of dividends distributed by us. The Dutch tax authorities have taken the position that this beneficial-ownership test can also be applied to deny relief from dividend withholding tax under double tax treaties and the Tax Arrangement for the Kingdom (*Belastingregeling*)

---

## Table of Contents

voor het Koninkrijk) and the Tax Arrangement for the country of The Netherlands (*Belastingregeling voor het land Nederland*). If you receive proceeds from your common shares, you shall not be recognized as the beneficial owner of such proceeds if, in connection with the receipt of the proceeds, you have given a consideration, in the framework of a composite transaction including, without limitation, the mere acquisition of one or more dividend coupons or the creation of short-term rights of enjoyment of shares (*kortlopende genotsrechten op aandelen*), whereas it may be presumed that (i) such proceeds in whole or in part, directly or indirectly, inure to a person who would not have been entitled to an exemption from, reduction or refund of, or credit for, dividend withholding tax, or who would have been entitled to a smaller reduction or refund of, or credit for, dividend withholding tax than you, the actual recipient of the proceeds; and (ii) such person acquires or retains, directly or indirectly, an interest in common shares or similar instruments, comparable to its interest in common shares prior to the time the composite transaction was first initiated.

In addition, if you are a Non-resident holder of common shares that is not an individual, you are entitled to an exemption from dividend withholding tax, provided that the following tests are satisfied:

1. you are, according to the tax law of a Member State of the European Union or a state designated by ministerial decree, that is a party to the Agreement regarding the European Economic Area, resident there and you are not transparent for tax purposes according to the tax law of such state;

2. any one or more of the following threshold conditions are satisfied:

a. at the time the dividend is distributed by us, you hold shares representing at least 5% of our nominal paid up capital; or

b. you have held shares representing at least 5% of our nominal paid up capital for a continuous period of more than one year at any time during the four years preceding the time the dividend is distributed by us; or

c. you are connected with us within the meaning of article 10a, paragraph 4, of the Dutch Corporation Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*); or

d. an entity connected with you within the meaning of article 10a, paragraph 4, of the Dutch Corporation Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*) holds at the time the dividend is distributed by us, shares representing at least 5% of our nominal paid up capital;

3. you are not considered to be resident outside the Member States of the European Union or the states designated by ministerial decree, that are a party to the Agreement regarding the European Economic Area, under the terms of a double taxation treaty concluded with a third State; and

4. you do not perform a similar function as an investment institution (*beleggingsinstelling*) as meant by article 6a or article 28 of the Dutch Corporation Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

The exemption from dividend withholding tax is not available to you if you are a Non-resident holder of common shares and pursuant to a provision for the prevention of fraud or abuse included in a double taxation treaty between The Netherlands and your country of residence, you would not be entitled to the reduction of tax on dividends provided for by such treaty. Furthermore, the exemption from dividend withholding tax will only be available to you if you are the beneficial owner of dividends distributed by us. If you are a Non-resident holder of common shares and you are resident in a Member State of the European Union with which The Netherlands has concluded a double taxation treaty that provides for a reduction of tax on dividends based on the ownership of the number of voting rights, the test under 2.a. above is also satisfied if you own 5% of the voting rights in us.

The convention of December 18, 1992, between the Kingdom of the Netherlands and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the U.S./NL Income Tax Treaty ) provides for an exemption for dividends received by exempt pension trusts and exempt organizations, as defined therein. In such case, a refund may be obtained of the difference between the amount withheld and the amount that The Netherlands was entitled to levy in accordance with the U.S./NL Income Tax Treaty by filing the appropriate forms with the Dutch tax authorities within the term set therefor.

If we receive a profit distribution from a qualifying foreign entity, or a repatriation of qualifying foreign branch profit, that is exempt from Dutch corporation tax and that has been subject to a foreign withholding tax of at least 5%, we may be entitled to retain a portion of the Dutch dividend withholding tax imposed in respect of a dividend distributed by us, that ordinarily would be required to be remitted to the Dutch tax authorities. Such portion is the lesser of:



3% of the dividends paid by us in respect of which Dutch dividend withholding tax is withheld; and

---

## **Table of Contents**

3% of the qualifying profit distributions grossed up by the foreign tax withheld on such distributions received from foreign subsidiaries and branches prior to the distribution of the dividend by us during the current calendar year and the two preceding calendar years (to the extent such distributions have not been taken into account previously when applying this test).

Non-resident holders of common shares are urged to consult their tax advisers regarding the general creditability or deductibility of Dutch dividend withholding tax and, in particular, the impact on such investors of our potential ability to receive a reduction as described in the previous paragraph.

See the section **Dutch Taxation Taxes on income and capital gains** above for a description of the term Non-resident holder of common shares.

### **Gift and inheritance taxes**

If you dispose of common shares by way of gift, in form or in substance, or if you die, no Dutch gift tax or Dutch inheritance tax, as applicable, will be due, unless:

you are, or you were, resident or deemed to be resident in The Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, as applicable; or

you made a gift of common shares, then became a resident or deemed resident of The Netherlands, and died as a resident or deemed resident of The Netherlands within 180 days of the date of the gift.

For purposes of the above, a gift of common shares made under a condition precedent (*opschortende voorwaarde*) is deemed to be made at the time the condition precedent is satisfied.

### **Other taxes and duties**

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in The Netherlands by you in respect of or in connection with (i) the subscription, issue, placement, allotment, delivery of common shares, (ii) the delivery and/or enforcement by way of legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the documents relating to the issue of common shares or the performance by us of our obligations under such documents, or (iii) the transfer of common shares.

## **United States Federal Income Taxation**

The following discussion is a general summary of the material U.S. federal income tax consequences to a U.S. holder (as defined below) of the ownership and disposition of our common shares. You are a U.S. holder only if you are a beneficial owner of common shares:

that is, for U.S. federal income tax purposes, (a) a citizen or individual resident of the United States, (b) a U.S. domestic corporation or a U.S. domestic entity taxable as a corporation, (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (d) a trust, if a court within the United States can exercise primary supervision over the administration of the trust and one or more U.S. persons are authorized to control all substantial decisions of the trust;

that owns, directly, indirectly or by attribution, less than 10% of our voting power or outstanding share capital;

that holds the common shares as capital assets;

whose functional currency for U.S. federal income tax purposes is the U.S. dollar;

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

that is a resident of the United States and not also a resident of The Netherlands for purposes of the U.S./NL Income Tax Treaty;

that is entitled, under the limitation on benefits provisions contained in the U.S./NL Income Tax Treaty, to the benefits of the U.S./NL Income Tax Treaty; and

that does not have a permanent establishment or fixed base in The Netherlands.

This summary does not discuss all of the tax consequences that may be relevant to you in light of your particular circumstances. Also, it does not address holders that may be subject to special rules including, but not limited to, U.S. expatriates, tax-exempt organizations, persons subject to the alternative minimum tax, banks, securities broker-dealers, financial institutions, regulated investment companies, insurance companies, traders in securities who elect to apply a mark-to-market method of accounting, persons holding our common shares as part

**Table of Contents**

of a straddle, hedging or conversion transaction, or persons who acquired common shares pursuant to the exercise of employee stock options or otherwise as compensation. Because this is a general summary, you are advised to consult your own tax advisor with respect to the U.S. federal, state, local and applicable foreign tax consequences of the ownership and disposition of our common shares. In addition, you are advised to consult your own tax advisor concerning whether you are entitled to benefits under the U.S./NL Income Tax Treaty.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) holds common shares, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership that holds common shares, you are urged to consult your own tax advisor regarding the specific tax consequences of the ownership and the disposition of common shares.

This summary is based on the Internal Revenue Code of 1986, as amended, the U.S./NL Income Tax Treaty, judicial decisions, administrative pronouncements and existing, temporary and proposed Treasury regulations as of the date of this Form 20-F, all of which are subject to change or changes in interpretation, possibly with retroactive effect.

***Dividends***

In general, you must include the gross amount of distributions paid (including the amount of any Dutch taxes withheld from those distributions) to you by us with respect to the common shares in your gross income as foreign-source taxable dividend income. The amount of any distribution paid in foreign currency (including the amount of any Dutch withholding tax thereon) will be equal to the U.S. dollar value of the foreign currency on the date of actual or constructive receipt by you regardless of whether the payment is in fact converted into U.S. dollars at that time. Gain or loss, if any, realized on a subsequent sale or other disposition of such foreign currency will be U.S.-source ordinary income or loss. Special rules govern and specific elections are available to accrual method taxpayers to determine the U.S. dollar amount includible in income in the case of taxes withheld in a foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and elections applicable in this regard.

Subject to applicable limitations, Dutch taxes withheld from a distribution paid to you at a rate not exceeding the rate provided in the U.S./NL Income Tax Treaty will be eligible for credit against your U.S. federal income tax liability. As described in Taxation Dutch Taxation above, under limited circumstances we may be entitled to retain a portion of the Dutch withholding tax that otherwise would be required to be remitted to the taxing authorities in The Netherlands. If we withhold an amount from dividends paid to you that we then are not required to remit to any taxing authority in The Netherlands, the amount in all likelihood would not qualify as a creditable tax for U.S. federal income tax purposes. We will endeavor to provide you with information concerning the extent to which we have applied the reduction described above to dividends paid to you. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the common shares generally will constitute passive category income or in the case of certain U.S. holders, general category income. The use of foreign tax credits is subject to complex rules and limitations. In lieu of a credit, a U.S. holder who itemizes deductions may elect to deduct all of such holder's foreign taxes in the taxable year. A deduction does not reduce tax on a dollar-for-dollar basis like a credit, but the deduction for foreign taxes is not subject to the same limitations applicable to foreign tax credits. You should consult your own tax advisor to determine whether and to what extent a credit would be available to you.

Certain non-corporate U.S. holders (including individuals) are eligible for reduced rates of U.S. federal income tax in respect of qualified dividend income. For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if, among other things, the U.S. holders meet certain minimum holding period and other requirements and the non-U.S. corporation satisfies certain requirements, including either that (i) the shares of the non-U.S. corporation are readily tradable on an established securities market in the United States, or (ii) the non-U.S. corporation is eligible for the benefits of a comprehensive income tax treaty with the United States (such as the U.S./NL Income Tax Treaty) which provides for the exchange of information. We currently believe that dividends paid by us with respect to our common shares should constitute qualified dividend income for U.S. federal income tax purposes; however, this is a factual matter and subject to change. You are urged to consult your own tax advisor regarding the availability to you of a reduced dividend tax rate in light of your own particular situation. A dividends-received deduction will not be allowed with respect to dividends paid by us.

## **Table of Contents**

### ***Sale, Exchange or Other Disposition of Common Shares***

Upon a sale, exchange or other disposition of common shares, you generally will recognize capital gain or loss in an amount equal to the difference between the amount realized and your tax basis in the common shares, as determined in U.S. dollars. This gain or loss generally will be U.S.-source gain or loss, and will be treated as long-term capital gain or loss if you have held the common shares for more than one year. If you are an individual, capital gains generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

### ***Net Investment Income Tax***

For taxable years beginning after December 31, 2012, certain U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% tax on net investment income, including, among other things, dividends on, and gains from the sale or other taxable disposition of, our common shares, subject to certain limitations and exceptions. You should consult your own tax advisor regarding the effect, if any, of such tax on your ownership and disposition of our common shares.

### ***Passive Foreign Investment Company Status***

We believe that we should not be classified as a passive foreign investment company (a PFIC) for U.S. federal income tax purposes for the year ended December 31, 2012 and we do not expect to become a PFIC in the foreseeable future. This conclusion is a factual determination that must be made annually at the close of each taxable year and therefore we can provide no assurance that we will not be a PFIC in our current or any future taxable year. If we were to be characterized as a PFIC for any taxable year, the tax on certain distributions on our common shares and on any gains realized upon the disposition of common shares may be materially less favorable than as described herein. In addition, if we were a PFIC in a taxable year in which we were to pay dividends or the prior taxable year, such dividends would not be qualified dividend income (as described above) and would be taxed at the higher rates applicable to other items of ordinary income. You should consult your own tax advisor regarding the application of the PFIC rules to your ownership of our common shares.

### ***U.S. Information Reporting and Backup Withholding***

Dividend payments with respect to common shares and proceeds from the sale, exchange, retirement or other disposition of our common shares may be subject to information reporting to the U.S. Internal Revenue Service (the IRS) and possible U.S. backup withholding. Backup withholding will not apply to you, however, if you furnish a correct taxpayer identification number or certificate of foreign status and make any other required certification, or if you are otherwise exempt from backup withholding. U.S. persons required to establish their exempt status generally must provide certification on IRS Form W-9. Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, these holders may be required to provide certification of non-U.S. status (generally on Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

In addition, U.S. holders should be aware of new annual reporting requirements with respect to the holding of certain foreign financial assets, including our common shares that are not held in an account maintained by certain types of financial institutions, if the aggregate value of all of such assets exceeds \$50,000 (or \$100,000 for married couples filing a joint return). You should consult your own tax advisor regarding the application of the information reporting and backup withholding rules to our common shares and the application of the annual reporting requirements to your particular situation.

### ***Documents on Display***

Any statement in this Form 20-F about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this Form 20-F the contract or document is deemed to modify the description contained in this Form 20-F. You must review the exhibits themselves for a complete description of the contract or document.

Our Articles of Association, the minutes of our annual shareholders' meetings, reports of the auditors and other corporate documentation may be consulted by the shareholders and any other individual authorized to



---

**Table of Contents**

attend the meetings at our head office at Schiphol Airport Amsterdam, The Netherlands, at the registered offices of the Managing Board in Geneva, Switzerland and at Cr dit Agricole-Indosuez, 9, Quai du Pr sident Paul-Doumer, 92400 Courbevoie, France.

You may review a copy of our filings with the U.S. Securities and Exchange Commission (the SEC), including exhibits and schedules filed with it, at the SEC's public reference facilities in Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information. In addition, the SEC maintains an internet site ([www.sec.gov](http://www.sec.gov)) that contains reports and other information regarding issuers that file electronically with the SEC. These SEC filings are also available to the public from commercial document retrieval services.

WE ARE REQUIRED TO FILE REPORTS AND OTHER INFORMATION WITH THE SEC UNDER THE SECURITIES EXCHANGE ACT OF 1934. REPORTS AND OTHER INFORMATION FILED BY U.S. WITH THE SEC MAY BE INSPECTED AND COPIED AT THE SEC'S PUBLIC REFERENCE FACILITIES DESCRIBED ABOVE OR THROUGH THE INTERNET ([WWW.SEC.GOV](http://WWW.SEC.GOV)). AS A FOREIGN PRIVATE ISSUER, WE ARE EXEMPT FROM THE RULES UNDER THE EXCHANGE ACT PRESCRIBING THE FURNISHING AND CONTENT OF PROXY STATEMENTS AND OUR OFFICERS, DIRECTORS AND PRINCIPAL SHAREHOLDERS ARE EXEMPT FROM THE REPORTING AND SHORT-SWING PROFIT RECOVERY PROVISIONS CONTAINED IN SECTION 16 OF THE EXCHANGE ACT. UNDER THE EXCHANGE ACT, AS A FOREIGN PRIVATE ISSUER, WE ARE NOT REQUIRED TO PUBLISH FINANCIAL STATEMENTS AS FREQUENTLY OR AS PROMPTLY AS UNITED STATES COMPANIES.

In addition, material filed by us with the SEC can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, NY 10005 and at the offices of The Bank of New York Mellon, as New York Share Registrar, at 101 Barclay Street, New York, NY 10286 (telephone: 1-888-269-2377).

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to changes in financial market conditions in the normal course of business due to our operations in different foreign currencies and our ongoing investing and financing activities. Market risk is the uncertainty to which future earnings or asset/liability values are exposed due to operating cash flows denominated in foreign currencies and various financial instruments used in the normal course of operations. The major financial risks to which we are exposed are the foreign exchange risks related to the fluctuations of the U.S. dollar exchange rate compared to the Euro and the other major currencies in which costs are incurred, the variation of the interest rates and the risks associated to the investments of our available cash. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

Our interest income (expense), net, as reported in our consolidated statements of income, is the balance between interest income received from our cash and cash equivalents and marketable securities investments and interest expense paid on our financial liabilities and bank fees (including fees on committed credit lines). Our interest income is dependent upon fluctuations in interest rates, mainly in U.S. dollars and Euros, since we invest primarily on a short-term basis; any increase or decrease in the market interest rates would mean an equivalent increase or decrease in our interest income. See Item 5. Operating and Financial Review and Prospects Impact of Changes in Interest Rates .

We place our cash and cash equivalents, or a part of it, with financial institutions with at least single A long-term rating from two of the major rating agencies, meaning at least A3 from Moody's and A- from S&P's or Fitch, or better, invested as term deposits, treasury bills and FRN marketable securities and, as such, we are exposed to the fluctuations of the market interest rates on our placement and our cash, which can have an impact on our accounts. We manage the credit risks associated with financial instruments through credit approvals, investment limits and centralized monitoring procedures but do not normally require collateral or other security from the parties to the financial instruments. As of December 31, 2012, the treasury bills have a value of \$150 million and the marketable securities have a value of \$88 million. They are classified as available-for-sale and are reported at fair value, with changes in fair value recognized as a separate component of Accumulated other comprehensive income (loss) in the consolidated statements of equity, except if deemed to be other-than-temporary. The change in fair value of these instruments amounted to approximately \$1 million before tax for the year ended December 31, 2012. The estimated value of these securities could further decrease in the future as a result of credit market deterioration and/or other downgrading.

**Table of Contents**

We have significant operations in Europe, in particular our manufacturing activities in France, Italy and Malta, where our total net assets were approximately \$4 billion as of December 31, 2012. In the event of the re-denomination of currencies of these countries, we could be exposed to a material devaluation of their values against the U.S. dollar, which could lead to a significant reduction of the value of our assets when expressed in U.S. dollars.

We also have a significant amount of receivables relating to tax credits, refunds and funding from the governments of certain countries in the Euro zone. As of December 31, 2012, we had \$470 million of long-term government receivables almost entirely from France and Italy. In the event of a default of these countries, we could be required to recognize a significant loss.

We do not have any European sovereign debt exposure, having liquidated any European government securities that we previously held in January 2012.

We do not anticipate any material adverse effect on our financial position, results of operations or cash flows resulting from the use of our instruments in the future. There can be no assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The information below summarizes our market risks associated with cash and cash equivalents, short-term deposits, restricted cash, marketable securities and debt obligations as of December 31, 2012. The information below should be read in conjunction with Note 24 to our Consolidated Financial Statements.

The table below presents principal amounts and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations (in millions of U.S. dollars, except percentages):

|                               | Total           | 2013       | 2014       | 2015       | 2016       | 2017      | Thereafter | Fair Value<br>at<br>December 31,<br>2012 |
|-------------------------------|-----------------|------------|------------|------------|------------|-----------|------------|--|
| <b>Assets:</b>                |                 |            |            |            |            |           |            |  |
| Cash and cash equivalents     | \$ 2,250        |            |            |            |            |           |            | \$ 2,250                                 |
| Cash at bank and in hand      | \$ 239          |            |            |            |            |           |            | \$ 239                                   |
| Deposits at call with banks   | \$ 2,011        |            |            |            |            |           |            | \$ 2,011                                 |
| Short-term deposits           | \$ 1            |            |            |            |            |           |            | \$ 1                                     |
| Restricted cash               | \$ 4            |            |            |            |            |           |            | \$ 4                                     |
| Average interest rate         | 0.20%           |            |            |            |            |           |            |  |
| Current marketable securities | \$ 238          |            |            |            |            |           |            | \$ 238                                   |
| Average interest rate         | 0.15%           |            |            |            |            |           |            |  |
| <b>Long-term debt:</b>        | <b>\$ 1,301</b> | <b>630</b> | <b>165</b> | <b>144</b> | <b>134</b> | <b>58</b> | <b>170</b> | <b>\$ 1,301</b>                          |
| Average interest rate         | 0.81%           |            |            |            |            |           |            |  |

|   | Amounts in Millions of<br>U.S. Dollars    |
|---|---|
| Long-term debt by currency as of December 31, 2012: |   |
| U.S. dollar   | \$ 689                                    |
| Euro  | 612                                       |
| <b>Total in U.S. dollars</b>                        | <b>\$ 1,301</b>                           |
|   | Amounts in Millions<br>of<br>U.S. Dollars |
| Long-term debt by currency as of December 31, 2011: |   |
| U.S. dollar   | \$ 694                                    |
| Euro  | 465                                       |
| <b>Total in U.S. dollars</b>                        | <b>\$ 1,159</b>                           |





**Table of Contents**

The following table provides information about our FX forward contracts and FX currency options at December 31, 2012 (in millions of U.S. dollars):

**FORWARD CONTRACTS AND CURRENCY OPTIONS AT DECEMBER 31, 2012**

|     |     |      |     | <b>Notional Amount</b> | <b>Average Rate</b> | <b>Fair Value</b> |
|-----|-----|------|-----|------------------------|---------------------|-------------------|
| Buy | EUR | Sell | USD | 291                    | 1.3195              | 4                 |
| Buy | JPY | Sell | EUR | 4                      | 113.6353            | 0                 |
| Buy | EUR | Sell | JPY | 6                      | 113.3413            | 0                 |
| Buy | USD | Sell | INR | 42                     | 54.9706             | 0                 |
| Buy | USD | Sell | JPY | 33                     | 85.8875             | 1                 |
| Buy | JPY | Sell | USD | 10                     | 85.8910             | 0                 |
| Buy | SGD | Sell | USD | 77                     | 1.2207              | 0                 |
| Buy | MYR | Sell | USD | 14                     | 3.0597              | 0                 |
| Buy | GBP | Sell | USD | 32                     | 1.6185              | 0                 |
| Buy | SEK | Sell | USD | 118                    | 6.5254              | 1                 |
| Buy | CZK | Sell | USD | 0                      | 19.0259             | 0                 |
| Buy | CHF | Sell | USD | 82                     | 0.9151              | 0                 |
| Buy | CNY | Sell | USD | 47                     | 6.2386              | 0                 |
| Buy | KRW | Sell | USD | 15                     | 1,063.4208          | 0                 |
| Buy | TWD | Sell | USD | 8                      | 29.0001             | 0                 |
| Buy | PHP | Sell | USD | 1                      | 41.0000             | 0                 |
| Buy | NOK | Sell | USD | 13                     | 5.5817              | 0                 |
| Buy | BRL | Sell | USD | 14                     | 2.0584              | 0                 |
| Buy | ZAR | Sell | USD | 0                      | 8.4945              | 0                 |
| Buy | TND | Sell | USD | 1                      | 1.5500              | 0                 |
| Buy | HUF | Sell | USD | 0                      | 220.8676            | 0                 |
| Buy | USD | Sell | CAD | 9                      | 0.9972              | 0                 |
| Buy | PLN | Sell | USD | 0                      | 3.0826              | 0                 |

817

6

The following table provides information about our FX forward contracts and FX currency options at December 31, 2011 (in millions of U.S. dollars):

**FORWARD CONTRACTS AND CURRENCY OPTIONS AT DECEMBER 31, 2011**

|     |     |      |     | <b>Notional Amount</b> | <b>Average Rate</b> | <b>Fair Value</b> |
|-----|-----|------|-----|------------------------|---------------------|-------------------|
| Buy | EUR | Sell | USD | 68                     | 1.29                | (1)               |
| Buy | JPY | Sell | EUR | 10                     | 100.07              | 0                 |
| Buy | USD | Sell | INR | 33                     | 53.20               | (1)               |
| Buy | USD | Sell | JPY | 16                     | 77.33               | (1)               |
| Buy | JPY | Sell | USD | 21                     | 77.34               | 0                 |
| Buy | SGD | Sell | USD | 110                    | 1.30                | 0                 |
| Buy | MYR | Sell | USD | 13                     | 3.17                | 0                 |
| Buy | GBP | Sell | USD | 37                     | 1.55                | (1)               |
| Buy | SEK | Sell | USD | 109                    | 6.42                | (2)               |
| Buy | CZK | Sell | USD | 1                      | 18.95               | 0                 |
| Buy | CHF | Sell | USD | 51                     | 0.73                | 0                 |
| Buy | CNY | Sell | USD | 21                     | 6.30                | 0                 |
| Buy | TWD | Sell | USD | 9                      | 30.28               | 0                 |
| Buy | PHP | Sell | USD | 4                      | 43.82               | 0                 |
| Buy | NOK | Sell | USD | 7                      | 6.02                | 0                 |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|     |            |      |            |     |       |     |
|-----|------------|------|------------|-----|-------|-----|
| Buy | <b>BRL</b> | Sell | <b>USD</b> | 6   | 11.22 | 0   |
| Buy | <b>ZAR</b> | Sell | <b>USD</b> | 0   | 0.80  | 0   |
| Buy | <b>TND</b> | Sell | <b>USD</b> | 1   | 1.20  | 0   |
| Buy | <b>PLN</b> | Sell | <b>USD</b> | 0   | 0.20  | 0   |
|     |            |      |            | 517 |       | (6) |

## **Table of Contents**

### **Item 12. Description of Securities Other than Equity Securities**

We sell ordinary shares in the United States that are evidenced by American registered certificates ( New York Shares ). In connection therewith, a holder of our New York Shares may have to pay, either directly or indirectly, certain fees and charges, as described in Item 12D.3. In addition, we receive fees and other direct and indirect payments from our New York agent, Bank of New York Mellon ( BNY Mellon or New York Agent ), located at 101 Barclay Street, New York, NY 10286, that are related to our New York Shares, as described in Item 12D.4.

#### **12.D.3 Fees and Charges that a holder of our New York Shares May Have to Pay**

BNY Mellon collects fees for the delivery and surrender of New York Shares directly from investors depositing or surrendering New York Shares for the purpose of withdrawal or from intermediaries acting for them. BNY Mellon does not have the right to assess cash distribution fees or annual service fees on holders of our New York Shares.

Persons depositing or withdrawing our New York Shares must pay to BNY Mellon:

\$5.00 (or less) per 100 New York Shares (or portion of 100 New York Shares) for the issuance of New York Shares, including issuances resulting from a distribution of shares or rights or other property, and cancellation of New York Shares for the purpose of withdrawal, including if the New York Share agreement terminates;

Taxes and other governmental charges BNY Mellon or the custodian have to pay on any New York Shares or share underlying a New York Share, such as stock transfer, stamp duty or withholding taxes, as necessary; and

Any charges incurred by the New York Agent or its agents for servicing the deposited securities, as necessary.

#### **12D.4 Fees and Other Payments Made by the New York Agent to Us**

In 2012, a total of \$1,000,000 was paid by BNY Mellon to us or on our behalf for our New York Share program. Specifically, the following types of fees were paid: our NYSE annual listing fees; investor relations fees paid to third party vendors; BNY Mellon custodian fees, standard out-of-pocket maintenance costs paid to vendors for the New York Shares (primarily consisting of expenses related to our Annual General Meeting, such as those for the production and distribution of proxy materials, customization of voting cards and tabulation of shareholder votes) and other expenses related to Sarbanes-Oxley compliance.

**Table of Contents**

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**Disclosure Controls and Procedures**

*Evaluation*

Our management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures ( Disclosure Controls ) as of the end of the period covered by this Form 20-F. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 20-F, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis.

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, our implementation of the controls and their effect on the information generated for use in this Form 20-F. In the course of the controls evaluation, we reviewed identified data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed at least on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 6-K and Form 20-F. The components of our Disclosure Controls are also evaluated on an ongoing basis by our Internal Audit Department, which reports directly to our Audit Committee. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

In connection with our Disclosure Controls evaluation, we have received a certification from ST-Ericsson's management with respect to their internal controls at ST-Ericsson and their affiliates, which are consolidated in our financial statements but which act as independent companies under the 50-50% governance structure of their two parents.

Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this Form 20-F, our Disclosure Controls (including those at ST-Ericsson) were effective.

*Changes in Internal Control over Financial Reporting*

There were no changes to our internal control over financial reporting that occurred during the period covered by this form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Limitations on Effectiveness of Controls*

No system of internal control over financial reporting, including one determined to be effective, may prevent or detect all misstatements. It can provide only reasonable assurance regarding financial statement preparation and presentation. Also, projections of the results of any evaluation of the effectiveness of internal control over financial reporting into future periods are subject to inherent risk that the relevant controls may

become inadequate due to changes in circumstances or that the degree of compliance with the underlying policies or procedures may deteriorate.

## **Table of Contents**

### ***Other Reviews***

We have sent this Form 20-F to our Audit Committee and Supervisory Board, which had an opportunity to raise questions with our management and independent auditors before we filed it with the SEC.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012, the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. Based on this assessment management concluded that, as of December 31, 2012, our internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers SA, an independent registered public accounting firm, as stated in their report which appears in Item 18 of this Form 20-F.

### **Attestation Report of the Registered Public Accounting Firm**

Please see the Report of Independent Registered Accounting Firm included in our Consolidated Financial Statements.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the period covered by the Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During 2009, we and Ericsson formed a wireless joint venture owned 50% plus + 1 share by us and governed by a Board of Directors comprised of eight members, half designated by us and half by Ericsson. The design and operation of ST-Ericsson's internal control is under the responsibility of ST-Ericsson's CEO and CFO, on whose certification we rely.

### **Item 16A. Audit Committee Financial Expert**

Our Supervisory Board has concluded that Tom de Waard, a member of our Audit Committee, qualified as an audit committee financial expert as defined in Item 16A and is independent as defined in the listing standards applicable to us as a listed issuer as required by Item 16A(2) of Form 20-F.

### **Item 16B. Code of Ethics Policy on Business Conduct and Ethics**

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Since 1987, we have had a corporate policy on Business Conduct and Ethics (the Ethics Policy ) for all of our employees, including our chief executive officer and chief financial officer. We have adapted and will amend



**Table of Contents**

this Ethics Policy as appropriate to reflect regulatory changes. The Ethics Policy is designed to promote honest and ethical business conduct, to deter wrongdoing and to provide principles to which our employees are expected to adhere and which they are expected to advocate.

The Ethics Policy provides that if any officer to whom it applies acts in contravention of its principles, we will take appropriate steps in terms of the procedures in place for fair disciplinary action. This action may, in cases of severe breaches, include dismissal. Our Ethics Policy on Business Conduct and Ethics is posted on our website ([www.st.com](http://www.st.com)).

**Item 16C. Principal Accountant Fees and Services**

PricewaterhouseCoopers SA has served as our independent registered public accounting firm since 1996. The auditors are elected by the shareholders meeting once every three years. PricewaterhouseCoopers was reelected for a three-year term by our May 3, 2011 shareholders meeting, which will expire at our shareholders meeting in 2014.

The following table presents the aggregate fees for professional audit services and other services rendered by PricewaterhouseCoopers SA to us in 2011 and 2012.

|   | 2012 <sup>(1)</sup> | Percentage<br>of Total<br>Fees | 2011 <sup>(1)</sup> | Percentage<br>of Total<br>Fees |
|---|---------------------|--------------------------------|---------------------|--------------------------------|
| <b>Audit Fees</b>   |                     |                                |                     |                                |
| Statutory audit, certification, audit of individual and Consolidated Financial Statements | \$ 6,745,561        | 99.3%                          | \$ 6,851,554        | 99.3%                          |
| Audit-related fees  | 15,817              | 0.2                            | 13,974              | 0.2                            |
| <b>Non-audit Fees</b>   |                     |                                |                     |                                |
| Tax compliance fees   | 34,855              | 0.5                            | 34,928              | 0.5                            |
| Other fees  |                     |                                |                     |                                |
| <b>Total</b>  | <b>\$ 6,796,233</b> | <b>100%</b>                    | <b>\$ 6,900,456</b> | <b>100%</b>                    |

(1) These figures include the fees paid for the audit of ST-Ericsson.

Audit Fees consist of fees billed for the annual audit of our company's Consolidated Financial Statements, the statutory audit of the financial statements of the Company's subsidiaries and consultations on complex accounting issues relating to the annual audit. Audit Fees also include services that only our independent auditor can reasonably provide, such as comfort letters and carve-out audits in connection with strategic transactions, certain regulatory-required attest and certifications letters, consents and the review of documents filed with U.S., French and Italian stock exchanges.

Audit-related services are assurance and related fees consisting of the audit of employee benefit plans, due diligence services related to acquisitions and certain agreed-upon procedures.

Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance in connection with tax audits and expatriate tax compliance.

**Audit Committee Pre-approval Policies and Procedures**

Our Audit Committee is responsible for selecting the independent registered public accounting firm to be employed by us to audit our financial statements, subject to ratification by the Supervisory Board and approval by our shareholders for appointment. Our Audit Committee also assumes responsibility (in accordance with Dutch law) for the retention, compensation, oversight and termination of any independent auditor employed by us. We adopted a policy (the Policy), which was approved in advance by our Audit Committee, for the pre-approval of audit and permissible non-audit services provided by our independent auditors (PricewaterhouseCoopers). The Policy defines those audit-related services eligible to be approved by our Audit Committee.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

All engagements with the external auditors, regardless of amount, must be authorized in advance by our Audit Committee, pursuant to the Policy and its pre-approval authorization or otherwise.

**Table of Contents**

The independent auditors submit a proposal for audit-related services to our Audit Committee on a quarterly basis in order to obtain prior authorization for the amount and scope of the services. The independent auditors must state in the proposal that none of the proposed services affect their independence. The proposal must be endorsed by the office of our CFO with an explanation of why the service is needed and the reason for sourcing it to the audit firm and validation of the amount of fees requested.

We do not intend to retain our independent auditors for permissible non-audit services other than by exception and within a limited amount of fees, and the Policy provides that such services must be explicitly authorized by our Audit Committee.

The Chief Audit and Risk Executive is responsible for monitoring that the actual fees are complying with the pre-approval amount and scope authorized by our Audit Committee. During 2012, all services provided to us by PricewaterhouseCoopers were approved by our Audit Committee pursuant to paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

| Period                   | Total Number of<br>Securities<br>Purchased | Average Price<br>Paid per<br>Security | Total Number of<br>Securities<br>Purchased as<br>Part of Publicly<br>Announced<br>Programs | Maximum<br>Number of<br>Securities that<br>May yet be<br>Purchased<br>Under the<br>Programs |
|--------------------------|--|---------------------------------------|--|---|
| 2012-01-01 to 2012-01-31 |  |                                       | 25,559,763   |   |
| 2012-02-01 to 2012-02-29 |  |                                       | 25,559,763   |   |
| 2012-03-01 to 2012-03-31 |  |                                       | 25,559,763   |   |
| 2012-04-01 to 2012-04-30 |  |                                       | 25,558,403   |   |
| 2012-05-01 to 2012-05-31 |  |                                       | 23,320,151   |   |
| 2012-06-01 to 2012-06-30 |  |                                       | 23,315,548   |   |
| 2012-07-01 to 2012-07-31 |  |                                       | 22,633,616   |   |
| 2012-08-01 to 2012-08-31 |  |                                       | 22,633,616   |   |
| 2012-09-01 to 2012-09-30 |  |                                       | 22,631,701   |   |
| 2012-10-01 to 2012-10-31 |  |                                       | 22,631,701   |   |
| 2012-11-01 to 2012-11-30 |  |                                       | 22,626,035   |   |
| 2012-12-01 to 2012-12-31 |  |                                       | 22,606,603   |   |

As of December 31, 2012 we held 22,606,603 of our common shares in treasury pursuant to repurchases made in prior years, and as of January 31, 2013 we hold 22,592,633 of such shares. We did not repurchase our common shares in 2012 and we have not announced any additional repurchase programs.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

Our consistent commitment to the principles of good corporate governance is evidenced by:

Our corporate organization under Dutch law that entrusts our management to a Managing Board acting under the supervision and control of a Supervisory Board totally independent from the Managing Board. Members of our Managing Board and of our Supervisory Board are appointed and dismissed by our shareholders.

Our early adoption of policies on important issues such as business ethics and conflicts of interest and strict policies to comply with applicable regulatory requirements concerning financial reporting, insider trading and public disclosures.

Our compliance with Dutch securities laws, because we are a company incorporated under the laws of The Netherlands, as well as our compliance with American, French and Italian securities laws, because our shares are listed in these jurisdictions, in addition to our compliance with the corporate, social and financial laws applicable to our subsidiaries in the countries in which we do business.

---

## **Table of Contents**

Our broad-based activities in the field of corporate social responsibility, encompassing environmental, social, health, safety, educational and other related issues.

Our implementation of a non-compliance reporting channel (managed by a third party) for issues regarding accounting, internal controls or auditing. A special ombudsperson has been appointed by our Supervisory Board, following the proposal of its Audit Committee, to collect all complaints, whatever their source, regarding accounting, internal accounting controls or auditing matters, as well as the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.

Our Principles of Sustainable Excellence ( PSE ), which require us to integrate and execute all of our business activities, focusing on our employees, customers, shareholders and global business partners;

Our Corporate Ethics Committee, whose mandate is to provide guidance and recommendations to the management and employees of STMicroelectronics in their efforts to comply with ethics-related policies, procedures and principles applicable throughout the Company;

Our Corporate Compliance Officer, who reports directly to the Chief Administrative Officer, also acts as Executive Secretary to our Supervisory Board; and

Our Chief Audit and Risk Executive, who reports directly to our Audit Committee for Internal Audit and directly to the CEO for ERM and Business Ethics Oversight activities (including our Corporate Ethics Committee, our whistle-blowing hotline and reporting on related investigations).

As a Dutch company, we are subject to the Dutch Corporate Governance Code as revised by the Dutch Corporate Governance Monitoring Committee on December 10, 2008. As we are listed on the NYSE, Euronext Paris, the Borsa Italiana in Milan, but not in The Netherlands, our policies and practices cannot be in every respect consistent with all Dutch Best Practice recommendations. We have summarized our policies and practices in the field of corporate governance in the ST Corporate Governance Charter, including our corporate organization, the remuneration principles which apply to our Managing and Supervisory Boards, our information policy and our corporate policies relating to business ethics and conflicts of interests, which was approved by our shareholders at our 2004 annual shareholders meeting. We are committed to informing our shareholders of any significant changes in our corporate governance policies and practices at our annual shareholders meeting. Along with our Supervisory Board Charter (which includes the charters of our Supervisory Board Committees) and our Code of Business Conduct and Ethics, the current version of our ST Corporate Governance Charter is posted on our website ([www.st.com](http://www.st.com)), and these documents are available in print to any shareholder who may request them.

Our Supervisory Board is carefully selected based upon the combined experience and expertise of its members. Certain of our Supervisory Board members, as disclosed in their biographies set forth above, have existing relationships or past relationships with FTICI, FSI, CEA and the Italian Ministry of the Economy and Finance, who are currently parties to the STH Shareholders Agreement as well as with ST Holding, our major shareholder or with other parties that are among our suppliers, customers or technology partners. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreement STH Shareholders Agreement . See also Item 3. Key Information Risk Factors Risks Related to Our Operations The interests of our controlling shareholders, which are in turn controlled respectively by the French and Italian governments, may conflict with investors interests . Such relationships may give rise to potential conflicts of interest. However, in fulfilling their duties under Dutch law, Supervisory Board members serve the best interests of all of our stakeholders and of our business and must act independently in their supervision of our management. Our Supervisory Board has adopted criteria to assess the independence of its members in accordance with corporate governance listing standards of the NYSE.

Our Supervisory Board has on various occasions discussed Dutch corporate governance standards, the implementing rules and corporate governance standards of the SEC and of the NYSE, as well as other corporate governance standards.

The Supervisory Board has determined, based on the evaluations by an ad hoc committee, the following independence criteria for its members: Supervisory Board members must not have any material relationship with STMicroelectronics N.V., or any of our consolidated subsidiaries, or our management. A material relationship can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others, but does not include a relationship with direct or indirect shareholders.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

We believe we are fully compliant with all material NYSE corporate governance standards, to the extent possible for a Dutch company listed on Euronext Paris, Borsa Italiana, as well as the NYSE. Because we are a

**Table of Contents**

Dutch company, the Audit Committee is an advisory committee to the Supervisory Board, which reports to the Supervisory Board, and our shareholders must approve the selection of our statutory auditors. Our Audit Committee has established a charter outlining its duties and responsibilities with respect to the monitoring of our accounting, auditing, financial reporting and the appointment, retention and oversight of our external auditors. In addition, our Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential anonymous submission by our employees regarding questionable accounting or auditing matters.

No member of the Supervisory Board or Managing Board has been (i) subject to any convictions in relation to fraudulent offenses during the five years preceding the date of this Form 20-F, (ii) no member has been associated with any company in bankruptcy, receivership or liquidation in the capacity of member of the administrative, management or supervisory body, partner with unlimited liability, founder or senior manager in the five years preceding the date of this Form 20-F or (iii) subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including professional bodies) or disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer during the five years preceding the date of this Form 20-F.

Pursuant to our Supervisory Board Charter, the Supervisory Board is responsible for handling and deciding on potential reported conflicts of interests between the Company and members of the Supervisory Board, as well as the Managing Board. One of the members of our Supervisory Board is a member of the Board of Directors of Technicolor, one of the members of our Supervisory Board is a member of the Supervisory Board of BESI and one of the members of our Supervisory Board is a director of Oracle Corporation ( Oracle ) and Flextronics International. One of our executive officers is a member of the Board of Directors of Soitec and Adecco. Adecco, as well as Oracle s subsidiary PeopleSoft, supply certain services to our Company. We have also conducted transactions with Soitec and BESI as well as with Technicolor and Flextronics. Each of the aforementioned arrangements and transactions is negotiated without the personal involvement of our Supervisory Board members and we believe that they are made on an arm s length basis in line with market practices and conditions. Please see Item 7. Major Shareholders and Related Party Transactions .

**Table of Contents****PART III****Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

|   | <b>Page</b> |
|---|-------------|
| <b>Financial Statements:</b>  |             |
| <u>Report of Independent Registered Public Accounting Firm for Years Ended December 31, 2012, 2011 and 2010</u>   | F-2         |
| <u>Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010</u>                     | F-3         |
| <u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010</u>       | F-4         |
| <u>Consolidated Balance Sheets at December 31, 2012 and 2011</u>  | F-5         |
| <u>Consolidated Statements of Equity for the Years Ended December 31, 2012, 2011 and 2010</u>                     | F-7         |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010</u>                 | F-8         |
| <u>Notes to Consolidated Financial Statements</u>   | F-10        |
| <b>Financial Statement Schedule:</b>  |             |
| <u>For each of the three years in the period ended December 31, Schedule II Valuation and Qualifying Accounts</u> | S-1         |

**Item 19. Exhibits**

- 1.1 Amended and Related Articles of Association of STMicroelectronics N.V., dated May 20, 2009, as adopted by the annual general meeting of Shareholders on May 20, 2009 (incorporated by reference from Form 20-F of STMicroelectronics N.V. filed on March 10, 2010).
- 8.1 Subsidiaries and Equity-method Investments of the Company.
- 12.1 Certification of Carlo Bozotti, President and Chief Executive Officer and Sole Member of the Managing Board of STMicroelectronics N.V., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Mario Arlati, Executive Vice President and Chief Financial Officer of STMicroelectronics N.V., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Carlo Bozotti, President and Chief Executive Officer and Sole Member of the Managing Board of STMicroelectronics N.V., and Mario Arlati, Executive Vice President and Chief Financial Officer of STMicroelectronics N.V., pursuant to 18 U.S.C. §1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 Consent of Independent Registered Public Accounting Firm.
- 101 Interactive Data File



**Table of Contents****CERTAIN TERMS**

|        |   |
|--------|---|
| ASD    | application-specific discrete technology  |
| ASIC   | application-specific integrated circuit   |
| ASSP   | application-specific standard product   |
| BCD    | bipolar, CMOS and DMOS process technology   |
| BiCMOS | bipolar and CMOS process technology   |
| CMOS   | complementary metal-on silicon oxide semiconductor  |
| CODEC  | audio coding and decoding functions   |
| DMOS   | diffused metal-on silicon oxide semiconductor   |
| DRAMs  | dynamic random access memory  |
| DSP    | digital signal processor  |
| EMAS   | Eco-Management and Audit Scheme, the voluntary European Community scheme for companies performing industrial activities for the evaluation and improvement of environmental performance |
| EEPROM | electrically erasable programmable read-only memory   |
| EPROM  | erasable programmable read-only memory  |
| EWS    | electrical wafer sorting  |
| GPS    | global positioning system   |
| HCMOS  | high-speed complementary metal-on silicon oxide semiconductor   |
| IC     | integrated circuit  |
| IGBT   | insulated gate bipolar transistors  |
| IP     | intellectual property   |
| IPAD   | integrated passive and active devices   |
| ISO    | International Organization for Standardization  |
| MEMS   | micro-electro-mechanical system   |
| MOS    | metal-on silicon oxide semiconductor process technology   |
| MOSFET | metal-on silicon oxide semiconductor field effect transistor  |
| NFC    | near field communication  |
| ODM    | original design manufacturer  |
| OEM    | original equipment manufacturer   |
| PDIP   | plastic dual in-line package  |
| QFP    | quad-flat no-leads package  |
| QFN    | quad-flat package   |
| RAM    | random access memory  |
| RF     | radio frequency   |
| SAM    | serviceable available market  |
| SiP    | system-in-package   |
| SoC    | system-on-chip  |
| SOI    | silicon on insulator  |
| SOIC   | small-outline integrated circuit  |

|          |  |
|----------|--|
| SPEAr    | structured processor enhanced architecture |
| SRAM     | static random access memory                |
| TAM      | total available market                     |
| VIPpower | vertical integration power                 |

**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: March 4, 2013

STMICROELECTRONICS N.V.

By: /s/ Carlo Bozotti  
**Carlo Bozotti**  
**President and Chief Executive Officer**

**Table of Contents**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Index to Consolidated Financial Statements**

|   | <b>Page</b> |
|---|-------------|
| <b>Financial Statements:</b>  |             |
| <u>Report of Independent Registered Public Accounting Firm for Years Ended December 31, 2012, 2011 and 2010</u>   | F-2         |
| <u>Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010</u>                     | F-3         |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010              | F-4         |
| <u>Consolidated Balance Sheets as at December 31, 2012 and 2011</u>   | F-5         |
| <u>Consolidated Statements of Equity for the Years Ended December 31, 2012, 2011 and 2010</u>                     | F-7         |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010</u>                 | F-8         |
| <u>Notes to Consolidated Financial Statements</u>   | F-10        |
| <b>Financial Statement Schedule:</b>  |             |
| <u>For each of the three years in the period ended December 31, Schedule II Valuation and Qualifying Accounts</u> | S-1         |

**Table of Contents****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****To the Supervisory Board and Shareholders of STMicroelectronics N.V.:**

In our opinion, the consolidated financial statements of STMicroelectronics N.V. listed in the index appearing under Item 18 of this 2012 Annual Report to Shareholders on Form 20-F present fairly, in all material respects, the financial position of STMicroelectronics N.V. and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule of STMicroelectronics N.V. listed in the index appearing under Item 18 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting, appearing under Item 15 of this 2012 Annual Report to Shareholders on Form 20-F. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers SA

/s/ Travis Randolph  
Travis Randolph

/s/ Felix Roth  
Felix Roth

Geneva, Switzerland  
March 4, 2013

**Table of Contents**

STMicroelectronics N.V.

**CONSOLIDATED STATEMENTS OF INCOME**

| In million of U.S. dollars except per share amounts                             | December 31,<br>2012 | Twelve months ended<br>December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|---|----------------------|
| Net sales   | 8,380                | 9,630                                       | 10,262               |
| Other revenues  | 113                  | 105   | 84                   |
| <b>Net revenues</b>   | <b>8,493</b>         | <b>9,735</b>                                | <b>10,346</b>        |
| Cost of sales   | (5,710)              | (6,161)                                     | (6,331)              |
| <b>Gross profit</b>   | <b>2,783</b>         | <b>3,574</b>                                | <b>4,015</b>         |
| Selling, general and administrative   | (1,166)              | (1,210)                                     | (1,175)              |
| Research and development  | (2,413)              | (2,352)                                     | (2,350)              |
| Other income and expenses, net  | 91                   | 109   | 90                   |
| Impairment, restructuring charges and other related closure costs               | (1,376)              | (75)  | (104)                |
| <b>Operating income (loss)</b>  | <b>(2,081)</b>       | <b>46</b>                                   | <b>476</b>           |
| Other-than-temporary impairment charge and realized gains on financial assets   |                      | 318   |                      |
| Interest expense, net   | (35)                 | (25)  | (3)                  |
| Income (loss) on equity-method investments and gain on investment divestiture   | (24)                 | (28)  | 242                  |
| Gain (loss) on financial instruments, net                                       | 3                    | 25  | (24)                 |
| <b>Income (loss) before income taxes and noncontrolling interest</b>            | <b>(2,137)</b>       | <b>336</b>                                  | <b>691</b>           |
| Income tax expense  | (51)                 | (181)                                       | (149)                |
| <b>Net income (loss)</b>  | <b>(2,188)</b>       | <b>155</b>                                  | <b>542</b>           |
| Net loss (income) attributable to noncontrolling interest                       | 1,030                | 495   | 288                  |
| <b>Net income (loss) attributable to parent company</b>                         | <b>(1,158)</b>       | <b>650</b>                                  | <b>830</b>           |
| <b>Earnings per share (Basic) attributable to parent company stockholders</b>   | <b>(1.31)</b>        | <b>0.74</b>                                 | <b>0.94</b>          |
| <b>Earnings per share (Diluted) attributable to parent company stockholders</b> | <b>(1.31)</b>        | <b>0.72</b>                                 | <b>0.92</b>          |

The accompanying notes are an integral part of these audited consolidated financial statements

**Table of Contents**

STMicroelectronics N.V.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| In million of U.S. dollars   | December 31,<br>2012 | Twelve months ended<br>December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|---|----------------------|
| <b>Net income (loss)</b>   | <b>(2,188)</b>       | <b>155</b>                                  | <b>542</b>           |
| <b>Other comprehensive income (loss), net of tax :</b>                               |                      |   |                      |
| Currency translation adjustments arising during the period                           | 64                   | (106)                                       | (224)                |
| Less : reclassification adjustment for gain on equity investment divestiture         |                      |   | (37)                 |
| Foreign currency translation adjustments   | 64                   | (106)                                       | (261)                |
| Unrealized gains (losses) arising during the period                                  | 6                    |   | (16)                 |
| Less : reclassification adjustment for (income) losses included in net income (loss) |                      | (33)  | 45                   |
| Unrealized gains (losses) on securities  | 6                    | (33)  | 29                   |
| Unrealized gains (losses) arising during the period                                  | 30                   | (13)  | (2)                  |
| Less : reclassification adjustment for (income) losses included in net income (loss) | 59                   | (112)                                       | 58                   |
| Unrealized gains (losses) on derivatives   | 89                   | (125)                                       | 56                   |
| Prior service cost arising during the period   | (4)                  |   | (12)                 |
| Net gains (losses) arising during the period   | (20)                 | (72)  | (13)                 |
| Less : amortization of prior service cost included in net periodic pension cost      | 5                    | 1   | 5                    |
| Defined benefit pension plans  | (19)                 | (71)  | (20)                 |
| <b>Other comprehensive income (loss), net of tax</b>                                 | <b>140</b>           | <b>(335)</b>                                | <b>(196)</b>         |
| <b>Comprehensive income (loss)</b>   | <b>(2,048)</b>       | <b>(180)</b>                                | <b>346</b>           |
| Less : comprehensive income (loss) attributable to noncontrolling interest           | (1,014)              | (521)                                       | (299)                |
| <b>Comprehensive income (loss) attributable to the company's stockholders</b>        | <b>(1,034)</b>       | <b>341</b>                                  | <b>645</b>           |

The accompanying notes are an integral part of these audited consolidated financial statements

**Table of Contents**

STMicroelectronics N.V.

**CONSOLIDATED BALANCE SHEETS**

| <b>In million of U.S. dollars</b>  | <b>December 31,</b> | <b>As at</b>        |
|------------------------------------|---------------------|---------------------|
|                                    | <b>2012</b>         | <b>December 31,</b> |
|                                    |                     | <b>2011</b>         |
| <b>Assets</b>                      |                     |                     |
| <b>Current assets :</b>            |                     |                     |
| Cash and cash equivalents          | 2,250               | 1,912               |
| Restricted cash                    |                     | 3                   |
| Short-term deposits                | 1                   |                     |
| Marketable securities              | 238                 | 413                 |
| Trade accounts receivable, net     | 1,005               | 1,046               |
| Inventories                        | 1,353               | 1,531               |
| Deferred tax assets                | 137                 | 141                 |
| Assets held for sale               |                     | 28                  |
| Other current assets               | 518                 | 506                 |
| <b>Total current assets</b>        | <b>5,502</b>        | <b>5,580</b>        |
| Goodwill                           | 141                 | 1,059               |
| Other intangible assets, net       | 213                 | 645                 |
| Property, plant and equipment, net | 3,481               | 3,920               |
| Non-current deferred tax assets    | 414                 | 332                 |
| Restricted cash                    | 4                   | 5                   |
| Long-term investments              | 119                 | 121                 |
| Other non-current assets           | 560                 | 432                 |
|                                    | <b>4,932</b>        | <b>6,514</b>        |
| <b>Total assets</b>                | <b>10,434</b>       | <b>12,094</b>       |



**Table of Contents**

| In million of U.S. dollars   | December 31,<br>2012 | As at<br>December 31,<br>2011 |
|--|----------------------|-------------------------------|
| <b>Liabilities and equity</b>  |                      |                               |
| <b>Current liabilities:</b>  |                      |                               |
| Bank overdrafts  |                      | 7                             |
| Short-term debt  | 630                  | 733                           |
| Trade accounts payable   | 797                  | 656                           |
| Other payables and accrued liabilities   | 942                  | 976                           |
| Dividends payable to stockholders  | 89                   | 88                            |
| Deferred tax liabilities   | 11                   | 14                            |
| Accrued income tax   | 86                   | 95                            |
| <b>Total current liabilities</b>   | <b>2,555</b>         | <b>2,569</b>                  |
| Long-term debt   | 671                  | 826                           |
| Post-retirement benefit obligations  | 477                  | 409                           |
| Long-term deferred tax liabilities   | 14                   | 21                            |
| Other long-term liabilities  | 353                  | 273                           |
|  | <b>1,515</b>         | <b>1,529</b>                  |
| <b>Total liabilities</b>   | <b>4,070</b>         | <b>4,098</b>                  |
| Commitment and contingencies   |                      |                               |
| <b>Equity</b>  |                      |                               |
| Parent company stockholders' equity  |                      |                               |
| Common stock (preferred stock: 540,000,000 shares authorized, not issued; common stock: Euro 1.04 par value, 1,200,000,000 shares authorized, 910,559,805 shares issued, 887,953,202 shares outstanding) | 1,156                | 1,156                         |
| Capital surplus  | 2,555                | 2,544                         |
| Retained earnings  | 1,959                | 3,504                         |
| Accumulated other comprehensive income   | 794                  | 670                           |
| Treasury stock   | (239)                | (271)                         |
| Total parent company stockholders' equity  | 6,225                | 7,603                         |
| Noncontrolling interest  | 139                  | 393                           |
| <b>Total equity</b>  | <b>6,364</b>         | <b>7,996</b>                  |
| <b>Total liabilities and equity</b>  | <b>10,434</b>        | <b>12,094</b>                 |

The accompanying notes are an integral part of these audited consolidated financial statements

**Table of Contents**

STMicroelectronics N.V.

**CONSOLIDATED STATEMENTS OF EQUITY**

| In million of U.S. dollars, except per share amounts | Common Stock | Capital Surplus | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Equity |
|--|--------------|-----------------|----------------|-------------------|---|-------------------------|--------------|
| <b>Balance as of December 31, 2009</b>               | <b>1,156</b> | <b>2,481</b>    | <b>(377)</b>   | <b>2,723</b>      | <b>1,164</b>                                  | <b>1,216</b>            | <b>8,363</b> |
| Stock-based compensation expense                     |              | 34              | 73             | (73)              |   |                         | 34           |
| Equity investment divestiture                        |              |                 |                | 8                 |   |                         | 8            |
| Comprehensive income (loss):                         |              |                 |                |                   |   |                         |              |
| Net income (loss)                                    |              |                 |                | 830               |   | (288)                   | 542          |
| Other comprehensive income (loss), net of tax        |              |                 |                |                   | (185)   | (11)                    | (196)        |
| Comprehensive income (loss)                          |              |                 |                |                   |   |                         | 346          |
| Dividends to noncontrolling interest                 |              |                 |                |                   |   | (7)                     | (7)          |
| Dividends, \$0.28 per share                          |              |                 |                | (247)             |   |                         | (247)        |
| <b>Balance as of December 31, 2010</b>               | <b>1,156</b> | <b>2,515</b>    | <b>(304)</b>   | <b>3,241</b>      | <b>979</b>                                    | <b>910</b>              | <b>8,497</b> |
| Stock-based compensation expense                     |              | 29              | 33             | (33)              |   |                         | 29           |
| Business combination                                 |              |                 |                |                   |   | 9                       | 9            |
| Comprehensive income (loss):                         |              |                 |                |                   |   |                         |              |
| Net income (loss)                                    |              |                 |                | 650               |   | (495)                   | 155          |
| Other comprehensive income (loss), net of tax        |              |                 |                |                   | (309)   | (26)                    | (335)        |
| Comprehensive income (loss)                          |              |                 |                |                   |   |                         | (180)        |
| Dividends to noncontrolling interest                 |              |                 |                |                   |   | (5)                     | (5)          |
| Dividends, \$0.40 per share                          |              |                 |                | (354)             |   |                         | (354)        |
| <b>Balance as of December 31, 2011</b>               | <b>1,156</b> | <b>2,544</b>    | <b>(271)</b>   | <b>3,504</b>      | <b>670</b>                                    | <b>393</b>              | <b>7,996</b> |
| Stock-based compensation expense                     |              | 11              | 32             | (32)              |   |                         | 11           |
| Contribution of noncontrolling interest              |              |                 |                |                   |   | 765                     | 765          |
| Comprehensive income (loss):                         |              |                 |                |                   |   |                         |              |
| Net loss   |              |                 |                | (1,158)           |   | (1,030)                 | (2,188)      |
| Other comprehensive income (loss), net of tax        |              |                 |                |                   | 124   | 16                      | 140          |
| Comprehensive income (loss)                          |              |                 |                |                   |   |                         | (2,048)      |
| Dividends to noncontrolling interest                 |              |                 |                |                   |   | (5)                     | (5)          |
| Dividends, \$0.40 per share                          |              |                 |                | (355)             |   |                         | (355)        |
| <b>Balance as of December 31, 2012</b>               | <b>1,156</b> | <b>2,555</b>    | <b>(239)</b>   | <b>1,959</b>      | <b>794</b>                                    | <b>139</b>              | <b>6,364</b> |

The accompanying notes are an integral part of these audited consolidated financial statements

**Table of Contents**

STMicroelectronics N.V.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| In million of U.S. dollars  | December 31,<br>2012 | Twelve Months Ended<br>December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|---|----------------------|
| <b>Cash flows from operating activities:</b>  |                      |   |                      |
| <b>Net income (loss)</b>  | (2,188)              | 155   | 542                  |
| <b>Items to reconcile net income (loss) and cash flows from operating activities:</b>   |                      |   |                      |
| Depreciation and amortization   | 1,107                | 1,279                                       | 1,240                |
| Other-than-temporary impairment charge and realized gains on financial assets           |                      | (318)                                       |                      |
| (Gain) loss on financial instruments, net   | (3)                  | (25)  | 24                   |
| Non-cash stock-based compensation   | 11                   | 29  | 34                   |
| Other non-cash items  | (65)                 | (151)                                       | (112)                |
| Deferred income tax   | (80)                 | 47  | 120                  |
| Loss (income) on equity-method investments and (gain) on investment divestiture         | 24                   | 28  | (245)                |
| Impairment, restructuring charges and other related closure costs, net of cash payments | 1,303                | (79)  | (38)                 |
| <b>Changes in assets and liabilities:</b>   |                      |   |                      |
| Trade receivables, net  | 35                   | 184   | 139                  |
| Inventories, net  | 191                  | (59)  | (252)                |
| Trade payables  | 148                  | (384)                                       | 212                  |
| Other assets and liabilities, net   | 129                  | 174   | 130                  |
| <b>Net cash from operating activities</b>   | <b>612</b>           | <b>880</b>                                  | <b>1,794</b>         |
| <b>Cash flows from investing activities:</b>  |                      |   |                      |
| Payment for purchase of tangible assets   | (492)                | (1,284)                                     | (1,063)              |
| Proceeds from sale of tangible assets   | 16                   | 26  | 29                   |
| Payment for purchase of marketable securities   | (450)                | (352)                                       | (1,100)              |
| Proceeds from sale of marketable securities   | 630                  | 818   | 1,219                |
| Proceeds from settlement of non-current marketable securities                           |                      | 350   |                      |
| Investment in short-term deposits   |                      |   | (62)                 |
| Proceeds from matured short-term deposits   |                      | 73  |                      |
| Restricted cash   |                      | (95)  |                      |
| Release of restricted cash  | 3                    | 87  | 250                  |
| Investment in intangible and financial assets   | (117)                | (95)  | (112)                |
| Proceeds from sale of intangible and financial assets                                   | 15                   |   | 5                    |
| Net proceeds from sale of stock received on investment divestiture                      |                      | 195   | 319                  |
| Payment for business acquisitions, net of cash and cash equivalents acquired            | (1)                  | (10)  | (11)                 |
| <b>Net cash used in investing activities</b>  | <b>(396)</b>         | <b>(287)</b>                                | <b>(526)</b>         |

**Table of Contents**

| In million of U.S. dollars                                  | December 31,<br>2012 | Twelve Months Ended<br>December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|---|----------------------|
| <b>Cash flows from financing activities:</b>                |                      |   |                      |
| Proceeds from long-term debt                                | 464                  | 3   | 1                    |
| Proceeds from short-term borrowings                         | 390                  | 333   | 75                   |
| Repurchase of issued debt                                   | (219)                | (422)                                       | (508)                |
| Repayment of long-term debt                                 | (109)                | (108)                                       | (218)                |
| Repayment of short-term borrowings                          | (20)                 | (8)   |                      |
| Increase (decrease) in short-term facilities                | (7)                  | 7   |                      |
| Dividends paid to stockholders                              | (355)                | (327)                                       | (212)                |
| Dividends paid to noncontrolling interests                  | (5)                  | (5)   | (7)                  |
| Other financing activities                                  | (4)                  | (2)   | (7)                  |
| <b>Net cash from (used in) financing activities</b>         | <b>135</b>           | <b>(529)</b>                                | <b>(876)</b>         |
| Effect of changes in exchange rates                         | (13)                 | (44)  | (88)                 |
| <b>Net cash increase</b>                                    | <b>338</b>           | <b>20</b>                                   | <b>304</b>           |
| <b>Cash and cash equivalents at beginning of the period</b> | <b>1,912</b>         | <b>1,892</b>                                | <b>1,588</b>         |
| <b>Cash and cash equivalents at end of the period</b>       | <b>2,250</b>         | <b>1,912</b>                                | <b>1,892</b>         |
| Supplemental cash information:                              |                      |   |                      |
| Interest paid   | 26                   | 17  | 15                   |
| Income tax paid   | 51                   | 83  | 23                   |

The accompanying notes are an integral part of these audited consolidated financial statements

---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(in millions of U.S. dollars, except share and per-share amounts)

**1. THE COMPANY**

STMicroelectronics N.V. (the Company) is registered in The Netherlands with its corporate legal seat in Amsterdam, the Netherlands, and its corporate headquarters located in Geneva, Switzerland.

The Company is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits ( ICs ) and discrete devices. The Company offers a diversified product portfolio and develops products for a wide range of market applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Within its diversified portfolio, the Company is focused on developing products that leverage its technological strengths in creating customized, system-level solutions with digital and mixed-signal content.

**2. ACCOUNTING POLICIES**

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America ( U.S. GAAP ). All balances and values in the current and prior periods are in millions of U.S. dollars, except share and per-share amounts. Under Article 35 of the Company s Articles of Association, the financial year extends from January 1 to December 31, which is the period-end of each fiscal year.

**2.1 Principles of consolidation**

The Company s consolidated financial statements include the assets, liabilities, results of operations and cash flows of its majority-owned subsidiaries. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Intercompany balances and transactions have been eliminated in consolidation. In compliance with U.S. GAAP, the Company assesses for consolidation any entity identified as a Variable Interest Entity ( VIE ) and consolidates any VIEs, for which the Company is determined to be the primary beneficiary, as described in Note 2.9.

When the Company owns some, but not all, of the voting stock of a consolidated entity, the shares held by third parties represent a noncontrolling interest. The consolidated financial statements are prepared based on the total amount of assets and liabilities and income and expenses of the consolidated subsidiaries. However, the portion of these items that does not belong to the Company is reported on the line Noncontrolling interest in the consolidated financial statements.

**2.2 Use of estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions. The primary areas that require significant estimates and judgments by management include, but are not limited to:

sales returns and allowances,

determination of the best estimate of the selling price for deliverables in multiple element sale arrangements,

inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory,

provisions for litigation and claims and recognition and measurement of loss contingencies,

valuation at fair value of assets acquired in a business combination, including intangibles, goodwill, investments and tangible assets, as well as the impairment of their related carrying values, and valuation at fair value of assumed liabilities,

annual and trigger-based impairment review of goodwill and intangible assets, as well as an assessment, in each reporting period, of events, which could trigger interim impairment testing,

assessment of credit losses and other-than-temporary impairment charges on financial assets and equity investments,

restructuring charges,

F-10

**Table of Contents**

assumptions used in assessing the number of awards expected to vest on stock-based compensation plans,

assumptions used in calculating pension obligations, and

determination of the amount of taxes expected to be paid and tax benefit expected to be received, including deferred income tax assets and valuation allowances, and provisions for uncertain tax positions and claims.

The Company bases the estimates and assumptions on historical experience and on various other factors such as market trends and the latest available business plans that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. While the Company regularly evaluates its estimates and assumptions, the actual results experienced by the Company could differ materially and adversely from those estimates. To the extent there are material differences between the estimates and the actual results, future results of operations, cash flows and financial position could be significantly affected.

**2.3 Foreign currency**

The U.S. dollar is the reporting currency of the Company. The U.S. dollar is the currency of the primary economic environment in which the Company operates since the worldwide semiconductor industry uses the U.S. dollar as a currency of reference for actual pricing in the market. Furthermore, the majority of the Company's transactions are denominated in U.S. dollars, and revenues from external sales in U.S. dollars largely exceed revenues in any other currency. However, labor costs are concentrated primarily in the countries of the Euro zone.

The functional currency of each subsidiary of the Company is either the local currency or the U.S. dollar, depending on the basis of the economic environment in which each subsidiary operates. Foreign currency transactions, including operations in local currency when the U.S. dollar is the functional currency, are measured into the functional currency using the period average exchange rate. Foreign exchange gains and losses resulting from the translation at reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income on the line Other income and expenses, net.

For consolidation purposes, the results and financial position of the subsidiaries whose functional currency is different from the U.S. dollar are translated into the U.S. dollar reporting currency as follows:

- (a) assets and liabilities for each consolidated balance sheet presented are translated at the closing exchange rate as of the balance sheet date;
- (b) income and expenses for each consolidated statement of income presented are translated at the monthly average exchange rate;
- (c) the resulting exchange differences are reported as Currency Translation Adjustments (CTA), a component of Other comprehensive income (loss) in the consolidated statements of comprehensive income.

**2.4 Cash and cash equivalents**

Cash and cash equivalents represent cash on hand and deposits with external financial institutions with an original maturity of ninety days or less that are readily convertible in cash. Cash and cash equivalents include money market deposits as they are highly liquid investments. Bank overdrafts are not netted against cash and cash equivalents and are shown as part of current liabilities on the consolidated balance sheets.

**2.5 Trade accounts receivable**

Trade accounts receivable are amounts due from customers for goods sold and services rendered to third parties in the ordinary course of business. They are recognized at their billing value, net of allowances for doubtful accounts. The Company maintains an allowance for doubtful accounts for potential estimated losses resulting from its customers' inability to make required payments. The Company bases its estimates on historical collection trends and records a provision accordingly. Additionally, the Company evaluates its customers' financial condition periodically and records a provision for any specific account it considers as doubtful. The carrying amount of the receivable is thus reduced

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

through the use of an allowance account, and the amount of the charge is recognized on the line Selling, general and administrative in the consolidated statements of income.

F-11



**Table of Contents**

Subsequent recoveries, if any, of amounts previously provided for are credited against the same line in the consolidated statements of income. When a trade accounts receivable is uncollectible, it is written-off against the allowance account for trade accounts receivables.

In the event of sales of receivables such as factoring, the Company derecognizes the receivables and accounts for them as a sale only to the extent that the Company has surrendered control over the receivables in exchange for a consideration other than beneficial interest in the transferred receivables.

**2.6 Inventories**

Inventories are stated at the lower of cost or market value. Cost is based on the weighted average cost by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on the Company's manufacturing performance. In the case of underutilization of manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales. Market value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and cost of completion.

The Company performs, on a continuous basis, inventory write-offs of products, which have the characteristics of slow-moving, old production date and technical obsolescence. Additionally, the Company evaluates its product inventory to identify obsolete or slow-selling stock and records a specific provision if the Company estimates the inventory will eventually become obsolete. Provisions for obsolescence are estimated for excess uncommitted inventory based on the previous quarter sales, order backlog and production plans.

**2.7 Current and deferred income tax**

Income tax for the period comprises current and deferred income tax. Current income tax represents the income tax expected to be paid or the benefit expected to be received related to the current year income or loss in each individual tax jurisdiction. Deferred income tax is recognized, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. However deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates and laws that are enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The effect on deferred tax assets and liabilities from changes in tax laws and tax rates is recognized in earnings in the period in which the law is enacted. Deferred income tax assets are recognized in full, but the Company assesses whether future taxable profit will be available against which temporary differences can be utilized. A valuation allowance is provided for deferred tax assets when management considers it is more likely than not that they will not be realized.

The Company recognizes a deferred tax liability on undistributed earnings of subsidiaries when there is a presumption that the earnings will be remitted to the parent. This presumption is overcome only if the Company can demonstrate that the earnings will be permanently reinvested. A deferred tax asset is recognized on compensation for the grant of stock awards to the extent that such charge constitutes a temporary difference in the subsidiaries' local tax jurisdictions. Changes in the stock price do not impact the deferred tax asset and do not result in any adjustments prior to vesting. When the actual tax deduction is determined, generally upon vesting, it is compared to the deferred tax asset as recognized over the vesting period. When a windfall tax benefit is determined (as the excess tax benefit of the actual tax deduction over the deferred tax asset) the excess tax benefit is recorded in equity on the line "Capital surplus" on the consolidated statements of equity. In case of shortfall, only the actual tax benefit is to be recognized in the consolidated financial statements. The Company writes off the deferred tax asset at the level of the actual tax deduction by charging first capital surplus to the extent of the pool of windfall benefits available from prior years, and then earnings. When the settlement of an award results in a net operating loss (NOL) carryforward, or increase of existing NOLs, the excess tax benefit and the corresponding credit to capital surplus is not recorded until the deduction reduces income tax payable.

At each reporting date, the Company assesses all material open income tax positions in all tax jurisdictions to determine any uncertain tax positions. The Company uses a two-step process for the evaluation of uncertain tax positions. The first step consists of determining whether a benefit may be recognized; the assessment is based on a more-likely-than-not recognition threshold. If the sustainability is lower than 50%, a full provision should be

---

**Table of Contents**

accounted for. In case of a sustainability threshold in step one higher than 50 percent, the Company must perform a second step in order to measure the amount of recognizable tax benefit, net of any liability for tax uncertainties. The measurement methodology in step two is based on a cumulative probability approach, resulting in the recognition of the largest amount that is greater than 50 percent likely of being realized upon settlement with the taxing authority. The Company classifies interest and penalties related to uncertain tax positions as components of income tax expense in its consolidated statements of income.

**2.8 Assets held for sale**

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. The assets are classified as assets to be disposed of by sale when the following conditions have been met: management has approved the plan to sell; assets are available for immediate sale; assets are actively being marketed; sale is probable within one year; price is reasonable in the market and it is unlikely that there will be significant changes in the assets to be sold or a withdrawal to the plan to sell. Assets classified as held for sale are reported as current assets at the lower of their carrying amount and fair value less costs to sell. Costs to sell include incremental direct costs to transact the sale that would not have been incurred except for the decision to sell. Depreciation is not charged on long-lived assets classified as held-for-sale. When the held-for-sale accounting treatment requires an impairment charge for the difference between the carrying amount and fair value, such impairment is reflected on the consolidated statements of income on the line Impairment, restructuring charges and other related closure costs. If the long-lived assets no longer meet the held-for-sale model, they are reported as assets held for use and thus reclassified from current assets to the line Property, plant and equipment, net in the consolidated balance sheets. The assets are measured at the lower of their fair value at the date of the subsequent decision not to sell and their carrying amount prior to their classification as assets held for sale, adjusted for any depreciation that would have been recognized if the long-lived assets had not been classified as assets held for sale. Any required adjustment to the carrying value of the asset that is reclassified as held and used is recorded in the income statement at the time of the reclassification and reported in the same income statement caption that was used to report adjustments to the carrying value of the asset during the time it was held for sale (line Impairment, restructuring charges and other related closure costs).

**2.9 Business combinations and goodwill**

The Company assesses each investment in equity securities to determine whether the investee is a Variable Interest Entity ( VIE ). The Company consolidates the VIEs for which the Company is determined to be the primary beneficiary. The primary beneficiary of a VIE is the party that: (i) has the power to direct the most significant activities of the VIE and (ii) is obligated to absorb losses or has the rights to receive returns that would be considered significant to the VIE. Assets, liabilities, and the noncontrolling interest of newly consolidated VIEs are initially measured at fair value in the same manner as if the consolidation resulted from a business combination.

The purchase accounting method is applied to all business combinations. The identifiable assets acquired, equity instruments issued, and liabilities assumed are measured at fair value on the acquisition date. Any contingent purchase price and acquired contingencies are recorded at fair value on the acquisition date. Acquisition-related transaction costs and restructuring costs relating to the acquired business are expensed as incurred. Acquired in-process research and development ( IPR&D ) is capitalized and recorded as an intangible asset on the acquisition date, subject to impairment testing until the research or development is completed or abandoned. The excess of the aggregate of the consideration transferred and the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed is recorded as goodwill. In case of a bargain purchase, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed; the noncontrolling interest in the acquiree, if any; the Company's previously held equity interest in the acquiree, if any; and the consideration transferred. If after this review, a bargain purchase is still indicated, it is recognized in earnings attributed to the Company. The purchase of additional interests in a partially owned subsidiary is treated as an equity transaction as well as all transactions concerning the sale of subsidiary stock or the issuance of stock by the partially owned subsidiary as long as there is no change in control of the subsidiary. If as a consequence of selling subsidiary shares, the Company no longer controls the subsidiary, the Company recognizes a gain or loss in earnings.

Goodwill represents the excess of the aggregate of the consideration transferred and the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortized but is tested annually for impairment, or more frequently if indicators of impairment exist. Goodwill

---

**Table of Contents**

subject to potential impairment is tested at a reporting unit level, after performing a qualitative assessment to determine whether impairment testing is necessary, in cases where the Company has elected to apply such option. The impairment test determines whether the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, the Company uses a market approach with financial metrics of comparable public companies and estimates the expected discounted future cash flows associated with the reporting unit. Significant management judgments and estimates are used in forecasting the future discounted cash flows, including: the applicable industry's sales volume forecast and selling price evolution, the reporting unit's market penetration and its revenues evolution, the market acceptance of certain new technologies and products, the relevant cost structure, the discount rates applied using a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values.

**2.10 Intangible assets with finite useful lives**

Intangible assets subject to amortization include the intangible assets purchased from third parties recorded at cost and the intangible assets acquired in business combinations recorded at fair value, which include trademarks, technologies and licenses, contractual customer relationships and computer software.

***Trademarks and technology licenses***

Separately acquired trademarks and licenses are recorded at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization and impairment losses, if any. Amortization begins when the intangible asset is available for use and is calculated using the straight-line method to allocate the cost of trademarks and licenses over the estimated useful lives, which range from 3 to 7 years.

***Contractual customer relationships***

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Contractual customer relationships have a finite useful life and are carried at cost less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method over the expected life of the customer relationships, which ranges from 4 to 12 years.

***Computer software***

Separately acquired computer software is recorded at historical cost. Costs associated with maintaining computer software programs are expensed in the consolidated statements of income as incurred. The capitalization of costs for internally generated software developed by the Company for its internal use begins when the preliminary project stage is completed and when the Company, implicitly or explicitly, authorizes and commits to funding a computer software project. It must be probable that the project will be completed and will be used to perform the function intended. Amortization on computer software begins when the software is available for use and is calculated using the straight-line method over the estimated useful life, which does not exceed 4 years.

The carrying value of intangible assets with finite useful lives is evaluated whenever changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the consolidated statements of income for the amount by which the asset's carrying amount exceeds its fair value. The Company evaluates the remaining useful life of an intangible asset at each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

**2.11 Property, plant and equipment**

Property, plant and equipment are stated at historical cost, net of capital investment funding, accumulated depreciation and any impairment losses. Property, plant and equipment acquired in a business combination are recognized at fair value at the acquisition date. Major additions and improvements are capitalized, minor replacements and repairs are charged to current operations.

**Table of Contents**

Land is not depreciated. Depreciation on fixed assets is computed using the straight-line method over their estimated useful lives, as follows:

|                                     |            |
|-------------------------------------|------------|
| Buildings                           | 33 years   |
| Facilities & leasehold improvements | 5-10 years |
| Machinery and equipment             | 3-10 years |
| Computer and R&D equipment          | 3-6 years  |
| Other                               | 2-5 years  |

The Company evaluates each period whether there is reason to suspect that tangible assets or groups of assets held for use might not be recoverable. Several impairment indicators exist for making this assessment, such as: restructuring plans, significant changes in the technology, market, economic or legal environment in which the Company operates or in the market to which the asset is dedicated, or available evidence of obsolescence of the asset, or indication that its economic performance is, or will be, worse than expected. In determining the recoverability of assets to be held and used, the Company initially assesses whether the carrying value of the tangible assets or group of assets exceeds the undiscounted cash flows associated with these assets. If exceeded, the Company then evaluates whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. This fair value is normally estimated by the Company based on independent market appraisals or the sum of discounted future cash flows, using market assumptions such as the utilization of the Company's fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies. The Company also evaluates, and adjusts if appropriate, the assets' useful lives, at each balance sheet date or when impairment indicators exist.

When property, plant and equipment are retired or otherwise disposed of, the net book value of the assets is removed from the Company's books. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in Other income and expenses, net in the consolidated statements of income.

Lease arrangements in which the Company has substantially all the risks and rewards of ownership are classified as capital leases. Assets leased under capital leases are included in Property, plant and equipment, net and recorded at inception at the lower of their fair value and the present value of the minimum lease payments. They are depreciated over the shorter of the estimated useful life and the lease term unless there is a reasonable certainty that ownership will be obtained by the end of the lease term. The financial liability corresponding to the contractual obligation to proceed to future lease payments is included in long-term debt, as described in Note 2.14. Lease arrangements classified as operating leases are arrangements in which the lessor retains a significant portion of the risks and rewards of ownership of the leased assets. Payments made under operating leases are charged to the consolidated statements of income on a straight-line basis over the lease period.

**2.12 Investments**

The Company assesses each investment to determine whether the investee is a Variable Interest Entity ( VIE ). The Company consolidates the VIEs for which the Company is determined to be the primary beneficiary, as described in Note 2.9.

Investments in public companies that have readily determinable fair values and for which the Company does not have the ability to exercise significant influence are classified as trading or available-for-sale equity securities, as described in Note 2.22. Investments in equity securities without readily determinable fair values and for which the Company does not have the ability to exercise significant influence are accounted for under the cost-method. Under the cost-method of accounting, investments are carried at historical cost and are adjusted only for declines in value. The fair value of a cost-method investment is estimated on a non-recurring basis when there are identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. An impairment loss is immediately recorded in the consolidated statements of income when it is assessed to be other-than-temporary and is based on the Company's assessment of any significant and sustained reductions in the investment's fair value. For unquoted equity securities, assumptions and estimates used in measuring fair value include the use of recent arm's length transactions when they reflect the orderly exit price of the investments. Gains and losses on investments sold are determined on the specific identification method and are recorded as a non-operating element on the line Gain (loss) on financial instruments, net in the consolidated statements of income.

Equity-method investments are all entities over which the Company has the ability to exercise significant influence but not control, generally representing a shareholding of between 20% and 50% of the voting rights.

**Table of Contents**

These investments are valued under the equity-method and are initially recognized at cost. Goodwill on equity-method investments is included in the carrying value of the investment and is not individually tested for impairment. Equity-method investments also include entities which the Company determines to be VIEs, as described in Note 2.9, if the Company has the ability to exercise significant influence over the entity's operations even if the Company owns less than 20% and is not the primary beneficiary. The Company's share in the result of operations of equity-method investments is recognized in the consolidated statements of income on the line *Income (loss) on equity-method investments* and in the consolidated balance sheets as an adjustment to the carrying amount of the investments. Where there has been a change recognized directly in the equity of the investee, the Company recognizes its share in the adjustment, when applicable, directly in the consolidated statement of equity. The financial statements of the equity-method investments are prepared for the same reporting period as the Company or with a time lag not exceeding three months if the investee cannot issue financial statements within the closing timeframe requirements of the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. At each period-end, the Company assesses whether there is objective evidence that its interests in equity-method investments are impaired. Once a determination is made that an other-than-temporary impairment exists, the Company writes down the carrying value of the equity-method investment to its fair value at the balance sheet date, which establishes a new cost basis. The fair value of an equity-method investment is measured on a non-recurring basis using primarily a combination of an income approach, based on discounted cash flows, and a market approach with financial metrics of comparable public companies.

**2.13 Provisions**

In determining loss contingencies, the Company considers the likelihood of a loss of an asset or the incurrence of a liability as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss from a loss contingency is accrued by a charge to income when information available indicates that it is probable that an asset has been impaired or a liability has been incurred and when the amount of the loss can be reasonably estimated.

**2.14 Long-term debt*****(a) Convertible debt***

Zero-coupon convertible bonds are recorded at principal amount in long-term debt and are subsequently reported at amortized cost.

Debt issuance costs are reported as non-current assets on the line *Other non-current assets* of the consolidated balance sheets. They are subsequently amortized through earnings on the line *Interest income (expense), net* of the consolidated statements of income until the first redemption right of the holder. Outstanding bond amounts are classified in the consolidated balance sheets as *Short-term debt* in the year of the redemption right of the holder.

The Company may from time to time repurchase on an unsolicited basis issued bonds. The gain (loss) on the bonds' buyback is determined as the difference between the amount paid for the buyback and the carrying amount of the corresponding debt, including related debt issuance costs, at the date of repurchase. The gain (loss) on debt buyback is reported in the consolidated statements of income on the line *Gain (loss) on financial instruments, net*.

***(b) Bank loans and senior bonds***

Bank loans and non-convertible senior bonds, are recognized at historical cost, net of transaction costs incurred. They are subsequently reported at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest rate method.

As described in Note 2.11, lease arrangements in which the Company has substantially all the risks and rewards of ownership are classified as capital leases. The Company reports the leased assets on the line *Property, plant and equipment, net* and recognizes a financial liability corresponding to the contractual obligation to proceed to future lease payments, which is included in long-term debt. Each lease payment is allocated between the debt repayment and interest expense.

Short-term debt is classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

---

**Table of Contents****2.15 Employee benefits*****(a) Pension obligations***

The Company sponsors various pension schemes for its employees. These schemes conform to local regulations and practices in the countries in which the Company operates. Such plans include both defined benefit and defined contribution plans. For defined benefit pension plans, the liability recognized in the consolidated balance sheets is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The overfunded or underfunded status of the defined benefit plans are calculated as the difference between plan assets and the projected benefit obligations. Significant estimates are used in determining the assumptions incorporated in the calculation of the pension obligations, which is supported by input from independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognized immediately in earnings, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period. The net periodic benefit cost of the year is determined based on the assumptions used at the end of the previous year.

For defined contribution pension plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

***(b) Other post-retirement obligations***

The Company provides post-retirement benefits to some of its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees.

***(c) Termination benefits***

Termination benefits are payable when an employee is involuntarily terminated, or whenever an employee accepts voluntary termination in exchange for termination benefits. For the accounting treatment and timing recognition of involuntarily termination benefits, the Company distinguishes between one-time termination benefit arrangements and ongoing termination benefit arrangements. A one-time termination benefit arrangement is established by a termination plan and applies to a specified termination event. One-time involuntary termination benefits are recognized as a liability when the termination plan meets certain criteria and has been communicated to employees. If employees are required to render future service in order to receive these one-time termination benefits, the liability is recognized ratably over the future service period. Termination benefits other than one-time termination benefits are termination benefits for which the communication criterion is not met but that are committed to by management, or termination obligations that are not specifically determined in a new and single plan. These termination benefits are all legal, contractual and past practice termination obligations to be paid to employees in case of involuntary termination. These termination benefits are accrued for when commitment creates a present obligation to others for the benefits expected to be paid, when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated.

In case of special termination benefits related to voluntary redundancy programs, the Company recognizes a provision for voluntary termination benefits at the date on which the employee irrevocably accepts the offer and the amount can be reasonably estimated.

***(d) Profit-sharing and bonus plans***

The Company recognizes a liability and an expense for bonuses and profit-sharing plans when it is contractually obliged or where there is a past practice that has created a constructive obligation.

***(e) Other long-term employee benefits***

The Company provides long-term employee benefits such as seniority awards in certain countries. The entitlement to these benefits is usually conditional on the employee completing a minimum service period. The



**Table of Contents**

expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to earnings in the period of change. These obligations are valued annually with the assistance of independent qualified actuaries.

***(f) Share-based compensation***

The Company grants nonvested shares to senior executives, selected employees, members and professionals of the Supervisory Board. The shares are granted for free to employees and at par value for the members and professionals of the Supervisory Board. The awards granted to employees contingently vest upon achieving certain performance conditions and upon completion of an average three-year service period. Shares granted to the Supervisory Board vest unconditionally along the same vesting period as employees but are not forfeited even if the service period is not completed. The Company measures the cost of share-based service awards based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period. When, as for awards granted to the Supervisory Board, no service period is required, compensation is recorded immediately in earnings. Compensation is recognized only for the awards that ultimately vest. The compensation cost is recorded through earnings against equity, under Capital surplus in the consolidated statements of equity. The compensation cost is calculated based on the number of awards expected to vest, which includes assumptions on the number of awards to be forfeited due to the employees failing to provide the service condition, and forfeitures following the non-completion of one or more performance conditions.

Liabilities for the Company's portion of payroll taxes are not accrued for over the vesting period but are recognized at vesting, which is the event triggering the measurement of employee-related social charges, based on the intrinsic value of the share at vesting date, and payment of the social contributions in most of the Company's local tax jurisdictions.

**2.16 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its equity share capital (treasury stock), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received net of directly attributable incremental transaction costs and the related income tax effect is included in equity.

**2.17 Comprehensive income (loss)**

Comprehensive income (loss) is defined as the change in equity of a business during a period except those changes resulting from investment by stockholders and distributions to stockholders. In the accompanying consolidated financial statements, Other comprehensive income (loss) and Accumulated Other comprehensive income primarily consists of temporary unrealized gains or losses on securities classified as available-for-sale, unrealized gains (losses) on derivatives designated as cash flow hedge and the impact of recognizing the funded status of defined benefit plans, as well as foreign currency translation adjustments, net of tax.

**2.18 Revenue Recognition**

Revenue is recognized as follows:

***Net sales***

Revenue from products sold to customers is recognized when all the following conditions have been met: (a) persuasive evidence of an arrangement exists; (b) delivery has occurred; (c) the selling price is fixed or determinable; and (d) collection is reasonably assured. This usually occurs at the time of shipment.

Consistent with standard business practice in the semiconductor industry, price protection is granted to distribution customers on their existing inventory of the Company's products to compensate them for declines in market prices. The ultimate decision to authorize a distributor refund remains fully within the control of the





**Table of Contents**

Company. The Company accrues a provision for price protection based on a rolling historical price trend computed on a monthly basis as a percentage of gross distributor sales. This historical price trend represents differences in recent months between the invoiced price and the final price to the distributor, adjusted if required, to accommodate a significant move in the current market price. The short outstanding inventory time period, visibility into the standard inventory product pricing and long distributor pricing history have enabled the Company to reliably estimate price protection provisions at period-end. The Company records the accrued amounts as a deduction of revenue at the time of the sale.

The Company's customers occasionally return the Company's products for technical reasons. The Company's standard terms and conditions of sale provide that if the Company determines that products are non-conforming, the Company will repair or replace the non-conforming products, or issue a credit or rebate of the purchase price. Quality returns are not related to any technological obsolescence issues and are identified shortly after sale in customer quality control testing. Quality returns are usually associated with end-user customers, not with distribution channels. The Company provides for such returns when they are considered probable and can be reasonably estimated. The Company records the accrued amounts as a reduction of revenue.

The Company's insurance policy relating to product liability only covers physical damage and other direct damages caused by defective products. The Company carries limited insurance against immaterial non consequential damages. The Company records a provision for warranty costs as a charge against cost of sales, based on historical trends of warranty costs incurred as a percentage of sales, which management has determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period. Any potential warranty claims are subject to the Company's determination that the Company is at fault for damages, and such claims usually must be submitted within a short period following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms expressed or implied by statute or common law. The Company's contractual terms and conditions limit its liability to the sales value of the products which gave rise to the claims.

While the majority of the Company's sales agreements contain standard terms and conditions, the Company may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. Where multiple elements exist in an arrangement, the arrangement is allocated to the different elements based on vendor-specific objective evidence, third party evidence or management's best estimate of the selling price of the separable deliverables. These arrangements generally do not include performance-, cancellation-, termination- or refund-type provisions.

***Revenues under multiple deliverable arrangements***

The Company, from time to time, enters into agreements with multiple deliverables. The Company entered into certain agreements related to the licensing of manufacturing processes which include the delivery of a) licenses and process documentation and b) various training and implementation support. In the current agreements, the delivery of each instance of process documentation, as well as the training and support, are considered to be separate units of accounting. The timing of services in these arrangements varies depending on the contractual terms, but revenue is recognized either prorata for short duration service periods, or as the specific services are rendered for longer duration service periods, as appropriate.

As these manufacturing processes are not normally sold by the Company or other similar manufacturers, the valuation is based on best estimates of selling prices for such deliverables. These best estimates are determined by the groups responsible for the negotiation of the agreements and are primarily based on either: a) the total amount of the agreement, assuming that subsequent services are insignificant to the sale of the license and process documentation, b) cash payments to be paid by the customer in advance of delivery prior to incurring related services or training and/or c) information derived from the negotiation process between the Company and the customer. Training and support are valued based on past history of similar services or the group's determined value based on a cost plus analysis.

The actual past and the expected future revenues for the multiple deliverable arrangements are:

| In millions of U.S. dollars                                   | 2010      | 2011      | 2012      | 2013     |
|---|-----------|-----------|-----------|----------|
| Licenses and process documentation                            | 29        | 56        | 9         |          |
| Training and support services                                 | 28        | 14        | 9         | 2        |
| <b>Total Revenues under Multiple Deliverable Arrangements</b> | <b>57</b> | <b>70</b> | <b>18</b> | <b>2</b> |

Due to the long nature of some of the payments in these agreements, some revenue is deferred until collectability is reasonably assured.



## **Table of Contents**

### ***Other revenues***

Other revenues consist of license revenue, service revenue related to transferring licenses, patent royalty income, sale of scrap materials and manufacturing by-products.

### ***Funding***

The Company receives funding mainly from governmental agencies and income is recognized when all contractual conditions for receipt of these funds are fulfilled. The Company's primary sources for government funding are French, Italian, other European Union ( EU ) governmental entities and Singapore agencies. Such funding is generally provided to encourage research and development activities, industrialization and local economic development. The conditions for receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with European Commission regulations, as well as specifications regarding objectives and results. Certain specific contracts contain obligations to maintain a minimum level of employment and investment during a certain period of time. There could be penalties if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations. Funding related to these contracts is recorded when the conditions required by the contracts are met. The Company's funding programs are classified under three general categories: funding for research and development activities, capital investment, and loans.

Funding for research and development activities is the most common form of funding that the Company receives. Public funding for research and development is recorded as Other income and expenses, net in the Company's consolidated statements of income. Public funding for research and development is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions are met. Furthermore, following the enactment of the French Finance Act for 2008, which included several changes to the research tax credit regime ( CréditImpôtRecherche ), French research tax credits are deemed to be grants in substance. Unlike other research and development funding, the amounts to be received are determinable in advance and accruable as the funded research expenditures are made. They are thus reported as a reduction of research and development expenses. The research tax credits are to be paid in cash by the French tax authorities within three years in case they are not deducted from income tax payable during this period of time.

Capital investment funding is recorded as a reduction of Property, plant and equipment, net and is recognized in the Company's consolidated statements of income according to the depreciation charges of the funded assets during their useful lives. The Company also receives capital funding in Italy, which could be recovered through the reduction of various governmental liabilities, including income taxes, value-added tax and employee-related social charges.

Funding receivables are reported as non-current assets unless cash settlement features of the receivables evidence that collection is expected within one year. Long-term receivables that do not present any tax attribute or legal restriction are reflected in the balance sheets at their discounted net present value. The subsequent accretion of the discounting effect is recorded as non-operating income in Interest income (expense), net .

The Company receives certain loans, mainly related to large capital investment projects, at preferential interest rates. The Company records these loans as debt in its consolidated balance sheets.

### **2.19 Advertising costs**

Advertising costs are expensed as incurred and are recorded as selling, general and administrative expenses. Advertising expenses for 2012, 2011 and 2010 were \$12 million, \$12 million and \$11 million respectively.

### **2.20 Research and development**

Research and development expenses include costs incurred by the Company, the Company's share of costs incurred by other research and development interest groups, and costs associated with co-development contracts. Research and development expenses do not include marketing design center costs, which are accounted for as selling expenses and process engineering, pre-production or process transfer costs which are recorded as cost of sales. Research and development costs are expensed as incurred. The amortization expense recognized on technologies and licenses purchased by the Company from third parties to facilitate the Company's research is reported as research and development expenses. Research and development expenses are reported net of research tax credits received in the French jurisdiction, as described in Note 2.18.

---

## **Table of Contents**

### **2.21 Start-up and phase-out costs**

Start-up costs represent costs incurred in the start-up and testing of the Company's new manufacturing facilities, before reaching the earlier of a minimum level of production or 6-months after the fabrication line's quality qualification. Start-up costs are included in Other income and expenses, net in the consolidated statements of income. Similarly, phase-out costs for facilities during the closing stage are also included in Other income and expenses, net in the consolidated statements of income. The costs of phase-outs are associated with the latest stages of facilities closure when the relevant production volumes become immaterial.

### **2.22 Financial assets**

The Company did not hold at December 31, 2012 and 2011 any financial assets classified as held-to-maturity or financial assets for which the Company would have elected to apply the fair value option. Consequently, the Company classified its financial assets in the following categories: trading and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Unlisted equity securities with no readily determinable fair value are carried at cost, as described in Note 2.12. They are neither classified as held-for-trading nor as available-for-sale.

Purchases and sales of financial assets are recognized on the trade date—the date on which the Company commits to purchase or sell the asset. Financial assets classified as available-for-sale and as trading are initially recognized and subsequently carried at fair value. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership; the relevant gain (loss) is reported as a non-operating element on the consolidated statements of income on the line Gain (loss) on financial instruments, net. The basis on which the cost of a security sold and the amount reclassified out of accumulated other comprehensive income into earnings is the specific identification method.

The fair values of quoted debt and equity securities are based on current market prices. If the market for a financial asset is not active and if no observable market price is obtainable, the Company measures fair value by using assumptions and estimates. These assumptions and estimates include the use of recent arm's length transactions; for debt securities without available observable market price, the Company establishes fair value by reference to publicly available indices of securities with the same rating and comparable underlying collaterals or industries' exposure, which the Company believes approximates the amount that would be received from the sale of the asset in an orderly transaction between market participants at the measurement date. In measuring fair value, the Company makes maximum use of market inputs and minimizes the use of unobservable inputs when measuring fair value.

#### *Trading financial assets*

A financial asset is classified in this category if it is a security acquired principally for the purpose of selling in the short term or if it is a derivative instrument not designated as a hedge. Financial assets in this category are classified as current assets when they are expected to be realized within twelve months of the balance sheet date. Marked-to-market gains or losses arising from changes in the fair value of trading financial assets are reported in the consolidated statements of income within Other income and expenses, net in the period in which they arise, when the transactions for such instruments occur within the Company's operating activities, as it is the case for trading derivatives that do not qualify as hedging instruments, as described in Note 2.23. Gains and losses arising from changes in the fair value of financial assets not related to operating activities, are presented in the consolidated statements of income as a non-operating element within Gain (loss) on financial instruments, net in the period in which they arise.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as held-for-trading. They are included in current assets when they represent investments of funds available for current operations or when management intends to dispose of the securities within twelve months of the balance sheet date.

Changes in fair value, including declines determined to be temporary, of securities classified as available-for-sale are recognized as a component of Other comprehensive income (loss) in the consolidated statements of comprehensive income.

**Table of Contents**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets classified as available-for-sale is impaired. When equity securities classified as available-for-sale are determined to be other-than-temporarily impaired, the accumulated fair value adjustments previously recognized in comprehensive income are reported as a non-operating element on the consolidated statements of income on the line Other-than-temporary impairment charge and realized gains (losses) on financial assets . For debt securities, if a credit loss exists, but the Company does not intend to sell the impaired security and is not more likely than not to be required to sell before recovery, the impairment is separated into the estimated amount relating to credit loss, and the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings on the line Other-than-temporary impairment charge and realized gains (losses) on financial assets , with the remainder of the loss amount recognized in accumulated other comprehensive income (loss). Impairment losses recognized in the consolidated statements of income are not reversed through earnings.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments previously recognized in comprehensive income are reported as a non-operating element on the consolidated statements of income on the line Gain (loss) on financial instruments, net . The cost of securities sold and the amount reclassified out of accumulated other comprehensive income into earnings is determined based on the specific identification of the securities sold.

**2.23 Derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognized on the date a derivative contract is entered into and are subsequently measured at fair value. The method of recognizing the gain or loss resulting from the derivative instrument depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedge transaction. The Company has designated certain derivatives as hedges of a particular risk associated with a highly probable forecasted transaction (cash flow hedge).

The Company documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivative instruments that are not designated as hedges are classified as trading financial assets, as described in Note 2.22.

*Derivative financial instruments classified as trading*

The Company conducts its business on a global basis in various major international currencies. As a result, the Company is exposed to adverse movements in foreign currency exchange rates. The Company enters into foreign currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at the Company's subsidiaries. These instruments do not qualify as hedging instruments, and are marked-to-market at each period-end with the associated changes in fair value recognized in Other income and expenses, net in the consolidated statements of income, as described in Note 2.22.

*Cash Flow Hedge*

To reduce its exposure to U.S. dollar exchange rate fluctuations, the Company hedges certain Euro-denominated forecasted transactions that cover at reporting date a large part of its research and development, selling, general and administrative expenses as well as a portion of its front-end manufacturing costs of semi-finished goods through the use of currency forward contracts and currency options, including collars. The Company also hedges through the use of currency forward contracts certain Swedish krona-denominated forecasted transactions that cover at reporting date a large part of its future research and development expenses, as well as certain Singapore dollar-denominated manufacturing forecasted transactions. As part of its ongoing investing and financing activities, the Company may from time to time enter into certain derivative transactions that are designated and qualify as a cash flow hedge.

The derivative instruments are designated and qualify for cash flow hedge at inception of the contract and on an ongoing basis over the duration of the hedge relationship. They are reflected at their fair value in the consolidated balance sheets. The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction and, in most cases, a one-to-one matching of the derivative instrument to its underlying transaction

**Table of Contents**

with the critical terms of the hedging instrument matching the terms of the hedged forecasted transaction. This enables the Company to conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging instruments.

For derivative instruments designated as cash flow hedge, the gain or loss from the effective portion of the hedge is reported as a component of Other comprehensive income (loss) in the consolidated statements of comprehensive income and is reclassified into earnings in the same period in which the hedged transaction affects earnings, and within the same consolidated statements of income line as the hedged transaction. For these derivatives, ineffectiveness appears if the cumulative gain or loss on the derivative hedging instrument exceeds the cumulative change in the expected future cash flows on the hedged transactions. Effectiveness on transactions hedged through purchased options is measured on the full fair value of the option, including time value.

When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in Other comprehensive income (loss) in the consolidated statements of comprehensive income is immediately transferred to the consolidated statements of income within Other income and expenses, net if the de-designated derivative relates to operating activities. If upon de-designation, the derivative instrument is held in view to be sold with no direct relation with current operating activities, changes in the fair value of the derivative instrument following de-designation are reported as a non-operating element on the line Gain (loss) on financial instruments, net in the consolidated statements of income. If the derivative is still related to operating activities, the changes in fair value subsequent to the discontinuance continue to be reported within Other income and expenses, net in the consolidated statements of income, as described in Note 2.22.

In order to optimize its hedging strategy, the Company can be required to cease the designation of certain cash flow hedge transactions and enter into a new designated cash flow hedge transaction with the same hedged forecasted transaction but with a new hedging instrument. De-designation and re-designation are formally authorized and limited to the de-designation of purchased currency options with re-designation of the cash flow hedge through subsequent forward contracts when the Euro/U.S. dollar exchange rate is decreasing, the intrinsic value of the option is nil, the hedged transaction is still probable of occurrence and meets at re-designation date all criteria for hedge accounting. At de-designation date, the net derivative gain or loss related to the de-designated cash flow hedge continues to be reported in other comprehensive income. From de-designation date, the change in fair value of the de-designated hedging item is recognized each period in the consolidated statements of income on the line Other income and expenses, net, as described in Note 2.22. The net derivative gain or loss related to the de-designated cash flow hedge deferred in other comprehensive income is reclassified to earnings in the same period in which the hedged transaction affects earnings, and within the same consolidated statements of income line as the hedged transaction.

**2.24 Recent accounting pronouncements***(a) Accounting pronouncements effective in 2012*

In May 2011, the FASB issued and amended the guidance on fair value measurement and disclosure requirements in U.S. GAAP. The main changes to current practice are presented hereafter. The new guidance states that the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets. It also prohibits the application of a blockage factor to all fair value measurements. Moreover, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets. The new guidance also required the disclosure of quantitative information about unobservable inputs used, a description of the valuation process used by the entity and a qualitative discussion about the sensitivity of the measurements. Additionally, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but for which fair value is disclosed. The amendment is effective for interim and annual periods beginning on or after December 15, 2011. The Company adopted the amendment as of January 1, 2012, which did not have any significant impact on fair value measurements as applied by the Company, and expanded the additional disclosures described above in Note 24.

In June 2011, the FASB issued new guidance for the presentation of comprehensive income. The new guidance eliminates the current option to report Other Comprehensive Income (OCI) and its components in the statement of equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements of net income and comprehensive income. Each component of net income and each component of OCI, together with totals for comprehensive income and its two parts, would need to be displayed under either alternative. The statement(s) would need to be presented with equal prominence as the other primary financial statements. The Company adopted the new guidance as of January 1, 2012 and elected to present items of net income and other comprehensive income in two separate, but consecutive, statements.

---

**Table of Contents**

In September 2011, the FASB issued new guidance on testing goodwill for impairment. The revised guidance is intended to simplify the goodwill impairment test by providing an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The qualitative assessment consists of determining whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the entity concludes pursuant to this qualitative test that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required to conduct the current two-step goodwill impairment test. The revised guidance was adopted as of January 1, 2012 and the Company did not elect to apply the option for qualitative assessment for the year ended December 31, 2012. Consequently, the Company proceeded directly to the two-step quantitative test when it performed its annual goodwill impairment test in the third quarter of 2012.

In July 2012, the FASB issued new guidance on testing indefinite-lived intangible assets for impairment. It allows entities to perform a qualitative assessment to determine whether further impairment testing is necessary, similar in approach to the goodwill impairment test. The revised guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. However, an entity can choose to early adopt the revised guidance, provided that the entity has not yet performed its 2012 annual impairment test or issued its financial statements. The Company early adopted the revised guidance, which was applied to its annual impairment test performed in the third quarter of 2012. The revised guidance did not have any material effect on the Company's annual impairment testing since the Company does not hold any indefinite-lived intangible assets.

In October 2012, the FASB made technical corrections and improvements to the Accounting Standards Codification. The amendments that are nonsubstantive in nature are effective immediately, while the amendments that are subject to transition guidance are effective for fiscal periods beginning after December 15, 2012. These technical corrections and improvements to the Codification did not result in changes to current practice for the Company.

*(b) Accounting pronouncements expected to impact the Company's operations that are not yet effective and have not been adopted early by the Company*

In December 2011, the FASB issued new guidance on disclosures about offsetting assets and liabilities. Entities with balances presented on a net basis in the financial statements shall disclose both gross and net information about instruments and transactions eligible for offset in the consolidated balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In February 2013, the FASB issued a guidance clarifying the scope of disclosures about offsetting assets and liabilities by limiting such scope to derivatives, repurchase agreements and securities lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting agreement. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company will adopt the new guidance when effective and the amended guidance is not expected to have a significant impact on the Company's disclosures.

In February 2013, the FASB issued new guidance on reporting amounts reclassified out of accumulated other comprehensive income. The new guidance requires that the effect of significant amounts reclassified from each component of accumulated other comprehensive income be presented either in a single note or parenthetically on the face of the financial statements, based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. The disclosure requirements are effective for interim and annual reporting periods beginning after December 15, 2012. The Company will adopt the new guidance when effective and will report amounts reclassified out of accumulated other comprehensive income in a single footnote.



**Table of Contents****3. MARKETABLE SECURITIES**

Changes in the value of marketable securities, as reported in current assets on the consolidated balance sheets as at December 31, 2012 and December 31, 2011 are detailed in the tables below:

| In millions of U.S. dollars                                      | December 31,<br>2011 | Purchase   | Sale/<br>Settlement | Change<br>in<br>fair<br>value<br>included in<br>OCI*<br>for<br>available-<br>for-sale<br>marketable<br>securities | Change<br>in<br>fair<br>value<br>recognized<br>in earnings | Foreign<br>exchange<br>result<br>through<br>OCI* | December 31,<br>2012 |
|--|----------------------|------------|---------------------|---|--|--|----------------------|
| Debt securities issued by the U.S. Treasury                      | 100                  | 450        | (400)               |   |  |  | 150                  |
| Debt securities issued by foreign governments                    | 81                   |            | (81)                |   |  |  |                      |
| Fixed rate debt securities issued by financial institutions      | 27                   |            | (25)                |   |  | (2)  |                      |
| Senior debt Floating Rate Notes issued by financial institutions | 205                  |            | (124)               | 6   | 1  |  | 88                   |
| <b>Total</b>   | <b>413</b>           | <b>450</b> | <b>(630)</b>        | <b>6</b>  | <b>1</b>   | <b>(2)</b>                                       | <b>238</b>           |

\* Other Comprehensive Income

| In millions of U.S. dollars                                      | December 31,<br>2010 | Purchase   | Sale/<br>Settlement | Change<br>in<br>fair<br>value<br>included in<br>OCI*<br>for<br>available-<br>for-sale<br>marketable<br>securities | Change<br>in<br>fair<br>value<br>recognized<br>in earnings | Realized<br>gain | Foreign<br>exchange<br>result<br>through<br>OCI* | December 31,<br>2011 |
|--|----------------------|------------|---------------------|---|--|------------------|--|----------------------|
| Debt securities issued by the U.S. Treasury                      | 350                  | 100        | (350)               |   |  |                  |  | 100                  |
| Debt securities issued by foreign governments                    | 213                  | 225        | (355)               |   |  |                  | (2)  | 81                   |
| Fixed rate debt securities issued by financial institutions      |                      | 27         |                     |   |  |                  |  | 27                   |
| Senior debt Floating Rate Notes issued by financial institutions | 328                  |            | (113)               | (2)   | (5)  |                  | (3)  | 205                  |
| Auction Rate Securities  | 72                   |            | (350)               | (45)  |  | 323              |  |                      |
| Equity securities classified as available-for-sale               | 161                  |            | (189)               | 14  | 14   |                  |  |                      |
| <b>Total</b>   | <b>1,124</b>         | <b>352</b> | <b>(1,357)</b>      | <b>(33)</b>   | <b>9</b>   | <b>323</b>       | <b>(5)</b>                                       | <b>413</b>           |

\* Other Comprehensive Income

The U.S. Treasury Bills portfolio amounting to \$150 million as of December 31, 2012 and \$100 million as of December 31, 2011, has a duration of less than five months on average. They were rated Aaa by Moody's as at December 31, 2012 and 2011. The change in fair value of these marketable securities was not material as at December 31, 2012 and 2011. The Company estimated the fair value of these financial assets based on publicly quoted market prices, which corresponds to a Level 1 fair value measurement hierarchy.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

All securities are classified as available-for-sale and recorded at fair value, with changes in fair value recognized as a separate component of the consolidated statements of comprehensive income, except for those declines deemed to be other-than-temporary.

Out of the three investment positions in Senior debt Floating Rate Notes, three are in an unrealized loss position, which has been considered as temporary. For all investments, the Company expects to recover the debt securities' entire amortized cost basis. Since the duration of the portfolio is 1 year on average and the securities

F-25

**Table of Contents**

have an average rating of A-/Baa1/A, the Company expects the value of the securities to return to par as the final maturity is approaching; as such, no credit loss has been identified on these instruments and the cumulative change in fair value is recognized as a separate component of

Accumulated other comprehensive income (loss) in the consolidated statements of equity. The Company estimated the fair value of these financial assets based on publicly quoted market prices, which corresponds to a Level 1 fair value measurement hierarchy. The aggregate amortized cost basis of these securities totalled \$89 million and \$252 million as at December 31, 2012 and December 31, 2011, respectively. As at December 31, 2012 a total pre-tax unrealized loss of \$1 million was deferred in Accumulated other comprehensive income on these financial assets.

As at December 31, 2011, the Company held \$5 million in Euro-denominated senior unsecured bonds issued by Lehman Brothers, for an original investment of Euro 15 million. Those debt securities were sold in 2012, generating cash proceeds totalling \$5 million. The gain, which was not material, was reported on the line Gain (loss) on financial instruments, net on the consolidated statement of income for the year ended December 31, 2012.

The debt securities and the government bonds are reported as current assets on the line Marketable Securities on the consolidated balance sheet as at December 31, 2012, since they represent investments of funds available for current operations.

The \$81 million of Italian Treasury Bills held as at December 31, 2011 were rated A2 by Moody's. They were sold in 2012, together with the fixed rate debt securities totalling \$27 million as at December 31, 2011.

**4. TRADE ACCOUNTS RECEIVABLE, NET**

Trade accounts receivable, net consisted of the following:

|                                 | December 31,<br>2012 | December 31,<br>2011 |
|---------------------------------|----------------------|----------------------|
| Trade accounts receivable       | 1,015                | 1,061                |
| Provision for doubtful accounts | (10)                 | (15)                 |
| <b>Total</b>                    | <b>1,005</b>         | <b>1,046</b>         |

Bad debt expense in 2012, 2011, and 2010 was \$1 million, \$1 million and \$1 million respectively. In 2012 none of the customers represented over 10% of consolidated net revenues. In 2011 and 2010 one customer, the Nokia group of companies, represented 10.4% and 13.9% of consolidated net revenues, respectively.

The Company enters into factoring transactions to accelerate the realization in cash of some trade accounts receivable within ST-Ericsson. As at December 31, 2012, \$127 million of trade accounts receivable were sold without recourse. Such factoring transactions totaled \$1,143 million for the year 2012, with a financial cost totaling \$4 million reported on the line Interest expense, net on the consolidated statement of income for the year ended December 31, 2012.

**5. INVENTORIES, NET**

Inventories are stated at the lower of cost or market value. Cost is based on the weighted average cost by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on the Company's manufacturing performance. In the case of underutilization of manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales.

Provisions for obsolescence are estimated for excess uncommitted inventories based on the previous quarter's sales, backlog of orders and production plans.

Inventories, net of reserve, consisted of the following:

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|                   | December 31,<br>2012 | December 31,<br>2011 |
|-------------------|----------------------|----------------------|
| Raw materials     | 78                   | 105                  |
| Work-in-process   | 941                  | 1,002                |
| Finished products | 334                  | 424                  |
| <b>Total</b>      | <b>1,353</b>         | <b>1,531</b>         |

F-26

**Table of Contents****6. OTHER CURRENT ASSETS**

Other current assets consisted of the following:

|  | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|
| Receivables from government agencies       | 156                  | 152                  |
| Taxes and other government receivables     | 68                   | 77                   |
| Advances                                   | 84                   | 118                  |
| Prepayments                                | 74                   | 46                   |
| Loans and deposits                         | 15                   | 14                   |
| Interest receivable                        | 1                    | 4                    |
| Derivative instruments                     | 36                   | 2                    |
| Receivables from equity-method investments | 16                   | 20                   |
| Other current assets                       | 68                   | 73                   |
| <b>Total</b>                               | <b>518</b>           | <b>506</b>           |

Derivative instruments are further described in Note 24.

**7. BUSINESS COMBINATIONS**Acquisition in 2011

Until April 15, 2011, the Company accounted for its 41.2% equity-method investment in Veredus Laboratories Pte ( Veredus ) under the equity-method. Veredus is a life science company based in Singapore that develops, commercializes and manufactures diagnostic tools that are marketed worldwide. Veredus offers highly sensitive and user friendly molecular diagnostic tools that include gel based detection kits and the latest cutting edge Lab-on-Chip technology. These diagnostic tools can be used in field conditions as well as in medical labs and hospitals.

On April 15, 2011, the Company exercised a call option and purchased shares from Veredus founders to increase its ownership in Veredus to 63.7%. This provides the Company s control over Veredus which has been a subsidiary of the Company from this date.

The acquired business made an immaterial contribution to the Company s consolidated revenue and net result for the period from April 15, 2011 to December 31, 2011.

The following table summarizes the consideration transferred to acquire Veredus and the amounts of the identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the noncontrolling interest in Veredus at the acquisition date.

In millions of U.S. dollars

|  |           |
|--|-----------|
| <b>Fair value of consideration transferred:</b>  |           |
| Cash consideration paid to Veredus founders  | 7         |
| Fair value of the Company s investment in Veredus held before the business combination | 9         |
| Fair value of the noncontrolling interest in Veredus                                   | 9         |
|  | <b>25</b> |
| <b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>      |           |
| Cash and cash equivalents  | 1         |
| Inventories  | 1         |
| Property, Plant and Equipment, net   | 1         |
| In-Process R&D   | 12        |
| Patents and Intellectual Property  | 3         |
| Long-term deferred tax assets  | 1         |
| Long-term deferred tax liabilities   | (3)       |

|                                      |           |
|--------------------------------------|-----------|
| Other current liabilities            | (1)       |
| <b>Total identifiable net assets</b> | <b>15</b> |
| <b>Goodwill</b>                      | <b>10</b> |

F-27

**Table of Contents**

As a result of the Company obtaining control over Veredus, the Company's previously held 41.2% was re-measured to fair value; however this did not result in any gain or loss.

The goodwill is attributable to the workforce of the acquired business and to the increased footprint of the Company in the healthcare business. The goodwill is not expected to be deductible for tax purposes. All of the \$10 million was allocated to the Company's Analog, MEMS and Microcontrollers ( AMM ) segment.

Immediately after this acquisition, the Company increased its ownership in Veredus to 67% through the issuance of new Veredus shares for a cash amount of \$1 million. This transaction did not result in a change of control of Veredus and therefore has been accounted for as an equity transaction.

**Acquisition in 2012**

On July 31, 2012, the Company completed a transaction to acquire substantially all the assets and employees of bTendo ltd, a company based in Israel. This transaction is intended to position the Company as a leader in the emerging video-sharing market for smartphones and other portable consumer devices. This transaction structured as an asset deal has been accounted for as a business combination. The activities of this business are included in the reportable segment Analog, MEMS and Microcontrollers ( AMM ). The fair value of the identifiable assets and assumed liabilities acquired from bTendo ltd at acquisition date were as follows:

| In millions of U.S. dollars                 | Fair value<br>recognized at<br>acquisition date |
|---|---|
| Technology                                  | 6   |
| In-process R&D                              | 4   |
| Goodwill                                    | 1   |
| Total identifiable net assets at fair value | 11  |
| Purchase consideration                      | 11  |

The purchase consideration includes a cash payment of \$1 million, a non-cash consideration for \$1 million and the acquisition-date fair value of a sales earn-out for \$9 million. Goodwill on this transaction arises principally due to the value of the assembled workforce.

**8. GOODWILL**

Goodwill allocated to reportable segments as of December 31, 2012 and 2011 and changes in the carrying amount of goodwill during the years ended December 31, 2012 and 2011 are as follows:

|                              | Wireless<br>Segment<br>( Wireless ) | Analog,<br>MEMS<br>and<br>Microcontrollers<br>Sector ( AMM ) | Digital<br>Segment<br>( Digital ) | Total        |
|------------------------------|-------------------------------------|--|-----------------------------------|--------------|
| <b>December 31, 2010</b>     | <b>923</b>                          | <b>88</b>  | <b>43</b>                         | <b>1,054</b> |
| Business Combinations        |                                     | 10   |                                   | 10           |
| Foreign currency translation | (2)                                 | (3)  |                                   | (5)          |
| <b>December 31, 2011</b>     | <b>921</b>                          | <b>95</b>  | <b>43</b>                         | <b>1,059</b> |
| Business Combinations        |                                     | 1  |                                   | 1            |
| Foreign currency translation | 1                                   | 2  |                                   | 3            |
| Impairment loss              | (922)                               |  |                                   | (922)        |
| <b>December 31, 2012</b>     |                                     | <b>98</b>  | <b>43</b>                         | <b>141</b>   |

Goodwill as at December 31, 2011 is net of accumulated impairment losses of \$64 million, of which \$7 million relates to the AMM segment and \$57 million relates to the Digital segment. Goodwill as at December 31, 2012 is net of accumulated impairment losses of \$986 million, of which \$922 million relates to the Wireless segment, \$7 million relates to the AMM segment and \$57 million relates to the Digital segment.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

In 2012, the Company recorded on Wireless goodwill an impairment loss totalling \$922 million.

During the third quarter of 2012, the Company performed its annual impairment campaign. The Company did not elect to perform a qualitative assessment on any of its tested reporting units. The impairment test was conducted following a two-step process. In the first step, the Company compared the fair value of the reporting unit to its carrying value. For Wireless, the fair value of the reporting unit, which was based on the latest five-year plan for

F-28



**Table of Contents**

the Wireless segment updated during the third quarter of 2012 and based on management's best estimate about future developments of the Wireless business as well as market and customer assumptions, was lower than its carrying value and further testing was required. The Wireless fair value had to be allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculated the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. Based on preliminary analysis, the Company estimated in the third quarter of 2012 that the implied fair value of Wireless goodwill was lower than its carrying value. Due to the complexity required to estimate the fair value of the Wireless reporting unit in the first step of the impairment test and to estimate the fair value of all assets and liabilities of the Wireless reporting unit in the second step of the test, the preliminary fair value estimates were derived based on management's best assumptions at that time. As a result, the Company recorded a preliminary impairment charge of \$690 million for Wireless goodwill in the third quarter of 2012.

In December 2012, following the Company's decision to exit ST-Ericsson by the end of 2013, which did not qualify as an asset held-for-sale or a discontinued operation, and taking into consideration the latest market dynamics, an impairment test was performed on Wireless reporting unit. Prior to conducting the step one of the goodwill impairment test for the Wireless reporting unit, the Company first evaluated the recoverability of the long-lived assets assigned to the Wireless reporting unit and concluded that some of the intangible assets had to be impaired, as described in Note 9. In determining the fair value of the Wireless reporting unit, the Company used an estimate of the expected discounted future cash flows associated with the reporting unit on the basis of a plan for the Wireless reporting unit that included management's best estimate about future developments and scenarios to exit ST-Ericsson and the Wireless business evolution. Based on this analysis, there was no implied fair value of goodwill as at December 31, 2012. Therefore, the Company impaired the remaining amount of goodwill for the Wireless reporting unit, for a total of \$232 million.

**9. OTHER INTANGIBLE ASSETS**

Other intangible assets consisted of the following:

| <b>December 31, 2012</b>           | Gross Cost   | Accumulated Amortization | Net Cost   |
|------------------------------------|--------------|--------------------------|------------|
| Technologies & licences            | 742          | (630)                    | 112        |
| Contractual customer relationships | 13           | (11)                     | 2          |
| Purchased software                 | 356          | (312)                    | 44         |
| Construction in progress           | 39           |                          | 39         |
| Other intangible assets            | 104          | (88)                     | 16         |
| <b>Total</b>                       | <b>1,254</b> | <b>(1,041)</b>           | <b>213</b> |

| <b>December 31, 2011</b>           | Gross Cost   | Accumulated Amortization | Net Cost   |
|------------------------------------|--------------|--------------------------|------------|
| Technologies & licences            | 882          | (723)                    | 159        |
| Contractual customer relationships | 488          | (171)                    | 317        |
| Purchased software                 | 358          | (291)                    | 67         |
| Construction in progress           | 87           |                          | 87         |
| Other intangible assets            | 99           | (84)                     | 15         |
| <b>Total</b>                       | <b>1,914</b> | <b>(1,269)</b>           | <b>645</b> |

The line "Construction in progress" in the table above includes internally developed software under construction and software not ready for use.

As described in Note 7, purchase price allocation on the integration of bTendo AMM business resulted in the recognition of technology for \$6 million and in-process R&D for \$4 million.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

The line Other intangible assets consists primarily of internally developed software. The amortization expense on capitalized software costs in 2012, 2011 and 2010 was \$38 million, \$33 million and \$30 million, respectively.

In December 2012, following the Company's decision to exit ST-Ericsson by the end of 2013, an impairment test was performed on Wireless reporting unit, as detailed in Note 8. Prior to conducting the impairment test on goodwill, the Company evaluated the recoverability of the long-lived assets assigned to the Wireless reporting unit, including acquired technologies, contractual customer relationships and capitalized software. Recoverability

F-29

**Table of Contents**

of these intangible assets was assessed based on the undiscounted future cash flows expected to result from their use or potential sale. Based on management's best estimates about future developments and scenarios of the Wireless business, as well as assumptions on alternative future use or sale, the Company concluded that the undiscounted future cash flows were less than the carrying value. Therefore, these intangible assets were considered to be impaired. The amount of the impairment loss was measured as the difference between the carrying amount of these assets and the fair value based on a discounted cash flow approach. The impairment on intangible assets totalled \$312 million and was composed of \$261 million impairment on Wireless customer relationships, \$45 million impairment on Wireless capitalized software and \$6 million impairment on acquired technology.

The amortization expense in 2012, 2011 and 2010 was \$177 million, \$211 million and \$207 million, respectively.

The estimated amortization expense of the existing intangible assets for the following years is:

|              |            |
|--------------|------------|
| Year         |            |
| 2013         | 78         |
| 2014         | 51         |
| 2015         | 40         |
| 2016         | 28         |
| 2017         | 11         |
| Thereafter   | 5          |
| <b>Total</b> | <b>213</b> |

**10. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following:

|                                     | Gross<br>Cost | Accumulated<br>Depreciation | Net<br>Cost  |
|-------------------------------------|---------------|-----------------------------|--------------|
| <b>December 31, 2012</b>            |               |                             |              |
| Land                                | 93            |                             | 93           |
| Buildings                           | 966           | (395)                       | 571          |
| Facilities & leasehold improvements | 3,151         | (2,649)                     | 502          |
| Machinery and equipment             | 14,553        | (12,363)                    | 2,190        |
| Computer and R&D equipment          | 504           | (451)                       | 53           |
| Other tangible assets               | 165           | (145)                       | 20           |
| Construction in progress            | 52            |                             | 52           |
| <b>Total</b>                        | <b>19,484</b> | <b>(16,003)</b>             | <b>3,481</b> |

|                                     | Gross<br>Cost | Accumulated<br>Depreciation | Net<br>Cost  |
|-------------------------------------|---------------|-----------------------------|--------------|
| <b>December 31, 2011</b>            |               |                             |              |
| Land                                | 86            |                             | 86           |
| Buildings                           | 955           | (363)                       | 592          |
| Facilities & leasehold improvements | 3,086         | (2,479)                     | 607          |
| Machinery and equipment             | 14,320        | (11,828)                    | 2,492        |
| Computer and R&D equipment          | 508           | (444)                       | 64           |
| Other tangible assets               | 169           | (140)                       | 29           |
| Construction in progress            | 50            |                             | 50           |
| <b>Total</b>                        | <b>19,174</b> | <b>(15,254)</b>             | <b>3,920</b> |

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

The line "Construction in progress" in the table above includes property, plant and equipment under construction and equipment under qualification before operating.

Facilities & leasehold improvements, Machinery and equipment and Other tangible assets include assets acquired under capital lease. The Net Cost of Assets under capital lease for the years ended December 31, 2012 and 2011 was \$3 million and \$7 million, respectively.

The depreciation charge in 2012, 2011 and 2010 was \$930 million, \$1,068 million and \$1,033 million, respectively.

F-30

**Table of Contents**

Capital investment funding has totaled \$1 million for the year ended December 31, 2012, \$11 million for the year ended December 31, 2011 and \$4 million for the year ended December 31, 2010. Public funding reduced depreciation charges by \$10 million, \$12 million and \$13 million in 2012, 2011 and 2010 respectively.

For the years ended December 31, 2012, 2011 and 2010 the Company made equipment sales for cash proceeds of \$16 million, \$26 million and \$29 million respectively.

**11. LONG-TERM INVESTMENTS**

|                           | December 31,<br>2012 | December 31,<br>2011 |
|---------------------------|----------------------|----------------------|
| Equity-method investments | 106                  | 94                   |
| Cost-method investments   | 13                   | 27                   |
| <b>Total</b>              | <b>119</b>           | <b>121</b>           |

**Equity-method investments**

Equity-method investments as at December 31, 2012 and December 31, 2011 were as follows:

In millions of U.S. dollars, except percentages

|                   | December 31, 2012 |                         | December 31, 2011 |                         |
|-------------------|-------------------|-------------------------|-------------------|-------------------------|
|                   | Carrying<br>value | Ownership<br>percentage | Carrying<br>value | Ownership<br>percentage |
| ST-Ericsson AT SA | 9                 | 49.0%                   | 16                | 49.0%                   |
| 3Sun S.r.l.       | 91                | 33.3%                   | 78                | 33.3%                   |
| MicroOLED SAS     | 6                 | 39.6%                   |                   |                         |
| <b>Total</b>      | <b>106</b>        |                         | <b>94</b>         |                         |

**ST-Ericsson AT SA ( JVD )**

On February 3, 2009, the Company announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms ( EMP ) and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Company received an interest in ST-Ericsson AT Holding AG, in which the Company owns 50% less a controlling share held by Ericsson. The Company's investment in JVD at the date of the transaction was valued at \$99 million. In 2010, ST-Ericsson AT Holding AG was merged into ST-Ericsson AT SA. In 2012, the line Income (loss) on equity-method investments and gain on investment divestiture in the Company's consolidated statement of income included a charge of \$7 million related to JVD. This amount includes the amortization of basis differences and a charge of \$4 million following the impairment registered after the Company's announcement to exit the ST-Ericsson joint venture. The Company's current maximum exposure to loss as a result of its involvement with JVD is limited to its equity-method investment that amounted to \$9 million as at December 31, 2012.

The Company has determined that JVD is a VIE, but has determined that the Company is not the primary beneficiary of the entity. This determination is based on the judgment that the most significant activities of JVD are primarily R&D services performed for JVS and Ericsson, for which the Company does not have the power to direct by contract or voting control. The Company has not provided additional financial support in 2012 and currently has no requirement or intent to provide further financial support to JVD.

**3Sun S.r.l. ( 3Sun )**

3Sun is a joint initiative between Enel Green Power, Sharp and the Company for the manufacture of thin film photovoltaic panels in Catania, Italy. Each partner owns a third of the common shares of the entity. The Company has determined that 3Sun is not a VIE. However the Company exercises a significant influence over 3Sun and consequently accounts for its investment in 3Sun under the equity-method.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Since the investment in 3Sun is denominated in euros, the investment is revalued at each reporting date closing, the exchange difference being recorded as currency translation adjustment in Accumulated other comprehensive income (loss) in the consolidated statements of equity. The Company's maximum exposure to loss as a result of its involvement with 3Sun is limited to its equity-method investment that amounted to \$91 million and a shareholder loan of \$28 million as at December 31, 2012 and under certain conditions, to participate to further equity contributions up to Euro 14 million.

F-31

**Table of Contents***MicroOLED S.A.S.*

In the third quarter 2012, the Company invested approximately \$7 million in shares of MicroOLED SAS, therefore obtaining 39.6% of the voting rights. MicroOLED SAS is based in Grenoble and develops OLED micro-displays. The Company has determined that \$4 million out of the total value of its investment is a basis difference created by the identification of technology intangibles in MicroOLED SAS. The Company accounts for its share of results in MicroOLED with a quarter lag. Since the investment in MicroOLED SAS is denominated in euros, the investment is revalued at each reporting date closing, the exchange difference being recorded as currency translation adjustment in Accumulated other comprehensive income (loss) in the consolidated statements of equity. The Company's current maximum exposure to loss as a result of its involvement with MicroOLED is limited to its equity-method investment that amounted to \$6 million as at December 31, 2012.

*Cost-method investments*

Investments carried at cost are equity securities with no readily determinable fair value.

**12. OTHER NON-CURRENT ASSETS**

Other non-current assets consisted of the following:

|  | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|
| Available-for-sale equity securities     | 10                   | 9                    |
| Trading equity securities                | 8                    | 7                    |
| Long-term State receivables              | 470                  | 369                  |
| Long-term receivables from third parties | 2                    | 12                   |
| Long-term loans to affiliates            | 28                   |                      |
| Prepaid for pension                      | 5                    | 1                    |
| Deposits and other non-current assets    | 37                   | 34                   |
| <b>Total</b>                             | <b>560</b>           | <b>432</b>           |

Long-term State receivables include receivables related to funding and receivables related to tax refund. Funding are mainly public grants to be received from governmental agencies in Italy and France as part of long-term research and development, industrialization and capital investment projects. Long-term receivables related to tax refund correspond to tax benefits claimed by the Company in certain of its local tax jurisdictions, for which collection is expected beyond one year.

**13. OTHER PAYABLES AND ACCRUED LIABILITIES**

Other payables and accrued liabilities consisted of the following:

|                                       | December 31,<br>2012 | December 31,<br>2011 |
|---------------------------------------|----------------------|----------------------|
| Employee related liabilities          | 397                  | 370                  |
| Employee compensated absences         | 127                  | 113                  |
| Taxes other than income taxes         | 71                   | 62                   |
| Advances                              | 45                   | 73                   |
| Payables to equity-method investments | 45                   | 47                   |
| Obligations for capacity rights       | 1                    | 10                   |
| Derivative instruments                | 1                    | 75                   |
| Provision for restructuring           | 75                   | 42                   |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|                            |            |            |
|----------------------------|------------|------------|
| Current portion of pension | 16         | 16         |
| Royalties                  | 39         | 35         |
| Others                     | 125        | 133        |
| <b>Total</b>               | <b>942</b> | <b>976</b> |

The terms of the agreement for the inception of Numonyx, a company created in 2007 from the Company's and Intel's flash memory business key assets and sold in 2010 to Micron Technology Inc., included rights granted to Numonyx to use certain assets retained by the Company. As at December 31, 2012 and 2011 the value of such rights totaled \$14 million and \$23 million respectively, of which \$1 million and \$10 million respectively were reported as current liabilities.



**Table of Contents**

Derivative instruments are further described in Note 24.

Other payables and accrued liabilities also include individually insignificant amounts as of December 31, 2012 and December 31, 2011.

**14. LONG-TERM DEBT**

Long-term debt consisted of the following:

|  | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|
| <b>Funding program loans from European Investment Bank:</b>  |                      |                      |
| 0.33% due 2014, floating interest rate at Libor + 0.017%     | 40                   | 60                   |
| 0.34% due 2015, floating interest rate at Libor + 0.026%     | 28                   | 37                   |
| 0.36% due 2016, floating interest rate at Libor + 0.052%     | 77                   | 97                   |
| 0.63% due 2016, floating interest rate at Libor + 0.317%     | 103                  | 129                  |
| 0.53% due 2016, floating interest rate at Libor + 0.213%     | 114                  | 143                  |
| 1.42% due 2020, floating interest rate at Libor + 1.099%     | 100                  |                      |
| 1.27% due 2020, floating interest rate at Libor + 0.956%     | 221                  |                      |
| 1.02% due 2020, floating interest rate at Euribor + 0.817%   | 132                  |                      |
| <b>Other funding program loans:</b>                          |                      |                      |
| 0.54% (weighted average), due 2013-2018, fixed interest rate | 7                    | 10                   |
| <b>Other long-term loans:</b>                                |                      |                      |
| 1.95% (weighted average), due 2017, fixed interest rate      | 12                   |                      |
| <b>Capital leases:</b>                                       |                      |                      |
| 6.03% (weighted average), due 2013-2017, fixed interest rate | 5                    | 9                    |
| <b>Senior Bonds:</b>   |                      |                      |
| 0.58%, due 2013, floating interest rate at Euribor + 0.40%   | 462                  | 453                  |
| <b>Convertible debt:</b>                                     |                      |                      |
| 1.50% convertible bonds due 2016                             |                      | 221                  |
| <b>Total long-term debt</b>                                  | <b>1,301</b>         | <b>1,159</b>         |
| Less current portion   | (630)                | (333)                |
| <b>Total long-term debt, less current portion</b>            | <b>671</b>           | <b>826</b>           |

Long-term debt is denominated in the following currencies:

|              | December 31, 2012 | December 31, 2011 |
|--------------|-------------------|-------------------|
| U.S. dollar  | 689               | 694               |
| Euro         | 612               | 465               |
| <b>Total</b> | <b>1,301</b>      | <b>1,159</b>      |

The European Investment Bank's loans denominated in Euros, but drawn in U.S. dollars, are classified as U.S. dollar-denominated debt.

Aggregate future maturities of total long-term debt outstanding (including current portion) are as follows:

|      | December 31,<br>2012 |
|------|----------------------|
| 2013 | 630                  |

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|              |              |
|--------------|--------------|
| 2014         | 165          |
| 2015         | 144          |
| 2016         | 134          |
| 2017         | 58           |
| Thereafter   | 170          |
| <b>Total</b> | <b>1,301</b> |

In February 2006, the Company issued \$1,131 million principal amount at maturity of zero coupon senior convertible bonds due in February 2016. The bonds were issued at 100% of principal with a yield to maturity of 1.5% and resulted in net proceeds to the Company of \$974 million less transaction fees. The bonds were convertible by the holder at any time prior to maturity at a conversion rate of 43.833898 shares per one thousand dollar face value of the bonds corresponding to 42,694,216 equivalent shares. In 2009 the Company repurchased

**Table of Contents**

98 thousand bonds corresponding to \$106 million principal amount for a total cash consideration of \$103 million, realizing a gain on the repurchase of \$3 million. In 2010 the Company repurchased around 386 thousand bonds corresponding to \$417 million principal amount for a total cash consideration of \$410 million, realizing a gain on the repurchase of \$7 million. On February 23, 2011, certain bondholders exercised their put option and redeemed for cash around 41 thousand bonds corresponding to \$45 million principal amount and a total cash consideration of \$44 million. In 2011, the Company repurchased around 290 thousand bonds corresponding to \$318 million principal amount for a total consideration of \$314 million, realizing a gain on the repurchase of \$4 million. On February 23, 2012, certain holders redeemed about 190 thousand convertible bonds at a price of \$1,093.81, out of the total of around 200 thousand outstanding bonds, representing approximately 95% of the then outstanding convertible bonds. In addition, in March 2012, the Company accepted the further put of around 5 thousand bonds for a cash consideration of \$5 million. On March 28, 2012, the Company published a notice of sweep-up redemption for the remaining approximately 5 thousand bonds outstanding, which were redeemed on May 10, 2012. As of December 31, 2012, there were no bonds remaining outstanding.

In March 2006, STMicroelectronics Finance B.V. ( ST BV ), a wholly owned subsidiary of the Company, issued floating rate senior bonds with a principal amount of Euro 500 million at an issue price of 99.873%. The notes, which mature on March 17, 2013, pay a coupon rate of the three-month Euribor plus 0.40% on the 17<sup>th</sup> of June, September, December and March of each year through maturity. In the event of changes to the tax laws of the Netherlands or any successor jurisdiction, ST BV or the Company may redeem the full amount of senior bonds for cash. In the event of certain change in control triggering events, the holders can cause ST BV or the Company to repurchase all or a portion of the bonds outstanding. In 2010 the Company repurchased 74 thousand bonds for a total cash consideration of \$98 million. In 2011 the Company repurchased around 76 thousand bonds for a total cash consideration of \$107 million. The repurchased bonds have been cancelled in accordance with their terms.

***Credit facilities***

The Company had unutilized committed medium-term credit facilities with core relationship banks totalling \$490 million as of December 31, 2012. The Company also has three committed long-term amortizing credit facilities with the European Investment Bank as part of R&D funding programs. The first one, for a total of 245 million for R&D in France was fully drawn in U.S. dollars for a total amount of \$341 million, of which \$145 million remained outstanding as at December 31, 2012. The second one, signed on July 21, 2008, for a total amount of 250 million for R&D projects in Italy, was fully drawn in U.S. dollars for \$380 million, of which \$217 million remained outstanding as at December 31, 2012. The third one, signed in 2010 as a 350 million multi-currency loan for R&D programs in Europe, was drawn mainly in U.S. dollar and only partially in Euro for a total amount of \$453 million.

As at December 31, 2011 ST-Ericsson had \$400 million of committed line from Ericsson as parent company. In December 2012 both parents decided to forgive their respective loans to ST-Ericsson. The Ericsson part of the loan forgiven was recorded as a contribution of noncontrolling interest.

**15. POST-RETIREMENT AND OTHER LONG-TERM EMPLOYEES BENEFITS**

The Company and its subsidiaries have a number of defined benefit pension plans, mainly unfunded, and other long-term employees' benefits covering employees in various countries. The defined benefit plans provide pension benefits based on years of service and employee compensation levels. The other long-term employees' plans provide benefits due during the employees' period of service after certain seniority levels. The Company uses a December 31 measurement date for its plans. Eligibility is generally determined in accordance with local statutory requirements. For Italian termination indemnity plan ( TFR ), generated before July 1, 2007, the Company continues to measure the vested benefits to which Italian employees are entitled as if they retired immediately as of December 31, 2012, in compliance with U.S. GAAP guidance on determining vested benefit obligations for defined benefit pension plans.

**Table of Contents**

The changes in benefit obligation and plan assets were as follows:

|   | Pension Benefits     |                      | Other Long-Term Benefits |                      |
|---|----------------------|----------------------|--------------------------|----------------------|
|   | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2012     | December 31,<br>2011 |
| <b>Change in benefit obligation:</b>  |                      |                      |                          |                      |
| Benefit obligation at beginning of year                                       | 794                  | 701                  | 52                       | 50                   |
| Service cost  | 40                   | 34                   | 9                        | 8                    |
| Interest cost   | 31                   | 33                   | 3                        | 3                    |
| Employee contributions  | 6                    | 7                    |                          |                      |
| Benefits paid   | (21)                 | (20)                 | (3)                      | (2)                  |
| Effect of settlement  | (31)                 | (18)                 |                          |                      |
| Actuarial (gain) loss   | 58                   | 73                   | 2                        | (5)                  |
| Transfer in   | 70                   | 3                    | 3                        | 1                    |
| Transfer out  | (70)                 | (3)                  | (3)                      | (1)                  |
| Plan amendment  | 4                    |                      |                          |                      |
| Foreign currency translation adjustment                                       | 20                   | (16)                 |                          | (2)                  |
| <b>Benefit obligation at end of year</b>                                      | <b>901</b>           | <b>794</b>           | <b>63</b>                | <b>52</b>            |
| <b>Change in plan assets:</b>   |                      |                      |                          |                      |
| Plan assets at fair value at beginning of year                                | 378                  | 372                  |                          |                      |
| Expected return on plan assets  | 18                   | 20                   |                          |                      |
| Employer contributions  | 34                   | 30                   |                          |                      |
| Employee contributions  | 6                    | 7                    |                          |                      |
| Benefits paid   | (11)                 | (8)                  |                          |                      |
| Effect of settlement  | (30)                 | (16)                 |                          |                      |
| Actuarial gain (loss)   | 17                   | (25)                 |                          |                      |
| Transfer in   | 40                   | 1                    |                          |                      |
| Transfer out  | (40)                 | (1)                  |                          |                      |
| Foreign currency translation adjustments                                      | 10                   | (2)                  |                          |                      |
| <b>Plan assets at fair value at end of year</b>                               | <b>422</b>           | <b>378</b>           |                          |                      |
| <b>Funded status</b>  | <b>(479)</b>         | <b>(416)</b>         | <b>(63)</b>              | <b>(52)</b>          |
| <b>Net amount recognized in the balance sheet consisted of the following:</b> |                      |                      |                          |                      |
| Non-current assets  | 5                    | 1                    |                          |                      |
| Current liabilities   | (16)                 | (16)                 | (3)                      | (3)                  |
| Long-term liabilities   | (468)                | (401)                | (60)                     | (49)                 |
| <b>Net amount recognized</b>  | <b>(479)</b>         | <b>(416)</b>         | <b>(63)</b>              | <b>(52)</b>          |

The components of accumulated other comprehensive income (loss) before tax effects were as follows:

|   | Actuarial<br>(gains)/losses | Prior service<br>cost | Total      |
|---|-----------------------------|-----------------------|------------|
| <b>Other comprehensive loss as at December 31, 2010</b> | <b>86</b>                   | <b>11</b>             | <b>97</b>  |
| Net amount generated/arising in current year            | 98                          |                       | 98         |
| Amortization  | (6)                         | (1)                   | (7)        |
| Foreign currency translation adjustment                 | (3)                         |                       | (3)        |
| <b>Other comprehensive loss as at December 31, 2011</b> | <b>175</b>                  | <b>10</b>             | <b>185</b> |
| Net amount generated/arising in current year            | 43                          | 4                     | 47         |
| Amortization  | (14)                        | (5)                   | (19)       |
| Foreign currency translation adjustment                 | 5                           |                       | 5          |
| <b>Other comprehensive loss as at December 31, 2012</b> | <b>209</b>                  | <b>9</b>              | <b>218</b> |

In 2013, the Company expects to amortize \$13 million of actuarial losses and \$1 million of past service cost.

F-35

**Table of Contents**

The components of the net periodic benefit cost included the following:

|   | Pension Benefits                   |                                    |                                    | Other Long-term Benefits           |                                    |                                    |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|   | Year ended<br>December 31,<br>2012 | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2012 | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 |
| Service cost                              | 40                                 | 34                                 | 25                                 | 9                                  | 8                                  | 8                                  |
| Interest cost                             | 31                                 | 33                                 | 26                                 | 3                                  | 3                                  | 2                                  |
| Expected return on plan assets            | (18)                               | (20)                               | (18)                               |                                    |                                    |                                    |
| Amortization of actuarial net loss (gain) | 12                                 | 6                                  | 4                                  | 2                                  | (5)                                | 3                                  |
| Amortization of prior service cost        | 5 <sup>(1)</sup>                   | 1                                  | 1                                  |                                    |                                    | 1                                  |
| Effect of settlement                      |                                    | (1)                                | 5                                  |                                    |                                    |                                    |
| Effect of curtailment                     |                                    |                                    | (2)                                |                                    |                                    | (1)                                |
| <b>Net periodic benefit cost</b>          | <b>70</b>                          | <b>53</b>                          | <b>41</b>                          | <b>14</b>                          | <b>6</b>                           | <b>13</b>                          |

(1) The amortization of prior service cost includes about \$4 million costs in relation with ST-Ericsson April 2012 restructuring plan. The weighted average assumptions used in the determination of the benefit obligation and the plan asset for the pension plans and the other long-term benefits were as follows:

| Assumptions  | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|
| Discount rate  | 3.43%                | 4.14%                |
| Salary increase rate   | 2.92%                | 2.99%                |
| Expected long-term rate of return on funds for the pension expense of the year | 4.43%                | 4.57%                |

The weighted average assumptions used in the determination of the net periodic benefit cost for the pension plans and the other long-term benefits were as follows:

| Assumptions  | Year ended<br>December 31,<br>2012 | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Discount rate  | 4.14%                              | 4.68%                              | 5.11%                              |
| Salary increase rate   | 2.99%                              | 3.13%                              | 3.08%                              |
| Expected long-term rate of return on funds for the pension expense of the year | 4.57%                              | 4.99%                              | 5.28%                              |

The discount rate was determined by reference to market yields on high quality long-term corporate bonds applicable to the respective country of each plan, with terms consistent with the term of the benefit obligations concerned. In developing the expected long-term rate of return on assets, the Company modelled the expected long-term rates of return for broad categories of investments held by the plan against a number of various potential economic scenarios.

The Company's pension plan asset allocation at December 31, 2012 and at December 31, 2011 is as follows:

| Asset Category    | Percentage of Plan Assets at December |      |
|-------------------|---------------------------------------|------|
|                   | 2012                                  | 2011 |
| Equity securities | 37%                                   | 31%  |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|  |             |      |
|--|-------------|------|
| Bonds securities remunerating interest | <b>31%</b>  | 25%  |
| Real estate                            | <b>2%</b>   | 3%   |
| Other                                  | <b>30%</b>  | 41%  |
| Total                                  | <b>100%</b> | 100% |

F-36

**Table of Contents**

The Company's detailed pension plan asset allocation including the fair-value measurements of those plan assets as at December 31, 2012 is as follows:

|  | <b>Total</b> | Quoted Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|--------------|---|---|--|
| Cash and cash equivalents                              | 5            | 5   |   |  |
| Equity securities                                      | 156          | 9   | 147   |  |
| Government debt securities                             | 13           | 12  | 1   |  |
| Corporate debt securities                              | 119          | 4   | 115   |  |
| Investment funds                                       | 7            | 1   | 3   | 3  |
| Real estate  | 9            |   | 5   | 4  |
| Other (mainly insurance assets contracts and reserves) | 113          |   |   | 113  |
| <b>TOTAL</b>   | <b>422</b>   | <b>31</b>   | <b>271</b>  | <b>120</b>   |

The Company's detailed pension plan asset allocation including the fair-value measurements of those plan assets as at December 31, 2011 is as follows:

|  | <b>Total</b> | Quoted Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|--------------|---|---|--|
| Cash and cash equivalents                              | 10           | 10  |   |  |
| Equity securities                                      | 116          | 12  | 104   |  |
| Government debt securities                             | 15           | 13  | 2   |  |
| Corporate debt securities                              | 78           | 2   | 76  |  |
| Derivatives  | 16           | 16  |   |  |
| Investment funds                                       | 32           |   | 30  | 2  |
| Real estate  | 12           |   | 8   | 4  |
| Other (mainly insurance assets contracts and reserves) | 99           | 1   |   | 98   |
| <b>TOTAL</b>   | <b>378</b>   | <b>54</b>   | <b>220</b>  | <b>104</b>   |

The Company revised the hierarchy classification of certain plan assets for which the Company believes the observability of the inputs more closely represent Level 2 or Level 3 valuations. The prior period has been revised to conform to the current period presentation. In 2011, the Company reclassified \$124 million of mutual funds from Level 1 to Level 2 and \$94 million of pension insurance contracts mainly from Level 2 to Level 3. Fair value measurement is further described in Note 24.

For plan assets measured at fair value using significant unobservable inputs (Level 3), the reconciliation between January 1, 2012 and December 31, 2012 is presented as follows:

| In millions of U.S. dollars           | Fair Value Measurements<br>using Significant<br>Unobservable Inputs<br>(Level 3) |
|---------------------------------------|--|
| January 1, 2012                       | 104  |
| Actual return on plan assets          | 3  |
| Contributions (employer and employee) | 16   |
| Benefits paid                         | (3)  |
| Settlements                           | (7)  |



## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|   |            |
|---|------------|
| Reclassification to Level 3             | 4          |
| Foreign currency translation adjustment | 3          |
| <br>                                    |            |
| <b>December 31, 2012</b>                | <b>120</b> |

For plan assets measured at fair value using significant unobservable inputs (Level 3), the reconciliation between January 1, 2011 and December 31, 2011 is presented as follows:

|                             | Fair Value Measurements<br>using Significant<br>Unobservable Inputs<br>(Level 3) |
|-----------------------------|--|
| In millions of U.S. dollars |  |
| January 1, 2011             | 12   |
| Reclassification to Level 2 | (2)  |
| Reclassification to Level 3 | 94   |
| <br>                        |  |
| <b>December 31, 2011</b>    | <b>104</b>   |

F-37

**Table of Contents**

The Company's investment strategy for its pension plans is to maximize the long-term rate of return on plan assets with an acceptable level of risk in order to minimize the cost of providing pension benefits while maintaining adequate funding levels. The Company's practice is to periodically conduct a review in each subsidiary of its asset allocation strategy. A portion of the fixed income allocation is reserved in short-term cash to provide for expected benefits to be paid. The Company's equity portfolios are managed in such a way as to achieve optimal diversity and in certain jurisdictions they are entirely managed by the multi-employer funds. The Company does not manage any assets internally.

After considering the funded status of the Company's defined benefit plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year in excess of required amounts. The Company contributions to plan assets were \$34 million and \$30 million in 2012 and 2011 respectively and the Company expects to contribute cash of \$17 million in 2013.

The Company's estimated future benefit payments as of December 2012 are as follows:

| Years             | Pension Benefits | Other Long-term Benefits |
|-------------------|------------------|--------------------------|
| 2013              | 27               | 3                        |
| 2014              | 32               | 5                        |
| 2015              | 25               | 11                       |
| 2016              | 30               | 4                        |
| 2017              | 36               | 4                        |
| From 2018 to 2022 | 203              | 29                       |

The Company has certain defined contribution plans, which accrue benefits for employees on a pro-rata basis during their employment period based on their individual salaries. The Company accrued benefits related to defined contribution pension plans of \$19 million and \$17 million as of December 31, 2012 and 2011 respectively. The annual cost of these plans amounted to approximately \$94 million, \$98 million and \$89 million in 2012, 2011 and 2010, respectively. The benefits accrued to employees on a pro-rata basis, during their employment period, are based on the individuals' salaries.

**16. SHAREHOLDERS' EQUITY****16.1 Outstanding shares**

The authorized share capital of the Company is Euro 1,810 million consisting of 1,200,000,000 common shares and 540,000,000 preference shares, each with a nominal value of 1.04. As at December 31, 2012 the number of shares of common stock issued was 910,559,805 shares (910,559,805 at December 31, 2011).

As of December 31, 2012 the number of shares of common stock outstanding was 887,953,202 (884,995,094 at December 31, 2011).

**16.2 Preference shares**

The 540,000,000 preference shares, when issued, will entitle a holder to full voting rights and to a preferential right to dividends and distributions upon liquidation.

On January 22, 2008, an option agreement was concluded between the Company and Stichting Continuïteit ST. This option agreement provides for the issuance of 540,000,000 preference shares. Any such shares should be issued by the Company to the Foundation, upon its request and in its sole discretion, upon payment of at least 25% of the par value of the preference shares to be issued. The issuing of the preference shares is conditional upon (i) the Company receiving an unsolicited offer or there being the threat of such an offer; (ii) the Company's Managing and Supervisory Boards deciding not to support such an offer and; (iii) the Board of the Foundation determining that such an offer or acquisition would be contrary to the interests of the Company and its stakeholders. The preference shares may remain outstanding for no longer than two years. There were no preference shares issued as of December 31, 2012.

**16.3 Treasury stock**

Following the authorization by the Supervisory Board, announced on April 2, 2008, to repurchase up to 30 million shares of its common stock, the Company acquired 29,520,220 shares in 2008, also reflected at cost, as a reduction of the parent company stockholders' equity.

**Table of Contents**

As of December 31, 2012, the Company owned a number of treasury shares equivalent to 22,606,603.

The treasury shares have been designated for allocation under the Company's share based remuneration programs of non-vested shares. As of December 31, 2012, 20,313,617 of these treasury shares were transferred to employees under the Company's share based remuneration programs, of which 2,958,108 in the year ended December 31, 2012.

**16.4 Stock option plans**

In 1999, the Shareholders voted to renew the Supervisory Board Stock Option Plan whereby each member of the Supervisory Board would receive, during the three-year period 1999-2001, 18,000 options for 1999 and 9,000 options for both 2000 and 2001, to purchase shares of capital stock at the closing market price of the shares on the date of the grant. In the same three-year period, the professional advisors to the Supervisory Board would receive 9,000 options for 1999 and 4,500 options for both 2000 and 2001. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant for both 1999 and 2000 and ten years from the date of grant for 2001.

In 2001, the Shareholders voted to adopt the 2001 Employee Stock Option Plan (the 2001 Plan) whereby options for up to 60,000,000 shares may be granted in installments over a five-year period. The options may be granted to purchase shares of common stock at a price not lower than the market price of the shares on the date of grant. In connection with a revision of its equity-based compensation policy, the Company decided in 2005 to accelerate the vesting period of all outstanding unvested stock options. The options expire ten years after the date of grant.

In 2002, the Shareholders voted to adopt a Stock Option Plan for Supervisory Board Members and Professionals of the Supervisory Board. Under this plan, 12,000 options can be granted per year to each member of the Supervisory Board and 6,000 options per year to each professional advisor to the Supervisory Board. Options vest thirty days after the date of grant and expire ten years after the date of grant.

A summary of the stock option activity for the plans for the three years ended December 31, 2012, 2011 and 2010 follows:

|                                  | Number of Shares | Price Per Share  |                  |
|----------------------------------|------------------|------------------|------------------|
|                                  |                  | Range            | Weighted Average |
| Outstanding at December 31, 2009 | 37,943,832       | \$ 16.73-\$39.00 | \$ 27.33         |
| Options forfeited                | (2,646,937)      | \$ 17.08-\$39.00 | \$ 29.55         |
| Outstanding at December 31, 2010 | 35,296,895       | \$ 16.73-\$39.00 | \$ 27.17         |
| Options forfeited                | (8,843,743)      | \$ 17.08-\$39.00 | \$ 35.11         |
| Outstanding at December 31, 2011 | 26,453,152       | \$ 16.73-\$33.70 | \$ 24.51         |
| Options forfeited                | (9,762,680)      | \$ 17.08-\$33.70 | \$ 30.50         |
| Outstanding at December 31, 2012 | 16,690,472       | \$ 16.73-\$27.21 | \$ 21.00         |

The weighted average remaining contractual life of options outstanding as of December 31, 2012, 2011 and 2010 was 0.8, 1.2 and 1.9 years, respectively.

The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options exercisable as of December 31, 2012 were as follows:

| Number of shares | Option price | Weighted | Weighted |
|------------------|--------------|----------|----------|
|                  | Range        | average  | average  |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|            |                 | exercise price | remaining | contractual life |
|------------|-----------------|----------------|-----------|------------------|
| 84,100     | \$25.90-\$27.21 | \$26.07        |           | 0.84             |
| 16,495,761 | \$19.18-\$22.83 | \$21.01        |           | 0.77             |
| 110,611    | \$16.73-\$17.08 | \$17.03        |           | 1.73             |

F-39

**Table of Contents****16.5 Nonvested share awards**

On an annual basis, the Compensation Committee (on behalf of the Supervisory Board and with its approval) grants stock-based awards to the members and professionals of the Supervisory Board ( The Supervisory Board Plan ) and to senior executives along with selected employees ( The Employee Plan ). The awards are granted at the nominal value of the share of 1.04 under the Supervisory Board Plan and for free under the Employee Plan. The awards granted under the Supervisory Board Plan vest evenly over three years (one third every year), with no market, performance or service conditions. As for the Employee Plan, the awards vest upon completion of three internal performance conditions (consisting of sales evolution and operating income compared to a basket of competitors and of cash flow/return on net assets compared with budget), each weighting for one third of the total number of awards granted; the awards vest over a three year service period (32% as of the first anniversary of the grant, 32% as of the second anniversary of the grant and 36% as of the third anniversary of the grant and for awards granted under the French Subplan, 64% as of the second anniversary of the grant and 36% as of the third anniversary).

The table below summarizes grants under the outstanding stock award plans as authorized by the Compensation Committee:

| Date of grant     | Plan name              | Number of shares granted | Number of shares waived | Number of shares lost on performance conditions |
|-------------------|------------------------|--------------------------|-------------------------|---|
| May 20, 2009      | 2009 Supervisory Board | 165,000                  | (7,500)                 |   |
| July 28, 2009     | 2009 Employee Plan     | 5,575,240                |                         | (1,827,349)                                     |
| November 30, 2009 | 2009 Employee Plan     | 8,300                    |                         | (2,762)   |
| May 27, 2010      | 2010 Supervisory Board | 172,500                  | (7,500)                 |   |
| July 22, 2010     | 2010 Employee Plan     | 6,344,725                |                         | (2,076,448)                                     |
| December 17, 2010 | 2010 Employee Plan     | 221,650                  |                         | (73,524)  |
| May 3, 2011       | 2011 Supervisory Board | 172,500                  | (30,000)                |   |
| July 25, 2011     | 2011 Employee Plan     | 5,881,630                |                         | (5,824,445)                                     |
| November 14, 2011 | 2011 Employee Plan     | 95,000                   |                         | (91,540)  |
| May 30, 2012      | 2012 Supervisory Board | 180,000                  | (22,500)                |   |
| July 23, 2012     | 2012 Employee Plan     | 6,216,285                | (2,400)                 | (*)   |
| December 21, 2012 | 2012 Employee Plan     | 304,480                  |                         | (*)   |

(\*) As at December 31, 2012, a final determination of the achievement of the performance conditions had not yet been made by the Compensation Committee of the Supervisory Board.

A summary of the nonvested share activity by plan for the year ended December 31, 2012 is presented below:

| Nonvested Shares            | Outstanding as at December 31, 2011 | Granted          | Forfeited / waived | Cancelled on failed vesting conditions | Vested             | Outstanding as at December 31, 2012 |
|-----------------------------|-------------------------------------|------------------|--------------------|--|--------------------|-------------------------------------|
| 2009 Employee Plan          | 1,257,038                           |                  | (5,931)            |  | (1,251,107)        |                                     |
| 2010 Employee Plan          | 3,224,558                           |                  | (31,721)           |  | (1,707,001)        | 1,485,836                           |
| 2011 Employee Plan          | 5,945,815                           |                  | (29,830)           | (5,915,985)                            |                    |                                     |
| 2012 Employee Plan          |                                     | 6,520,765        | (47,245)           |  |                    | 6,473,520                           |
| 2009 Supervisory Board Plan | 35,000                              |                  |                    |  | (35,000)           |                                     |
| 2010 Supervisory Board Plan | 75,000                              |                  |                    |  | (45,000)           | 30,000                              |
| 2011 Supervisory Board Plan | 142,500                             |                  |                    |  | (62,500)           | 80,000                              |
| 2012 Supervisory Board Plan |                                     | 180,000          | (22,500)           |  |                    | 157,500                             |
| <b>Total</b>                | <b>10,679,911</b>                   | <b>6,700,765</b> | <b>(137,227)</b>   | <b>(5,915,985)</b>                     | <b>(3,100,608)</b> | <b>8,226,856</b>                    |

The grant date fair value of nonvested shares granted to employees under the 2009 Employee Plan was \$7.54. On the 2009 Employee Plan, the fair value of the nonvested shares granted reflected the market price of the shares at the date of the grant. On April 14, 2010, the Compensation Committee approved the statement that two performance conditions were fully met. Consequently, the compensation expense recorded on the 2009 Employee Plan reflects the statement that two thirds of the awards granted will fully vest, as far as the service condition is met.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

The grant date fair value of nonvested shares granted to employees under the 2010 Employee Plan was \$8.74. On the 2010 Employee Plan, the fair value of the nonvested shares granted reflected the market price of the shares at

F-40

**Table of Contents**

the date of the grant. On April 26, 2011, the Compensation Committee approved the statement that two performance conditions were fully met. Consequently, the compensation expense recorded on the 2010 Employee Plan reflects the statement that two thirds of the awards granted will fully vest, as far as the service condition is met.

The grant date fair value of nonvested shares granted to employees under the 2011 Employee Plan was \$9.08. On the 2011 Employee Plan, the fair value of the nonvested shares granted reflected the market price of the shares at the date of the grant. On April 23, 2012, the Compensation Committee approved the statement that none of the three performance conditions were met. Consequently, the compensation expense recorded on the 2011 Employee Plan was reversed in the income statement for the year ended December 31, 2012.

The grant date fair value of nonvested shares granted to employees under the 2012 Employee Plan was \$4.87. On the 2012 Employee Plan, the fair value of the nonvested shares granted reflected the market price of the shares at the date of the grant. Moreover, the Company estimates the number of awards expected to vest by assessing the probability of achieving the performance conditions. At December 31, 2012, a final determination of the achievement of the performance conditions had not yet been made by the Compensation Committee of the Supervisory Board. However, the Company has estimated that two thirds of the awards are expected to vest. Consequently, the compensation expense recorded for the 2012 Employee Plan reflects the vesting of two third of the awards granted, subject to the service condition being met. The assumption of the expected number of awards to be vested upon achievement of the performance conditions is subject to changes based on the final measurement of the conditions, which is expected to occur in the first half of 2013.

The following table illustrates the classification of pre-payroll tax and social contribution stock-based compensation expense included in the consolidated statements of income for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, respectively:

|   | <b>December 31,<br/>2012</b> | December 31,<br>2011 | December 31,<br>2010 |
|---|------------------------------|----------------------|----------------------|
| Cost of sales   | <b>2</b>                     | 5                    | 6                    |
| Selling, general and administrative                               | <b>6</b>                     | 16                   | 18                   |
| Research and development  | <b>3</b>                     | 8                    | 10                   |
| <b>Total pre-payroll tax and social contribution compensation</b> | <b>11</b>                    | 29                   | 34                   |

Compensation cost, excluding payroll tax and social contribution, capitalized as part of inventory was \$1 million at December 31, 2012, and \$2 million at December 31, 2011 and 2010. As of December 31, 2012 there was \$16 million of total unrecognized compensation cost related to the grant of nonvested shares, which is expected to be recognized over a weighted average period of approximately 10 months.

The total deferred income tax expense recognized in the consolidated statement of income related to unvested share-based compensation expense amounted to \$2 million for the year ended December 31, 2012. The total deferred income tax benefit recognized in the consolidated statements of income related to unvested share-based compensation expense amounted to \$7 million and \$3 million for the years ended December 31, 2011 and 2010, respectively. In 2010, the total deferred income tax expense included a shortfall, recorded on the 2007 Employee Plan closed during 2010 due to the vesting fair value being significantly lower than the grant fair value.



**Table of Contents****16.6 Accumulated other comprehensive income (loss) attributable to parent company stockholders**

The accumulated balances related to each component of Other comprehensive income (loss) were as follows:

|                          | Foreign<br>currency<br>translation<br>adjustment | Unrealized<br>gain<br>(loss)<br>on securities | Unrealized<br>gain (loss)<br>on derivatives | Unrealized<br>gain (loss)<br>on<br>defined benefit<br>pension<br>plans | Accumulated<br>other<br>comprehensive<br>income<br>(loss) |
|--------------------------|--|---|---|--|---|
| <b>Dec. 31, 2009</b>     | <b>1,224</b>                                     | <b>(3)</b>                                    | <b>6</b>                                    | <b>(69)</b>  | <b>1,158</b>  |
| Cumulative tax impact    |  | (3)   |   | 9  | 6   |
| Dec. 31, 2009 net of tax | 1,224  | (6)   | 6   | (60)   | 1,164   |
| <b>OCI movement</b>      | <b>(255)</b>                                     | <b>29</b>                                     | <b>55</b>                                   | <b>(19)</b>  | <b>(190)</b>  |
| Tax impact               |  | (1)   |   | 6  | 5   |
| OCI net of tax           | (255)  | 28  | 55  | (13)   | (185)   |
| <b>Dec. 31, 2010</b>     | <b>969</b>                                       | <b>26</b>                                     | <b>61</b>                                   | <b>(88)</b>  | <b>968</b>  |
| Cumulative tax impact    |  | (4)   |   | 15   | 11  |
| Dec. 31, 2010 net of tax | 969  | 22  | 61  | (73)   | 979   |
| <b>OCI movement</b>      | <b>(101)</b>                                     | <b>(33)</b>                                   | <b>(125)</b>                                | <b>(78)</b>  | <b>(337)</b>  |
| Tax impact               |  | 1   | 9   | 18   | 28  |
| OCI net of tax           | (101)  | (32)  | (116)                                       | (60)   | (309)   |
| <b>Dec. 31, 2011</b>     | <b>868</b>                                       | <b>(7)</b>                                    | <b>(64)</b>                                 | <b>(166)</b>   | <b>631</b>  |
| Cumulative tax impact    |  | (3)   | 9   | 33   | 39  |
| Dec. 31, 2011 net of tax | 868  | (10)  | (55)  | (133)  | 670   |
| <b>OCI movement</b>      | <b>64</b>  | <b>6</b>                                      | <b>90</b>                                   | <b>(39)</b>  | <b>121</b>  |
| Tax impact               |  |   | (11)  | 14   | 3   |
| OCI net of tax           | 64   | 6   | 79  | (25)   | 124   |
| <b>Dec. 31, 2012</b>     | <b>932</b>                                       | <b>(1)</b>                                    | <b>26</b>                                   | <b>(205)</b>   | <b>752</b>  |
| Cumulative tax impact    |  | (3)   | (2)   | 47   | 42  |
| Dec. 31, 2012 net of tax | 932  | (4)   | 24  | (158)  | 794   |

For the year ended December 31, 2012, the net amount of accumulated other comprehensive loss reclassified as earnings related to cash flow hedge transactions outstanding as at December 31, 2011, for which the forecasted hedged transactions occurred in 2012, was approximately \$55 million.

**16.7 Noncontrolling interest**

The noncontrolling interest was as follows:

|   |              |
|---|--------------|
| <b>Balance as of December 31, 2009</b>                            | <b>1,216</b> |
| Comprehensive income (loss):                                      |              |
| Net income (loss)   | (288)        |
| Unrealized gains (losses) on derivatives, net of tax              | 2            |
| Other components of other comprehensive income (loss), net of tax | (13)         |
| Other comprehensive income (loss), net of tax                     | (11)         |
| Comprehensive income (loss)                                       | (299)        |
| Dividends to noncontrolling interest                              | (7)          |
| <b>Balance as of December 31, 2010</b>                            | <b>910</b>   |
| Business combination  | 9            |
| Comprehensive income (loss):                                      |              |
| Net income (loss)   | (495)        |
| Unrealized gains (losses) on derivatives, net of tax              | (10)         |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|   |            |
|---|------------|
| Other components of other comprehensive income (loss), net of tax | (16)       |
| Other comprehensive income (loss), net of tax                     | (26)       |
| Comprehensive income (loss)                                       | (521)      |
| Dividends to noncontrolling interest                              | (5)        |
| <b>Balance as of December 31, 2011</b>                            | <b>393</b> |
| Contribution of noncontrolling interest                           | 765        |
| Comprehensive income (loss):                                      |            |
| Net loss  | (1,030)    |
| Unrealized gains (losses) on derivatives, net of tax              | 10         |
| Other components of other comprehensive income (loss), net of tax | 6          |
| Other comprehensive income (loss), net of tax                     | 16         |
| Comprehensive income (loss)                                       | (1,014)    |
| Dividends to noncontrolling interest                              | (5)        |
| <b>Balance as of December 31, 2012</b>                            | <b>139</b> |

F-42

**Table of Contents****16.8 Dividends**

At the Company's Annual General Meeting of Shareholders held on May 30, 2012, the distribution of a cash dividend of \$0.40 per common share, amounting to approximately \$355 million, to be paid in four equal installments, was adopted by the Company's shareholders. Through December 31, 2012, three installments were paid for an amount of \$266 million including withholding tax. The remaining \$0.10 per share cash dividend to be paid in the first quarter of 2013 totaled \$89 million and was reported as Dividends payable to stockholders on the consolidated balance sheet as at December 31, 2012.

At the Company's Annual General Meeting of Shareholders held on May 3, 2011, the distribution of a cash dividend of \$0.40 per common share, amounting to approximately \$354 million, to be paid in four equal installments, was adopted by the Company's shareholders. Through December 31, 2011, three installments were paid for an amount of \$266 million including withholding tax. The remaining \$0.10 per share cash dividend to be paid in the first quarter of 2012 totaled \$88 million and was reported as Dividends payable to stockholders on the consolidated balance sheet as at December 31, 2011.

In 2010 the cash dividend was of \$0.28 per share for a total amount paid of \$247 million.

**17. EARNINGS PER SHARE**

For the years ended December 31, 2012, 2011 and 2010, earnings per share (EPS) was calculated as follows:

|   | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 | Year ended<br>December 31, 2010 |
|---|---------------------------------|---------------------------------|---------------------------------|
| <b>Basic EPS</b>  |                                 |                                 |                                 |
| Net income (loss) attributable to parent company          | (1,158)                         | 650                             | 830                             |
| Weighted average shares outstanding                       | 886,699,953                     | 883,619,377                     | 880,375,234                     |
| Basic EPS   | (1.31)                          | 0.74                            | 0.94                            |
| <b>Diluted EPS</b>  |                                 |                                 |                                 |
| Net income (loss) attributable to parent company          | (1,158)                         | 650                             | 830                             |
| Convertible debt interest                                 |                                 | 5                               | 10                              |
| Net income (loss) attributable to parent company adjusted | (1,158)                         | 655                             | 840                             |
| Weighted average shares outstanding                       | 886,699,953                     | 883,619,377                     | 880,375,234                     |
| Dilutive effect of nonvested shares                       |                                 | 3,771,729                       | 3,555,806                       |
| Dilutive effect of convertible debt                       |                                 | 17,073,640                      | 27,180,653                      |
| Number of shares used in calculating diluted EPS          | 886,699,953                     | 904,464,746                     | 911,111,693                     |
| Diluted EPS   | (1.31)                          | 0.72                            | 0.92                            |

At December 31, 2012, if the Company had reported an income, outstanding stock options would have included anti-dilutive shares totalling approximately 16,690,472 shares. At December 31, 2011 and December 31, 2010 outstanding stock options included anti-dilutive shares totalling approximately 26,453,152 shares and 35,296,895 shares, respectively.

There was also the equivalent of 5,624 common shares outstanding for 2013 convertible debt. None of these bonds have been converted to shares during 2012. The repurchase of convertible bonds is described in Note 14.

**18. OTHER INCOME AND EXPENSES, NET**

Other income and expenses, net consisted of the following:

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|                                    | Year ended<br>December 31,<br>2012 | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Research and development funding   | 102                                | 128                                | 106                                |
| Phase-out and start-up costs       |                                    | (8)                                | (15)                               |
| Exchange gain, net                 | 5                                  | 8                                  | 11                                 |
| Patent costs                       | (20)                               | (28)                               | (12)                               |
| Gain on sale of non-current assets | 9                                  | 15                                 | 4                                  |
| Other, net                         | (5)                                | (6)                                | (4)                                |
| <b>Total</b>                       | <b>91</b>                          | 109                                | 90                                 |

F-43

**Table of Contents**

The Company receives significant public funding from governmental agencies in several jurisdictions. Public funding for research and development is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions have been met.

Phase-out costs are costs incurred during the closing stage of a Company's manufacturing facility. They are treated in the same manner as start-up costs. Start-up costs represent costs incurred in the start-up and testing of the Company's new manufacturing facilities, before reaching the earlier of a minimum level of production or six months after the fabrication line's quality certification.

Exchange gains and losses included in Other income and expenses, net represent the portion of exchange rate changes on transactions denominated in currencies other than an entity's functional currency and the changes in fair value of held-for-trading derivative instruments which are not designated as hedge and which have a cash flow effect related to operating transactions, as described in Note 24.

Patent costs include legal and attorney fees and payment for claims, patent pre-litigation consultancy and legal fees. They are reported net of settlements, which primarily include reimbursements of prior patent litigation costs.

**19. IMPAIRMENT, RESTRUCTURING CHARGES AND OTHER RELATED CLOSURE COSTS**

Impairment, restructuring charges and other related closure costs incurred in 2012, 2011, and 2010 are summarized as follows:

| Year ended                                | Impairment     | Restructuring charges | Other related closure costs | Total impairment, restructuring charges and other related closure costs |
|---|----------------|-----------------------|-----------------------------|---|
| December 31, 2012                         |                |                       |                             |   |
| Manufacturing restructuring plan          | (21)           |                       | (2)                         | (23)  |
| ST-Ericsson restructuring plan            |                | (1)                   |                             | (1)   |
| ST-Ericsson cost savings plan             |                | (10)                  | (10)                        | (20)  |
| ST-Ericsson April 2012 restructuring plan | (2)            | (60)                  | (4)                         | (66)  |
| ST-Ericsson exit                          | (544)          |                       |                             | (544)   |
| Digital restructuring plan                | (7)            | (13)                  |                             | (20)  |
| Annual impairment test                    | (694)          |                       |                             | (694)   |
| Other restructuring initiatives           |                |                       | (8)                         | (8)   |
| <b>Total</b>                              | <b>(1,268)</b> | <b>(84)</b>           | <b>(24)</b>                 | <b>(1,376)</b>  |

| Year ended                       | Impairment | Restructuring charges | Other related closure costs | Total impairment, restructuring charges and other related closure costs |
|----------------------------------|------------|-----------------------|-----------------------------|---|
| December 31, 2011                |            |                       |                             |   |
| Manufacturing restructuring plan | (3)        | (13)                  | (21)                        | (37)  |
| ST-Ericsson restructuring plan   | (1)        | (3)                   | (3)                         | (7)   |
| ST-Ericsson cost savings plan    |            | (26)                  |                             | (26)  |
| Other restructuring initiatives  |            | (1)                   | (4)                         | (5)   |
| <b>Total</b>                     | <b>(4)</b> | <b>(43)</b>           | <b>(28)</b>                 | <b>(75)</b>   |

| Year ended        | Impairment | Restructuring charges | Other related closure costs | Total impairment, restructuring charges and other related closure |
|-------------------|------------|-----------------------|-----------------------------|---|
| December 31, 2010 |            |                       |                             |   |

|                                  |             |             |             | costs        |
|----------------------------------|-------------|-------------|-------------|--------------|
| Manufacturing restructuring plan | (1)         | (15)        | (11)        | (27)         |
| ST-Ericsson restructuring plan   | (10)        | (59)        | (5)         | (74)         |
| Other restructuring initiatives  |             | (1)         | (2)         | (3)          |
| <b>Total</b>                     | <b>(11)</b> | <b>(75)</b> | <b>(18)</b> | <b>(104)</b> |

**Impairment charges**

In 2012, the Company recorded impairment charges of \$1,268 million corresponding primarily to:

\$1,234 million on Wireless goodwill and other intangible assets of which \$690 million impairment on Wireless goodwill as part of the annual impairment test performed during the third quarter and \$544 million impairment on Wireless goodwill and other intangible assets recorded in December following the Company's decision to exit ST-Ericsson, as described in Note 8 and Note 9. The \$1,234 million amount is

## **Table of Contents**

composed of an impairment charge of \$922 million on Wireless goodwill, \$261 million impairment on Wireless customer relationships, \$45 million impairment on Wireless capitalized software and \$6 million impairment on acquired technology;

\$21 million impairment on the Carrollton building and facilities;

\$7 million impairment charges on intangibles for which no alternative future use was identified within the Company, as part of the Digital restructuring plan;

\$4 million impairment on certain intangibles as part of the annual impairment test; and

\$2 million impairment charges primarily related to long-lived assets with no alternative future use within the Company.

In 2011, the Company recorded impairment charges of \$4 million primarily related to long-lived assets for which no alternative future use was identified within the Company.

In 2010, the Company recorded impairment charges for \$11 million primarily related to long-lived assets with no alternative future use within the Company, pursuant to the termination of certain lease contracts.

### **Restructuring charges and other related closure costs**

The Company is currently engaged in five major restructuring plans, the ST-Ericsson exit, the Digital restructuring plan, the ST-Ericsson April 2012 restructuring plan, the ST-Ericsson cost savings plan and the ST-Ericsson restructuring plan which are described hereafter.

In December 2012, the Company announced its new strategic plan. As part of its new strategic plan, the Company has taken the decision to exit ST-Ericsson after a transition period (the ST-Ericsson exit ).

In October 2012, the Company announced a new savings plan (the Digital restructuring plan ) designed to achieve \$150 million in annual savings upon completion by the end of 2013. The restructuring plan may affect up to 500 jobs, including contractors and attritions.

In April 2012, ST-Ericsson announced a restructuring plan (the ST-Ericsson April 2012 restructuring plan ) aimed at reducing its workforce by 1,700 employees worldwide including attritions and employee transfers. This restructuring plan has been combined with its ongoing cost savings plan formerly announced in June 2011.

In June 2011, ST-Ericsson announced a restructuring plan (the ST-Ericsson cost savings plan ) aimed at achieving \$120 million of annualized savings by end of 2012. The main action included in this restructuring plan was a reduction in workforce of 500 employees worldwide.

In April 2009, ST-Ericsson announced a restructuring plan (the ST-Ericsson restructuring plan ). The main actions included in the restructuring plan were a re-alignment of product roadmaps to create a more agile and cost-efficient R&D organization and a reduction in workforce of 1,200 worldwide to reflect further integration activities following the merger. On December 3, 2009, ST-Ericsson expanded its restructuring plan, targeting additional annualized savings in operating expenses and spending, along with an extensive R&D efficiency program.

In 2012, the Company incurred restructuring charges and other related closures costs for \$108 million relating primarily to:

\$64 million for the ST-Ericsson April 2012 restructuring plan composed of \$60 million employee termination benefits and \$4 million other closure costs mainly related to lease contract terminations pursuant to the closure of certain locations;

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

\$20 million for the ST-Ericsson cost savings plan primarily related to employee termination benefits and lease contract termination costs recorded at cease-use date pursuant to the closure of certain locations;

\$13 million for the Digital restructuring plan primarily related to employee termination benefits; and

\$11 million for other restructuring plans.

F-45



**Table of Contents**

In 2011, the Company incurred restructuring charges and other related closures costs for \$71 million relating primarily to:

\$34 million for the manufacturing restructuring plan, corresponding primarily to lease contract termination costs recorded at cease-use date and one-time termination benefits to be paid to employees who rendered services until the complete closure of the Carrollton (Texas) and Phoenix (Arizona) fabs. This plan was substantially finalized in the second quarter of 2011;

\$26 million for the ST-Ericsson cost savings plan, consisting mainly in ongoing termination benefits accrued for involuntary leaves and benefits paid within voluntary leave arrangements;

\$6 million for the ST-Ericsson restructuring plan composed of \$3 million employee termination benefits and \$3 million lease contract termination costs and other closure costs pursuant to the closure of certain locations; and

\$5 million restructuring charges and other related closure costs related to other committed restructuring initiatives.

In 2010, the Company incurred restructuring charges and other related closure costs for \$93 million relating primarily to:

\$64 million for the ST-Ericsson restructuring plan composed of \$59 million of ongoing termination benefits for involuntary leaves and benefits paid within voluntary leave arrangements, and lease contract termination costs totalling \$5 million pursuant to the closure of certain locations;

\$26 million for the manufacturing restructuring plan for closure costs and one-time termination benefits to be paid to employees who render services until the complete closure of the Carrollton and Phoenix fabs; and

\$3 million restructuring charges and other related closure costs related to other committed restructuring initiatives.

Changes to the restructuring provisions recorded on the consolidated balance sheets from December 31, 2010 to December 31, 2012 are summarized as follows:

|  | ST-Ericsson<br>April<br>2012<br>restructuring<br>plan | ST-Ericsson<br>cost<br>savings<br>plan | ST-Ericsson<br>Restructuring<br>plan | Digital<br>restructuring<br>plan | Manufacturing<br>Restructuring<br>plan | Other<br>restructuring<br>initiatives | Total      |
|--|---|--|--------------------------------------|----------------------------------|--|---------------------------------------|------------|
| <b>Provision as at December 31, 2010</b> |   |  | <b>60</b>                            |                                  | <b>57</b>                              | <b>19</b>                             | <b>136</b> |
| Charges incurred in 2011                 |   | 26                                     | 7                                    |                                  | 35                                     | 7                                     | 75         |
| Adjustments for unused provisions        |   |  | (1)                                  |                                  | (1)                                    | (2)                                   | (4)        |
| Amounts paid                             |   | (6)                                    | (50)                                 |                                  | (87)                                   | (11)                                  | (154)      |
| Currency translation effect              |   | (1)                                    | 1                                    |                                  |  |                                       |            |
| <b>Provision as at December 31, 2011</b> |   | <b>19</b>                              | <b>17</b>                            |                                  | <b>4</b>                               | <b>13</b>                             | <b>53</b>  |
| Charges incurred in 2012                 | 73  | 22                                     | 1                                    | 13                               | 2                                      | 11                                    | 122        |
| Adjustments for unused provisions        | (9)   | (2)                                    |                                      |                                  |  | (3)                                   | (14)       |
| Amounts paid                             | (25)  | (28)                                   | (12)                                 | (1)                              | (3)                                    | (4)                                   | (73)       |
| Currency translation effect              | 3   |  |                                      |                                  |  |                                       | 3          |
| <b>Provision as at December 31, 2012</b> | <b>42</b>   | <b>11</b>                              | <b>6</b>                             | <b>12</b>                        | <b>3</b>                               | <b>17</b>                             | <b>91</b>  |

An amount of \$75 million is expected to be paid within twelve months, as detailed in Note 13.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

The manufacturing restructuring plan, which was expected to result in pre-tax charges in the range of \$270 to \$300 million, resulted in a total charge of \$313 million as of December 31, 2012. This plan was mainly completed in 2011.

The ST-Ericsson restructuring plan, which was expected to result in a total pre-tax charge in the range of \$135 million to \$155 million, resulted in a total charge of \$171 million as of December 31, 2012. This plan was mainly completed in 2011.

The ST-Ericsson cost savings plan resulted in a total pre-tax charge of \$46 million incurred as of December 31, 2012. The plan was substantially completed in 2012.

**Table of Contents**

The ST-Ericsson April 2012 restructuring plan resulted in a total pre-tax charge of \$64 million incurred as of December 31, 2012. This plan is expected to be completed in 2013.

The combined ST-Ericsson cost savings plan and the new ST-Ericsson restructuring plan released in April 2012 are expected to result in a total pre-tax charge in the range of \$130 million to \$150 million in addition to the \$35 million already incurred for the ST-Ericsson cost savings plan before the announcement of the ST-Ericsson April 2012 restructuring plan.

The Digital restructuring plan is expected to result in a total pre-tax charge of \$25 million to \$30 million, of which \$13 million have been incurred as of December 31, 2012. The plan is expected to be substantially completed in 2013.

In 2012, total amounts paid for restructuring and related closure costs amounted to \$73 million. The total actual costs that the Company will incur may differ from these estimates based on the timing required to complete the restructuring plan, the number of people involved, the final agreed termination benefits and the costs associated with the transfer of equipment, products and processes.

**20. INTEREST EXPENSE, NET**

Interest expense, net consisted of the following:

|              | <b>Year ended<br/>December 31,<br/>2012</b> | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 |
|--------------|---|------------------------------------|------------------------------------|
| Income       | 41  | 21                                 | 31                                 |
| Expense      | (76)  | (46)                               | (34)                               |
| <b>Total</b> | <b>(35)</b>                                 | <b>(25)</b>                        | <b>(3)</b>                         |

No borrowing cost was capitalized in 2012, 2011 and 2010. Interest income on government Bonds and floating rate notes classified as available-for-sale marketable securities amounted to \$2 million for the year ended December 31, 2012, \$6 million for the year ended December 31, 2011 and to \$3 million for the year ended December 31, 2010.

**21. INCOME TAX**

Income (loss) before income tax is comprised of the following:

|   | <b>Year ended<br/>December 31,<br/>2012</b> | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 |
|---|---|------------------------------------|------------------------------------|
| Income (loss) recorded in The Netherlands         | (33)  | 54                                 | 264                                |
| Income (loss) from foreign operations             | (2,104)                                     | 282                                | 427                                |
| Income (loss) before income tax benefit (expense) | <b>(2,137)</b>                              | 336                                | 691                                |

STMicroelectronics N.V. and its subsidiaries are individually liable for income taxes in their jurisdictions. Tax losses can only offset profits generated by the taxable entity incurring such loss.

Income tax benefit (expense) is comprised of the following:

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|                                     | <b>Year ended<br/>December 31,<br/>2012</b> | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 |
|-------------------------------------|---|------------------------------------|------------------------------------|
| The Netherlands taxes current       | <b>(1)</b>                                  | (11)                               | (3)                                |
| Foreign taxes current               | <b>(130)</b>                                | (104)                              | (53)                               |
| <b>Current taxes</b>                | <b>(131)</b>                                | (115)                              | (56)                               |
| The Netherlands taxes deferred      |   | (2)                                | (4)                                |
| Foreign taxes deferred              | <b>80</b>                                   | (64)                               | (89)                               |
| <b>Income tax benefit (expense)</b> | <b>(51)</b>                                 | (181)                              | (149)                              |

F-47

**Table of Contents**

The principal items comprising the differences in income taxes computed at the Netherlands statutory rate of 25.0% in 2012 and 2011, and 25.5% in 2010, and the effective income tax rate are the following:

|  | Year ended<br>December 31,<br>2012 | Year ended<br>December 31,<br>2011 | Year ended<br>December 31,<br>2010 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Income tax benefit (expense) computed at statutory rate          | 534                                | (84)                               | (176)                              |
| Non-deductible, non-taxable and other permanent differences, net | (110)                              | (38)                               | (50)                               |
| Income (loss) on equity-method investments                       | (6)                                | (7)                                | 62                                 |
| Valuation allowance adjustments                                  | (197)                              | (130)                              | (54)                               |
| Impact of prior year adjustments                                 | 10                                 |                                    | (29)                               |
| Effects on deferred taxes of changes in enacted tax rates        |                                    | 1                                  | 3                                  |
| Current year credits   | 77                                 | 94                                 | 76                                 |
| Other tax and credits  | 2                                  | 3                                  | (12)                               |
| Benefits from tax holidays                                       | 38                                 | 113                                | 77                                 |
| Impact of uncertain tax positions                                | (83)                               | (2)                                | 32                                 |
| Earnings of subsidiaries taxed at different rates                | (316)                              | (131)                              | (78)                               |
| Income tax benefit (expense)                                     | (51)                               | (181)                              | (149)                              |

The lines Impact of prior years adjustments and Impact of uncertain tax positions include amounts that are further described in the reconciliation of unrecognized tax benefits, included in this note.

In 2012, 2011 and 2010, the line Earnings of subsidiaries taxed at different rates includes a decrease of \$320 million, \$131 million and \$91 million, respectively, mainly related to tax rate differences due to tax holidays for countries in a loss position.

The tax holidays represent a tax exemption period aimed to attract foreign technological investment in certain tax jurisdictions. The effect of the tax benefits, from tax holidays for countries which are profitable, on basic earnings per share was \$0.04, \$0.13 and \$0.09 for the years ended December 31, 2012, 2011, and 2010, respectively. These agreements are present in various countries and include programs that reduce up to and including 100% of taxes in years affected by the agreements. The Company's tax holidays expire at various dates through the year ending December 31, 2022. In certain countries, tax holidays can be renewed depending on the Company still meeting certain conditions at the date of expiration of the current tax holidays.

Deferred tax assets and liabilities consisted of the following:

|   | December 31, 2012 | December 31, 2011 |
|---|-------------------|-------------------|
| Tax loss carryforwards and investment credits   | 820               | 643               |
| Inventory valuation                             | 24                | 23                |
| Impairment and restructuring charges            | 61                | 56                |
| Fixed asset depreciation in arrears             | 75                | 56                |
| Receivables for government funding              | 15                | 13                |
| Tax credits granted on past capital investments | 1,114             | 1,111             |
| Pension service costs                           | 97                | 71                |
| Stock awards                                    |                   | 7                 |
| Commercial accruals                             | 10                | 13                |
| Other temporary differences                     | 98                | 131               |
| Total deferred tax assets                       | 2,314             | 2,124             |
| Valuation allowances                            | (1,634)           | (1,514)           |
| Deferred tax assets, net                        | 680               | 610               |
| Accelerated fixed asset depreciation            | (64)              | (69)              |
| Acquired intangible assets                      | (30)              | (49)              |
| Advances of government funding                  | (26)              | (16)              |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|                               |       |       |
|-------------------------------|-------|-------|
| Other temporary differences   | (34)  | (38)  |
| Deferred tax liabilities      | (154) | (172) |
| Net deferred income tax asset | 526   | 438   |

For a particular tax-paying component of the Company and within a particular tax jurisdiction, all current deferred tax liabilities and assets are offset and presented as a single amount, similarly to non-current deferred tax liabilities and assets. The Company does not offset deferred tax liabilities and assets attributable to different tax-paying components or to different tax jurisdictions.

F-48

**Table of Contents**

The net deferred tax assets are recorded in legal entities which have been historically profitable and are expected to be profitable in the next coming years.

As of December 31, 2012, the Company and its subsidiaries have gross deferred tax assets on tax loss carryforwards and investment credits that expire starting 2013, as follows:

|              |            |
|--------------|------------|
| <b>Year</b>  |            |
| 2013         | <b>7</b>   |
| 2014         | <b>7</b>   |
| 2015         | <b>14</b>  |
| 2016         | <b>35</b>  |
| 2017         | <b>13</b>  |
| Thereafter   | <b>744</b> |
| <b>Total</b> | <b>820</b> |

The valuation allowance for a particular tax jurisdiction is allocated between current and non-current deferred tax assets for that jurisdiction on a pro rata basis. The Tax credits granted on past capital investments mainly related to a 2003 agreement granting the Company certain tax credits for capital investments purchased through the year ending December 31, 2006. Any unused tax credits granted under the agreement will continue to increase yearly by a legal inflationary index (currently 0.76% per annum). The credits may be utilized through 2020 or later depending on the Company meeting certain program criteria. In addition to this agreement, starting in 2007 the Company continues to receive tax credits on the yearly capital investments, which may be used to offset that year's tax liabilities and increases by the legal inflationary rate. However, pursuant to the inability to utilize these credits currently and in future years, the Company did not recognize any deferred tax asset on such tax allowance. As a result, there is no financial impact to the net deferred tax assets of the Company.

During the year ended December 31, 2012, the Company recorded a valuation allowance of \$191 million on ST-Ericsson's deferred tax assets.

The amount of deferred tax benefit (expense) recorded as a component of other comprehensive income (loss) was not material in 2012. In 2011, this amount was \$19 million and was related primarily to the tax effects of unrealized gains and losses on derivative instruments designated as cash flow hedges and the tax effects of the recognized unfunded status on defined benefits plans.

The cumulative amount of distributable earnings related to the Company's investments in foreign subsidiaries and corporate joint ventures was \$1,306 million as at December 31, 2012. Due to the Company's legal and tax structure, with the parent company established in the Netherlands, there was no tax impact from the distribution of earnings from investments in foreign subsidiaries and corporate joint ventures. This is because there is no tax impact on dividends paid up to a Dutch holding company.

A reconciliation of the 2012 beginning and ending amounts of unrecognized tax benefits is as follows:

|  |            |
|--|------------|
| <b>Balance at December 31, 2011</b>                          | <b>148</b> |
| Additions based on tax positions related to the current year | 44         |
| Additions for tax positions of prior years                   | 39         |
| Settlements  | (1)        |
| Prepayment   | (6)        |
| Foreign currency translation                                 | 3          |
| <b>Balance at December 31, 2012</b>                          | <b>227</b> |

The reconciliation of unrecognized tax benefits in 2011 was as follows:

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|  |               |
|--|---------------|
| <b>Balance at December 31, 2010</b>                          | <b>\$ 149</b> |
| Additions based on tax positions related to the current year | 36            |
| Additions for tax positions of prior years                   | 19            |
| Reductions for tax positions of prior years                  | (3)           |
| Settlements  |               |
| Reductions for lapse of statute of limitations               | (50)          |
| Foreign currency translation                                 | (3)           |
| <b>Balance at December 31, 2011</b>                          | <b>148</b>    |

F-49



**Table of Contents**

At December 31, 2012, there are \$26 million of unrecognized tax benefits that if recognized would affect the annual effective tax rate. It is reasonably possible that certain of the uncertain tax positions disclosed in the table above could increase within the next 12 months due to ongoing tax audits. The Company is not able to make an estimate of the range of the reasonably possible change.

Additionally, the Company elected to classify accrued interest and penalties related to uncertain tax positions as components of income tax expense in its consolidated statements of income. Interest and penalties are not material for the years presented or on a cumulative basis.

The tax years that remain open for review in the Company's major tax jurisdictions, including France, Italy, United States and India, are from 1996 to 2012.

**22. COMMITMENTS**

The Company's commitments as of December 31, 2012 were as follows:

| In millions of U.S dollars                      | Total        | 2013       | 2014       | 2015       | 2016      | 2017      | Thereafter |
|---|--------------|------------|------------|------------|-----------|-----------|------------|
| Operating leases                                | 277          | 71         | 46         | 36         | 27        | 24        | 73         |
| Purchase obligations                            | 521          | 414        | 67         | 40         |           |           |            |
| of which:                                       |              |            |            |            |           |           |            |
| <i>Equipment purchase</i>                       | 175          | 175        |            |            |           |           |            |
| <i>Foundry purchase</i>                         | 127          | 127        |            |            |           |           |            |
| <i>Software, technology licenses and design</i> | 219          | 112        | 67         | 40         |           |           |            |
| Other obligations                               | 344          | 122        | 72         | 52         | 42        | 37        | 19         |
| <b>Total</b>                                    | <b>1,142</b> | <b>607</b> | <b>185</b> | <b>128</b> | <b>69</b> | <b>61</b> | <b>92</b>  |

As a consequence of the Company's planned closures of certain of its manufacturing facilities, some of the contracts as reported above have been terminated. The termination fees for the sites still in operation have not been taken into account.

Operating leases are mainly related to building and equipment leases. The amount disclosed is composed of minimum payments for future leases from 2013 to 2017 and thereafter. The Company leases land, buildings, plants and equipment under operating leases that expire at various dates under non-cancellable lease agreements. Operating lease expense was \$114 million for the year ended December 31, 2012 and \$135 million for the years ended December 31, 2011 and 2010.

Purchase obligations are primarily comprised of purchase commitments for equipment, for outsourced foundry wafers and for software licenses.

Other obligations primarily relate to firm contractual commitments with respect to partnership and cooperation agreements.

**23. CONTINGENCIES, CLAIMS AND LEGAL PROCEEDINGS**

The Company is subject to possible loss contingencies arising in the ordinary course of business. These include but are not limited to: warranty cost on the products of the Company, breach of contract claims, claims for unauthorized use of third-party intellectual property, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. In determining loss contingencies, the Company considers the likelihood of impairing an asset or the incurrence of a liability at the date of the financial statements as well as the ability to reasonably estimate the amount of such loss. The Company records a provision for a loss contingency when information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and when the amount of loss can be reasonably estimated. The Company regularly reevaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Company. Changes in these evaluations could result in an adverse material impact on the Company's results of operations, cash flows or its financial position for the period in which they occur.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

The Company has received and may in the future receive communications alleging possible infringements of third party patents or other third party intellectual property rights. Furthermore, the Company from time to time enters into discussions regarding a broad patent cross license arrangement with other industry participants. There

F-50

**Table of Contents**

is no assurance that such discussions may be brought to a successful conclusion and result in the intended agreement. The Company may become involved in costly litigation brought against the Company regarding patents, mask works, copyrights, trademarks or trade secrets. In the event that the outcome of any litigation would be unfavorable to the Company, the Company may be required to take a license to third party patents and/or other intellectual property rights at economically unfavorable terms and conditions, and possibly pay damages for prior use and/or face an injunction, all of which individually or in the aggregate could have a material adverse effect on the Company's results of operations, cash flows, financial position and/or ability to compete.

The Company is otherwise also involved in various lawsuits, claims, investigations and proceedings incidental to its business and operations.

*Litigation with Tessera*

In 2006, Tessera initiated a patent infringement lawsuit against the Company and numerous other semiconductor manufacturers in the U.S. District Court for the Northern District of California. Tessera then filed a complaint in 2007 with the International Trade Commission in Washington, D.C. ( ITC ) against the Company and numerous other parties. During the ITC proceedings, the District Court action was stayed. On May 20, 2009 the ITC issued a limited exclusion order as well as a cease and desist order, both of which were terminated when the Tessera patents expired. The patents asserted by Tessera, in both the ITC and District Court actions, which relate to ball grid array packaging technology, expired in September 2010. The Court of Appeal subsequently affirmed the ITC's decision and on November 28, 2011, the U.S. Supreme Court denied the defendants' petition for review, and the ITC decision became final.

In January 2012, the District Court proceedings were revived in California. The Court has appointed a special master to advise it on technical issues and the case is currently proceeding through the discovery phase. Trial has been tentatively scheduled for April 2014. Pursuant to these proceedings, Tessera is seeking an unspecified amount of monetary damages as compensation for alleged infringement of its asserted patents now expired.

*Litigation with Rambus*

On December 1, 2010, Rambus filed a complaint with the ITC against the Company and numerous other parties, asserting that the Company engaged in unfair trade practices by importing certain semiconductor chips that include memory controllers and/or certain peripheral interface technologies such as SerDes, PCI Express, SATA and SAS that allegedly infringe certain patents owned by Rambus. The complaint sought an exclusion order to bar importation into the United States of all accused semiconductor chips that infringe any claim of the asserted patents, as well as products of certain party customers incorporating the same. The complaint further sought a cease and desist order directing the Company and other parties to cease and desist from importing, marketing, advertising, demonstrating, sampling, warehousing inventory for distribution, offering for sale, selling, distributing, licensing, or using the accused semiconductor chips, and products of certain party customers containing such semiconductor chips, that infringe any claim of the asserted patents. On December 29, 2010, the ITC voted to institute an investigation based on Rambus' complaint. A trial was held before the ITC from October 11, 2011 until October 20, 2011. On March 2, 2012, an administrative law judge ( ALJ ) issued an Initial Determination ruling that the Company, along with its other co-defendants, did not violate section 337 of the Tariff Act of 1930. On July 25, 2012, the ITC elected to terminate the ITC investigation with a finding of no violation of section 337 of the Tariff Act of 1930. The ITC affirmed the ALJ's findings that all of Rambus' asserted patent claims were invalid, except for one, for which it found that Rambus had not demonstrated infringement. In addition, the ITC reversed a determination that Rambus had demonstrated the existence of a domestic industry and affirmed a determination that certain patents are unenforceable under the doctrine of unclean hands. On September 25, 2012, Rambus filed a notice of appeal with the Court of Appeals for the Federal Circuit, which is currently pending.

Also on December 1, 2010, Rambus filed a lawsuit against the Company and other co-defendants in the U.S. District Court for the Northern District of California alleging infringement of nineteen Rambus patents. On June 13, 2011, the District Court issued an order granting in part and denying in part defendants' motion to stay the action concerning Rambus' patent infringement claims pending completion of the aforementioned ITC proceedings including all appeals. The case is currently stayed as to nine of the asserted patents, and moving forward as to the remaining patents. No trial date has yet been set. The Company intends to vigorously defend its rights and position in these matters.

**Table of Contents**

The resolution of litigation proceedings which the Company faces, including the matters referred to above, involve complex questions of fact and law. The results of legal proceedings are uncertain. Adverse determination in any of these types of disputes may have a material adverse impact on the Company's financial results and operations.

*Other Contingencies*

In 2006, the EU Commission allowed the modification of the conditions of a grant pertaining to the building, facilitation and equipment of the Company's facility in Catania, Italy (the M6 Plant). Following this decision, the authorized timeframe for completion of the project was extended and the Italian government was authorized to allocate 446 million, out of the 542 million grants originally authorized, for the completion of the M6 Plant if the Company made a further investment of 1,700 million between January 1, 2006 through the end of 2009. On the basis of the investments actually realized during the period, the Company recorded an amount of approximately 78 million as funding for capital investment of which approximately 44 million has been received to date.

On September 13, 2011, the European Commission initiated a review of the M6 investment and related benefits, requesting information from the Italian government about the status and the ownership of the benefits of the M6 investment during the period 2001-2006. The Italian authorities responded to all such requests for information in 2011 and 2012 concerning primarily the history of the investment made, the motivation of the state aid granted, the formal interpretation related to the definition of investment activation, and its application to the M6 case.

The Company regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they need to be adjusted based on the current information available to the Company. There can be no assurance that its recorded reserves will be sufficient to cover the extent of its potential liabilities. Legal costs associated with claims are expensed as incurred. In the event of litigation which is adversely determined with respect to the Company's interests, or in the event the Company needs to change its evaluation of a potential third-party claim, based on new evidence or communications, a material adverse effect could impact its operations or financial condition at the time it were to materialize. As of December 31, 2012, provisions for estimated probable losses and possible losses with respect to claims and legal proceedings were not considered material.

**24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****24.1 Financial risk factors**

The Company is exposed to changes in financial market conditions in the normal course of business due to its operations in different foreign currencies and its ongoing investing and financing activities. The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury). Simultaneously, a Treasury Committee, chaired by the CFO, steers treasury activities and ensures compliance with corporate policies. Treasury activities are thus regulated by the Company's policies, which define procedures, objectives and controls. The policies focus on the management of financial risk in terms of exposure to market risk, credit risk and liquidity risk. Treasury controls are subject to internal audits. Most treasury activities are centralized, with any local treasury activities subject to oversight from head treasury office. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. It provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, price risk, credit risk, use of derivative financial instruments, and investments of excess liquidity. The majority of cash and cash equivalents is held in U.S. dollars and Euros and is placed with financial institutions rated at least a single A long-term rating from two of the major rating agencies, meaning at least A3 from Moody's Investor Service and A- from Standard & Poor's and Fitch Ratings, or better. In the current economic environment, with the ongoing sovereign debt and financial crisis, these ratings are closely and continuously monitored in order to manage exposure of the counterparty's risk of both financial institutions and sovereign debt. Marginal amounts are held in other currencies. Hedging transactions are performed only to hedge exposures deriving from operating, investing and financing activities conducted in the normal course of business.

---

**Table of Contents*****Market risk******Foreign exchange risk***

The Company conducts its business on a global basis in various major international currencies. As a result, the Company is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from recognized assets and liabilities at the Company's subsidiaries and future commercial transactions.

Management has set up a policy to require the Company's subsidiaries to hedge their entire foreign exchange risk exposure with the Company through financial instruments transacted or overseen by Corporate Treasury. To manage their foreign exchange risk arising from foreign-currency-denominated assets and liabilities, entities in the Company use forward contracts and purchased currency options. Foreign exchange risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. These instruments do not qualify as hedging instruments for accounting purposes. Forward contracts and currency options, including collars, are also used by the Company to reduce its exposure to U.S. dollar fluctuations in Euro-denominated forecasted intercompany transactions that cover a large part of its research and development, selling, general and administrative expenses as well as a portion of its front-end manufacturing costs of semi-finished goods. The Company also hedges through the use of currency forward contracts certain Swedish-krona denominated forecasted transactions that cover at reporting date a large part of its future research and development expenses and certain Singapore dollar-denominated manufacturing forecasted transactions. The derivative instruments used to hedge these forecasted transactions meet the criteria for designation as cash flow hedge. The hedged forecasted transactions have a high probability of occurring for hedge accounting purposes.

It is the Company's policy to have the foreign exchange exposures in all the currencies hedged month by month against the monthly standard rate. At each month end, the forecasted flows for the coming month are hedged together with the fixing of the new standard rate. For this reason the hedging transactions will have an exchange rate very close to the standard rate at which the forecasted flows will be recorded on the following month. As such, the foreign exchange exposure of the Company, which consists in the balance sheet positions and other contractually agreed transactions, is always equivalent to zero and any movement in the foreign exchange rates will not therefore influence the exchange effect on items of the consolidated statement of income. Any discrepancy from the forecasted values and the actual results is constantly monitored and prompt actions are taken, if needed.

***Derivative Instruments Not Designated as a Hedge***

As described above, the Company enters into foreign currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies in the Company's subsidiaries. These include receivables from international sales by various subsidiaries, payables for foreign currency-denominated purchases and certain other assets and liabilities arising from intercompany transactions.

The notional amount of these financial instruments totaled \$817 million, \$517 million and \$874 million at December 31, 2012, 2011 and 2010, respectively. The principal currencies covered are the Euro, the Singapore dollar, the Japanese yen, the Swiss franc, the Swedish krona, the British pound and the Malaysian ringgit.

The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled. The risk of loss associated with purchased currency options is equal to the premium paid when the option is not exercised.

Foreign currency forward contracts and currency options not designated as cash flow hedge outstanding as of December 31, 2012 have remaining terms of 2 days to 9 months, maturing on average after 19 days.

***Derivative Instruments Designated as a Hedge***

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Company hedges through the use of currency forward contracts and currency options, including collars, certain Euro-denominated forecasted intercompany transactions that cover at year-end a large part of its research and development, selling, general and administrative expenses, as well as a portion of its front-end manufacturing costs of semi-finished goods. The Company also hedges through the use of currency forward contracts certain Swedish-krona denominated forecasted transactions that cover at reporting date a large part of research and development expenses and certain manufacturing transactions denominated in Singapore dollars.



**Table of Contents**

The principles regulating the hedging strategy for derivatives designated as cash flow hedge are established as follows: (i) for R&D and corporate costs, up to 80% of the total forecasted transactions; (ii) for manufacturing costs, up to 70% of the total forecasted transactions. The maximum length of time over which the Company could hedge its exposure to the variability of cash flows for forecasted transactions is 24 months.

For the year ended December 31, 2012 the Company recorded an increase in cost of sales and operating expenses of \$39 million and \$32 million, respectively, related to the realized loss incurred on such hedged transactions. For the year ended December 31, 2011 the Company recorded a reduction in cost of sales and operating expenses of \$65 million and \$52 million, respectively, related to the realized gain incurred on such hedged transactions. For the year ended December 31, 2010 the Company recorded an increase in cost of sales and operating expenses of \$37 million and \$42 million, respectively, related to the realized loss incurred on such hedged transactions. No significant ineffective portion of the hedge was recorded on the line Other income and expenses, net of the consolidated statements of income for the years ended December 31, 2012, 2011 and 2010.

The notional amount of foreign currency forward contracts and currency options, including collars, designated as cash flow hedge totaled \$1,552, \$1,759 and \$1,850 million at December 31, 2012, 2011 and 2010, respectively. The forecasted transactions hedged at December 31, 2012 were determined to have a high probability of occurring.

As of December 31, 2012, \$29 million of deferred gains on derivative instruments, before deferred tax of \$3 million, included in Accumulated other comprehensive income (loss) were expected to be reclassified as earnings during the next 12 months based on the monthly forecasted research and development expenses, corporate costs and semi-finished manufacturing costs. No amount was reclassified as Other income and expenses, net into the consolidated statement of income from Accumulated other comprehensive income (loss) in the consolidated statement of equity. As of December 31, 2011, \$71 million of deferred losses on derivative instruments, before deferred tax of \$9 million, included in Accumulated other comprehensive income (loss) were expected to be reclassified as earnings during the next 12 months based on the monthly forecasted research and development expenses, corporate costs and semi-finished manufacturing costs. No amount was reclassified as Other income and expenses, net into the consolidated statement of income from Accumulated other comprehensive income (loss) in the consolidated statement of equity. Foreign currency forward contracts, currency options and collars designated as cash flow hedge outstanding as of December 31, 2012 have remaining terms of 3 days to 11 months, maturing on average after 101 days.

As at December 31, 2012, the Company had the following outstanding derivative instruments that were entered into to hedge Euro-denominated, Swedish-krona and Singapore dollar-denominated forecasted transactions:

|  |  |   |
|--|--|---|
| In millions of Euros                               | Notional amount for hedge on forecasted R&D and other operating expenses | Notional amount for hedge on forecasted manufacturing costs |
| Forward contracts                                  | 191  | 263   |
| Currency options                                   | 179  | 338   |
| In millions of Swedish-krona                       | Notional amount for hedge on forecasted R&D and other operating expenses | Notional amount for hedge on forecasted manufacturing costs |
| Forward contracts                                  | 821  |   |
| In millions of Singapore dollars                   | Notional amount for hedge on forecasted R&D and other operating expenses | Notional amount for hedge on forecasted manufacturing costs |
| Forward contracts                                  |  | 178   |
| <i>Cash flow and fair value interest rate risk</i> |  |   |

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Since all the liquidity of the Company is invested in floating rate instruments, the Company's interest rate risk arises from the mismatch of fixed rate liabilities and floating rate liquid assets.





**Table of Contents***Price risk*

As part of its ongoing investing activities, the Company may be exposed to equity security price risk for investments in public entities classified as available-for-sale, as described in Note 2.22. In order to hedge the exposure to this market risk, the Company may enter into certain derivative hedging transactions. In the first quarter of 2010, the Company purchased a put option in order to hedge a potential equity position in an unaffiliated company, for a total notional amount of 10 million shares. The put option did not meet at that time the criteria for designation as a hedging instrument and was consequently classified as a trading financial asset in the first quarter of 2010. The Company reported on that period an unrealized loss amounting to \$6 million on the line Gain (loss) on financial instruments, net in the consolidated statement of income. On April 6, 2010, the Company entered into a written call option, with a notional amount of 5 million shares, to be combined with the existing purchased put in order to structure a zero-cost collar as a single hedging instrument of the highly probable forecasted sale of Micron shares. From inception of the hedging relationship and on an ongoing basis until November 30, 2010, the combined options qualified for cash flow hedge accounting. As a result, the change in fair value of the hedging instrument was reported as a component of Other comprehensive income. Since the critical terms of the structured collar matched the critical terms of the hedged transaction, no ineffectiveness was reported in earnings. Effectiveness was measured on the full fair value of the combined options. During the fourth quarter of 2010, the Company sold the underlying hedged 10,000,000 Micron shares and simultaneously unwound the purchased put and written call composing the collar. Total proceeds from the unwinding of the derivative instruments amounted to \$5 million, which generated a non-operating gain of \$4 million reported on the line Gain (loss) on financial instruments, net on the consolidated statement of income for the year ended December 31, 2010.

In addition to the combined options as described above, the Company entered in April 2010 into three contingent zero-cost collars to hedge forecasted sales of Micron shares for a total notional amount of approximately 40 million shares. The hedged forecasted sales were assessed to be highly probable transactions, from inception of the hedge and on an ongoing basis, and the hedging transaction qualified for cash flow hedge. The contingency premium paid on these instruments, which totaled \$9 million, was excluded from effectiveness measurement and recorded immediately in the consolidated statement of income on the line Gain (loss) on financial instruments, net. In December 2010, the Company decided to discontinue one of the three collars and simultaneously sold the underlying hedged 20,000,000 Micron shares. Total proceeds from the unwinding of the collar amounted to \$16 million, which generated a non-operating gain of the same amount reported on the line Gain (loss) on financial instruments, net on the consolidated statement of income for the year ended December 31, 2010. The remaining two zero-cost collars, for a total notional amount of 20,056,131 shares, were not discontinued and still qualified for cash flow hedge accounting as at December 31, 2010. The cumulative change in fair value of the collars, which amounted to \$27 million, was reported as a component of Accumulated other comprehensive income (loss) in the consolidated statement of equity as at December 31, 2010. In 2011, the Company decided to discontinue the hedging instruments and simultaneously sold the underlying shares. Proceeds from the unwinding of the collars totaled \$6 million, which generated a non-operating gain of the same amount reported on the line Gain (loss) on financial instruments, net on the consolidated statement of income for the year ended December 31, 2011.

Information on fair value of derivative instruments and their location in the consolidated balance sheets as at December 31, 2012 and December 31, 2011 is presented in the table below:

| In millions of U.S. dollars                  | As at December 31, 2012      |            | As at December 31, 2011      |            |
|--|------------------------------|------------|------------------------------|------------|
|  | location                     | Fair value | location                     | Fair value |
| Asset Derivatives                            |                              |            |                              |            |
| Derivatives designated as a hedge:           |                              |            |                              |            |
| Foreign exchange forward contracts           | Other receivables and assets | 21         | Other receivables and assets |            |
| Currency collars                             | Other receivables and assets | 8          | Other receivables and assets | 1          |
| Total derivatives designated as a hedge      |                              | 29         |                              | 1          |
| Derivatives not designated as a hedge:       |                              |            |                              |            |
| Foreign exchange forward contracts           | Other receivables and assets | 7          | Other receivables and assets | 1          |
| Total derivatives not designated as a hedge: |                              | 7          |                              | 1          |

F-55

**Table of Contents**

| In millions of U.S. dollars                   | As at December 31, 2012                |            | As at December 31, 2011                |            |
|---|--|------------|--|------------|
|   | Balance sheet location                 | Fair value | Balance sheet location                 | Fair value |
| <b>Liability Derivatives</b>                  |  |            |  |            |
| <b>Derivatives designated as a hedge:</b>     |  |            |  |            |
| Foreign exchange forward contracts            | Other payables and accrued liabilities |            | Other payables and accrued liabilities | (39)       |
| Currency collars                              | Other payables and accrued liabilities |            | Other payables and accrued liabilities | (29)       |
| Total derivatives designated as a hedge       |  |            |  | (68)       |
| <b>Derivatives not designated as a hedge:</b> |  |            |  |            |
| Foreign exchange forward contracts            | Other payables and accrued liabilities | (1)        | Other payables and accrued liabilities | (7)        |
| Total derivatives not designated as a hedge:  |  |            |  | (7)        |
| Total Derivatives                             |  |            |  | (75)       |

The effect on the consolidated statements of income for the year ended December 31, 2012 and December 31, 2011 and on the Accumulated Other comprehensive income (loss) ( AOCI ) as reported in the statements of equity as at December 31, 2012 and December 31, 2011 of derivative instruments designated as cash flow hedge is presented in the table below:

| In millions of U.S. dollars        | Gain (loss) deferred in OCI on derivative |                   | Location of gain (loss) reclassified from OCI into earnings | Gain (loss) reclassified from OCI into earnings |                   |
|------------------------------------|---|-------------------|---|---|-------------------|
|                                    | December 31, 2012                         | December 31, 2011 |   | December 31, 2012                               | December 31, 2011 |
| Foreign exchange forward contracts | 11  | (16)              | Cost of sales   | (25)  | 67                |
| Foreign exchange forward contracts | 1   | (2)               | Selling, general and administrative                         | (2)   | 8                 |
| Foreign exchange forward contracts | 9   | (20)              | Research and development                                    | (18)  | 45                |
| Currency options                   |   | (2)               | Cost of sales   | (1)   | (3)               |
| Currency options                   |   | (1)               | Research and development                                    | (1)   | (1)               |
| Currency collars                   | 5   | (19)              | Cost of sales   | (13)  | 1                 |
| Currency collars                   | 1   | (3)               | Selling, general and administrative                         | (3)   |                   |
| Currency collars                   | 2   | (8)               | Research and development                                    | (8)   |                   |
| Contingent zero-cost collars       |   |                   | Gain (loss) on financial instruments, net                   |   | 6                 |
| Total                              | 29  | (71)              |   | (71)  | 123               |

No significant ineffective portion of the cash flow hedge relationships was recorded in earnings for the years ended December 31, 2012 and December 31, 2011. No amount was excluded from effectiveness measurement on foreign exchange forward contracts, currency options and collars.

The effect on the consolidated statements of income for the year ended December 31, 2012 and December 31, 2011 of derivative instruments not designated as a hedge is presented in the table below:

| In millions of U.S. dollars | Location of gain recognized in earnings | Gain recognized in earnings |                   |
|-----------------------------|---|-----------------------------|-------------------|
|                             |   | December 31, 2012           | December 31, 2011 |

|                                    |                                |           |    |
|------------------------------------|--------------------------------|-----------|----|
| Foreign exchange forward contracts | Other income and expenses, net | <b>20</b> | 31 |
| Total                              |                                | <b>20</b> | 31 |

The Company did not enter into any derivative containing significant credit-risk-related contingent features.

*Credit risk*

The Company selects banks and/or financial institutions that operate with the group based on the criteria of long-term rating from at least two major Rating Agencies and keeping a maximum outstanding amount per instrument

**Table of Contents**

with each bank group not to exceed 20% of the total. This percentage has been reviewed since 2007 to cope with the ongoing financial crisis and always been kept at a maximum of 15% for major counterparty banks with high capitalization. Due to the concentration of part of its operations in Europe, primarily in France and in Italy, the Company assessed in 2012 and 2011 the level of direct and indirect exposures to the sovereign debt crisis in the Euro zone. The analysis focused on cash and cash equivalents, loans and receivables, deferred tax assets and other financial assets held in European countries experiencing significant economic, fiscal or political strains that increase the likelihood of default. To identify the countries at risk, the Company considered recent economic developments, such as credit downgrades, widening credit spreads and public deficit reduction plans and the impact such developments could have on the Company's financial position, results of operations, liquidity, and capital resources. The assessment also aimed at identifying indirect exposures to the current economic environment in the Euro zone, such as concentrations of cash and financial instruments with financial institutions highly exposed to the sovereign debt crisis. The Company concluded that the situation in the Euro zone was in evolution but that no factors indicated a high level of credit risk exposure due to a sovereign default in the short term.

The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. If certain customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and external ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored. Sales to customers are primarily settled in cash. At December 31, 2012 and 2011 one customer, the Nokia Group of companies, represented 7.1% and 11.3% of trade accounts receivable, net respectively, with approximately half of the sales being made in the Wireless segment. Any remaining concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their dispersion across many geographic areas.

*Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, short-term deposits and marketable securities, the availability of funding from committed credit facilities and the ability to close out market positions. The Company's objective is to maintain a significant cash position and a low debt-to-equity ratio, which ensure adequate financial flexibility. Liquidity management policy is to finance the Company's investments with net cash provided from operating activities.

Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flows.

**24.2 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to create value for shareholders and benefits and returns for other stakeholders, as to maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Company may review the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

Consistent with others in the industry, the Company monitors capital on the basis of the net debt-to-equity ratio. This ratio is calculated as the net financial position of the Company, defined as the difference between total cash position (cash and cash equivalents, marketable securities current and non-current-, short-term deposits and non-current restricted cash, if any) net of total financial debt (bank overdrafts, if any, short-term borrowings and current portion of long-term debt as well as long-term debt), divided by total parent company stockholders' equity.

**24.3 Fair value measurement**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the bid price. If the market for a financial asset is not active and if no observable market price is obtainable, the Company measures fair value by using significant assumptions and estimates. When measuring fair value, the Company makes maximum use of market inputs and minimizes the use of unobservable inputs.

**Table of Contents**

The table below details financial assets (liabilities) measured at fair value on a recurring basis as at December 31, 2012:

| Description  | December 31,<br>2012 | Fair Value Measurements using   |  |  |
|--|----------------------|---|--|--|
|  |                      | Quoted Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| In millions of U.S. dollars  |                      |   |  |  |
| Debt securities issued by the U.S. Treasury  | 150                  | 150   |  |  |
| Euro-denominated Senior debt Floating Rate Notes issued<br>by financial institutions | 59                   | 59  |  |  |
| U.S.-denominated Senior debt Floating Rate Notes issued<br>by financial institutions | 29                   | 29  |  |  |
| Equity securities classified as available-for-sale                                   | 10                   | 10  |  |  |
| Equity securities classified as held-for-trading                                     | 8                    | 8   |  |  |
| Derivative instruments designated as cash flow hedge                                 | 29                   |   | 29   |  |
| Derivative instruments not designated as a hedge                                     | 6                    |   | 6  |  |
| <b>Total</b>   | <b>291</b>           | <b>256</b>  | <b>35</b>  |  |

The table below details financial assets (liabilities) measured at fair value on a recurring basis as at December 31, 2011:

| Description  | December 31,<br>2011 | Fair Value Measurements using   |  |  |
|--|----------------------|---|--|--|
|  |                      | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level<br>1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| In millions of U.S. dollars  |                      |   |  |  |
| Debt securities issued by the U.S. Treasury  | 100                  | 100   |  |  |
| Debt securities issued by foreign governments  | 81                   | 81  |  |  |
| Euro-denominated Senior debt Floating Rate Notes issued<br>by Lehman Brothers              | 5                    |   | 5  |  |
| Euro-denominated Senior debt Floating Rate Notes issued<br>by other financial institutions | 93                   | 93  |  |  |
| Euro-denominated Fixed rate debt securities issued by<br>financial institutions            | 27                   | 27  |  |  |
| U.S.-denominated Senior debt Floating Rate Notes issued<br>by other financial institutions | 107                  | 107   |  |  |
| Equity securities classified as available-for-sale   | 9                    | 9   |  |  |
| Equity securities held-for-trading   | 7                    | 7   |  |  |
| Derivative instruments designated as cash flow hedge                                       | (67)                 |   | (67)   |  |
| Derivative instruments not designated as a hedge   | (6)                  |   | (6)  |  |
| <b>Total</b>   | <b>356</b>           | <b>424</b>  | <b>(68)</b>  |  |

For assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the reconciliation between January 1, 2011 and December 31, 2011 is presented as follows:

|  | Fair Value Measurements<br>using Significant<br>Unobservable Inputs<br>(Level 3) |
|--|--|
| In millions of U.S. dollars  |  |
| <b>January 1, 2011</b>   | <b>82</b>  |
| Other-than-temporary impairment charge on Senior debt Floating Rate Notes issued by Lehman Brothers included in earnings on the line | (5)  |
| Other-than temporary impairment charge on financial assets   | (5)  |
| Transfer of Senior debt Floating Rate Notes issued by Lehman Brothers to Level 2 fair value hierarchy                                | (5)  |
| Settlement on Auction Rate Securities  | (72)   |
| <b>December 31, 2011</b>   |  |
| Amount of total losses for the period included in earnings attributable to assets still held at the reporting date                   | (5)  |

**Table of Contents**

As described in Notes 8 and 9, the Company recorded a total impairment charge of \$1,234 million on goodwill and intangible assets associated with the Wireless reporting unit. The measurement of goodwill and intangible assets upon impairment testing is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed using entity-specific information. The Company used the income approach to measure the fair value of the reporting unit. Under the income approach, the fair value was determined based on the present value of the estimated future cash flows associated with the reporting unit. Cash flow projections were based on a plan for the Wireless reporting unit that included best estimates about future developments and scenarios of the Wireless business. The discount rate used was based on the weighted-average cost of capital adjusted for the relevant risk associated with the business-specific characteristics and the uncertainty related to the business's cash flows.

Prior to conducting the impairment test on goodwill, the Company evaluated the recoverability of the long-lived assets assigned to the Wireless reporting unit. The impairment on intangible assets totaled \$312 million and was composed of \$261 million impairment on customer relationships, \$45 million impairment on Wireless capitalized software and \$6 million impairment on acquired technology. The Company used the income approach, which was based on cash flow projections expected to result from their use or potential sale. The discount rate used was based on the weighted-average cost of capital adjusted for the relevant risk associated with the assets. No significant portion of the aggregate carrying amount of cost-method investments was evaluated for impairment in 2012 and in 2011, since there were no identified events or changes in circumstances that may have had a significant adverse effect on the fair value of the related investments.

The table below details financial and nonfinancial assets (liabilities) measured at fair value on a non recurring basis as at December 31, 2011:

| Description                 | Fair Value Measurements using  |  |  |
|-----------------------------|--|--|--|
|                             | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                             | <b>December 31,<br/>2011</b>   |  |  |
| In millions of U.S. dollars |  |  |  |

Assets held for sale

28

28

The assets held for sale are reported at the lower of their net book value and fair value less costs to sell. Fair value is determined by estimates provided by brokers based on past sales of similar assets. The assets classified as held-for-sale as at December 31, 2011 corresponded to the Carrollton building and facilities. In 2012, the Company recorded an impairment charge of \$21 million on these assets, as described in Note 19. The assets were reclassified as assets held for use and reported as Property, plant and equipment, net on the balance sheet as at December 31, 2012.



**Table of Contents**

The following table includes additional fair value information on financial assets and liabilities as at December 31, 2012 and 2011:

| Description                            | Level    | Carrying Amount | 2012<br>Estimated Fair Value | Carrying Amount | 2011<br>Estimated Fair Value |
|--|----------|-----------------|------------------------------|-----------------|------------------------------|
| In millions of U.S. dollars            |          |                 |                              |                 |                              |
| <b>Cash and cash equivalents</b>       | <b>1</b> | <b>2,250</b>    | <b>2,250</b>                 | 1,912           | 1,912                        |
| <b>Long-term debt</b>                  |          | <b>1,301</b>    | <b>1,301</b>                 | 1,159           | 1,155                        |
| Bank loans (including current portion) | 2        | 839             | 839                          | 485             | 485                          |
| Senior Bonds                           | 2        | 462             | 462                          | 453             | 452                          |
| Convertible debt                       | 2        |                 |                              | 221             | 218                          |

The table below details securities that currently are in an unrealized loss position. The securities are segregated by investment type and the length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2012.

| Description                     | December 31, 2012   |                   |                     |                   |             |                   |
|---------------------------------|---------------------|-------------------|---------------------|-------------------|-------------|-------------------|
|                                 | Less than 12 months |                   | More than 12 months |                   | Total       |                   |
|                                 | Fair Values         | Unrealized Losses | Fair Values         | Unrealized Losses | Fair Values | Unrealized Losses |
| Senior debt floating rate notes |                     |                   | 88                  | (1)               | 88          | (1)               |
| Total                           |                     |                   | 88                  | (1)               | 88          | (1)               |

The table below details securities that currently are in an unrealized loss position. The securities are segregated by investment type and the length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2011.

| Description                     | December 31, 2011   |                   |                     |                   |             |                   |
|---------------------------------|---------------------|-------------------|---------------------|-------------------|-------------|-------------------|
|                                 | Less than 12 months |                   | More than 12 months |                   | Total       |                   |
|                                 | Fair Values         | Unrealized Losses | Fair Values         | Unrealized Losses | Fair Values | Unrealized Losses |
| Senior debt floating rate notes | 79                  |                   | 147                 | (6)               | 226         | (6)               |
| Total                           | 79                  |                   | 147                 | (6)               | 226         | (6)               |

The methodologies used to estimate fair value are as follows:

**Debt securities classified as available-for-sale**

The fair value of floating rate notes and government bonds is estimated based upon quoted market prices for identical instruments. For Lehman Brothers senior unsecured bonds, fair value measurement was reassessed in 2008 from a Level 1 fair value measurement hierarchy to a Level 3 following Lehman Brothers Chapter 11 filing. Fair value measurement for these debt securities relied until December 31, 2010 on information received from a major credit rating entity based on historical recovery rates. In the first quarter of 2011, new information was

**Table of Contents**

publicly released about the Lehman Brothers Holding Inc. liquidation process, the announcement by Lehman Brothers Holdings Inc. that it would seek approval of its reorganization plan and recent settlement negotiations between large bondholders and the liquidators. Based on these new facts and circumstances, the Company reassessed fair value measurement from a Level 3 fair value measurement hierarchy to a Level 2, since fair value of Lehman Brothers Senior debt floating rate notes was based on expected recovery rates from the proposed reorganization plan, as reflected by values observed on open markets.

**Foreign exchange forward contracts, currency options and collars**

The fair value of these instruments is estimated based upon quoted market prices for similar instruments.

**Equity securities classified as available-for-sale**

The fair values of these instruments are estimated based upon market prices for the same or similar instruments.

**Trading equity securities**

The fair value of these instruments is estimated based upon quoted market prices for the same instruments.

**Equity securities carried at cost**

The non-recurring fair value measurement is based on the valuation of the underlying investments on a new round of third party financing or upon liquidation.

**Long-term debt and current portion of long-term debt**

The fair value of long-term debt was determined based on quoted market prices, and by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the Company's incremental borrowing rates for similar types of borrowing arrangements.

**Cash and cash equivalents, accounts receivable, bank overdrafts, short-term borrowings, and accounts payable**

The carrying amounts reflected in the consolidated financial statements are reasonable estimates of fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

**25. RELATED PARTY TRANSACTIONS**

Transactions with significant shareholders, their affiliates and other related parties were as follows:

|                                   | <b>December 31,<br/>2012</b> | December 31,<br>2011 | December 31,<br>2010 |
|-----------------------------------|------------------------------|----------------------|----------------------|
| Sales & other services            | <b>226</b>                   | 269                  | 322                  |
| Research and development expenses | <b>(282)</b>                 | (235)                | (206)                |
| Other purchases                   | <b>(53)</b>                  | (60)                 | (94)                 |
| Accounts receivable               | <b>53</b>                    | 54                   | 53                   |
| Accounts payable                  | <b>62</b>                    | 42                   | 63                   |

For the years ended December 31, 2012, December 31, 2011 and 2010, the related party transactions were primarily with significant shareholders of the Company, or their subsidiaries and companies in which management of the Company perform similar policymaking functions. These include, but are not limited to: Areva, France Telecom Orange, Cassa Depositi e Prestiti, Flextronics, Oracle and Technicolor. The related party transactions presented in the table above also include transactions between the Company and its equity-method investments as listed in Note 11.

## Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Since the formation of ST-Ericsson, the Company purchases R&D services from ST-Ericsson AT SA ( JVD ), a significant equity-method investment of the Company. For the year ended December 31, 2012 and 2011, the total R&D services purchased from ST-Ericsson AT SA amounted to \$224 million and \$194 million respectively and outstanding trade payables amounted to \$44 million and \$23 million respectively.

F-61

## **Table of Contents**

The Company made no contribution for the year ended December 31, 2012 and contributed cash amounts totalling \$1 million for the years ended December 31, 2011 and December 31, 2010, to the ST Foundation, a non-profit organization established to deliver and coordinate independent programs in line with its mission. Certain members of the Foundation's Board are senior members of the Company's management.

### **26. SEGMENT INFORMATION**

The Company operates in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, the Company designs, develops, manufactures and markets a broad range of products, including discrete and standard commodity components, application-specific integrated circuits (ASICs), full-custom devices and semi-custom devices and application-specific standard products (ASSPs) for analog, digital, and mixed-signal applications. In addition, the Company further participates in the manufacturing value chain of Smartcard products, which includes the production and sale of both silicon chips and Smartcards.

In the Subsystems business area, the Company designs, develops, manufactures and markets subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to its business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the U.S. GAAP guidance. All the financial values related to Subsystems including net revenues and related costs, are reported in the segment Others.

The organization existing in 2012 was as follows:

Automotive Segment (APG);

Digital Segment, consisting of two product lines:

Digital Convergence Group (DCG); and

Imaging, Bi-CMOS ASIC and Silicon Photonics Group (IBP).

Analog, MEMS and Microcontrollers Sector (AMM), comprised of three product lines:

Analog, MEMS & Sensors (AMS);

Industrial & Power Conversion (IPC); and

Microcontrollers, Memories & Secure MCUs (MMS).

Power Discrete Product Segment (PDP);

Wireless Segment comprised of the following product lines:

Connectivity (COS);

Smartphone and Tablet Solutions (STS);

Modems (MOD); and

Other Wireless, in which the Company reported other revenues, gross margin and other items related to the Wireless business but outside the ST-Ericsson JVS.

In 2012, the Company revised its results from prior periods in accordance with the new segment structure. The preparation of segment information based on the current segment structure requires management to make significant estimates, assumptions and judgments in determining the operating income (loss) of the segments for the prior reporting periods. The Company believes that the revised 2011 and 2010 presentation is consistent with that of 2012 and is using these comparatives when managing its segments.

The Company's principal investment and resource allocation decisions in the Semiconductor business area are for expenditures on research and development and capital investments in front-end and back-end manufacturing facilities. These decisions are not made by product segments, but on the basis of the Semiconductor Business area. All product segments share common research and development for process technology and manufacturing capacity for most of their products.

**Table of Contents**

The following tables present the Company's consolidated net revenues and consolidated operating income (loss) by semiconductor product segment. For the computation of the segments' internal financial measurements, the Company uses certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. In compliance with the Company's internal policies, certain cost items are not charged to the segments, including, impairment, restructuring charges and other related closure costs, including ST-Ericsson plans, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, the NXP arbitration award charge, strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold.

Net revenues by product segment:

| In millions of U.S dollars                | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|----------------------|
| Automotive ( APG )                        | 1,554                | 1,678                | 1,420                |
| Digital                                   | 1,334                | 1,839                | 2,174                |
| Analog, MEMS and Microcontrollers ( AMM ) | 3,200                | 3,377                | 3,154                |
| Power Discrete Products ( PDP )           | 1,015                | 1,240                | 1,319                |
| Wireless                                  | 1,345                | 1,552                | 2,219                |
| Others <sup>(1)</sup>                     | 45                   | 49                   | 60                   |
| <b>Total consolidated net revenues</b>    | <b>8,493</b>         | <b>9,735</b>         | <b>10,346</b>        |

(1) Includes revenues from sales of Subsystems, sales of materials and other products not allocated to product segments.

Net revenues by product segment and by product line :

| In millions of U.S dollars                                | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|----------------------|
| <b>Automotive ( APG )</b>                                 | <b>1,554</b>         | <b>1,678</b>         | <b>1,420</b>         |
| Digital Convergence Group ( DCG )                         | 888                  | 1,084                | 1,413                |
| Imaging, Bi-CMOS ASIC and Silicon Photonics Group ( IBP ) | 437                  | 722                  | 712                  |
| Other Digital   | 9                    | 33                   | 49                   |
| <b>Digital</b>  | <b>1,334</b>         | <b>1,839</b>         | <b>2,174</b>         |
| Analog, MEMS & Sensors ( AMS )                            | 1,320                | 1,335                | 1,106                |
| Industrial & Power Conversion ( IPC )                     | 733                  | 864                  | 863                  |
| Microcontrollers, Memories & Secure MCUs ( MMS )          | 1,147                | 1,175                | 1,181                |
| Other AMM   |                      | 3                    | 4                    |
| <b>Analog, MEMS and Microcontrollers ( AMM )</b>          | <b>3,200</b>         | <b>3,377</b>         | <b>3,154</b>         |
| <b>Power Discrete Products ( PDP )</b>                    | <b>1,015</b>         | <b>1,240</b>         | <b>1,319</b>         |
| Connectivity ( COS )                                      | 120                  | 233                  | 286                  |
| Smartphone and Tablet Solutions ( STS )                   | 1,102                | 1,202                | 1,893                |
| Modems ( MOD )  | 129                  | 115                  | 35                   |
| Other Wireless  | (6)                  | 2                    | 5                    |
| <b>Wireless</b>   | <b>1,345</b>         | <b>1,552</b>         | <b>2,219</b>         |
| <b>Others</b>   | <b>45</b>            | <b>49</b>            | <b>60</b>            |
| <b>Total consolidated net revenues</b>                    | <b>8,493</b>         | <b>9,735</b>         | <b>10,346</b>        |

**Table of Contents**

Operating income (loss) by product segment:

| In millions of U.S dollars                               | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|----------------------|
| Automotive ( APG )                                       | 129                  | 227                  | 121                  |
| Digital  | (154)                | 108                  | 245                  |
| Analog, MEMS and Microcontrollers ( AMM )                | 418                  | 606                  | 546                  |
| Power Discrete Products ( PDP )                          | 18                   | 139                  | 179                  |
| Wireless   | (885)                | (812)                | (483)                |
| <b>Total operating income (loss) of product segments</b> | <b>(474)</b>         | 268                  | 608                  |
| Others <sup>(1)</sup>                                    | (1,607)              | (222)                | (132)                |
| <b>Total consolidated operating income (loss)</b>        | <b>(2,081)</b>       | 46                   | 476                  |

- (1) Operating loss of Others includes items such as impairment, restructuring charges and other related closure costs including ST-Ericsson plans, unused capacity charges, phase-out and start-up costs, the NXP arbitration award charge and other unallocated expenses such as: strategic or special research and development programs, certain corporate-level operating expenses and other costs that are not allocated to the product segments, as well as operating earnings of the Subsystems and Other Products Group.

Reconciliation to consolidated operating income (loss):

| In millions of U.S dollars  | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|----------------------|
| Total operating income (loss) of product segments                 | (474)                | 268                  | 608                  |
| Strategic and other research and development programs             | (12)                 | (13)                 | (18)                 |
| Phase-out and start-up costs                                      |                      | (8)                  | (15)                 |
| Impairment, restructuring charges and other related closure costs | (1,376)              | (75)                 | (104)                |
| Unused capacity charges   | (172)                | (149)                | (3)                  |
| NXP Arbitration award   | (54)                 |                      |                      |
| Other non-allocated provisions <sup>(1)</sup>                     | 7                    | 23                   | 8                    |
| <b>Total operating loss Others<sup>(2)</sup></b>                  | <b>(1,607)</b>       | (222)                | (132)                |
| <b>Total consolidated operating income (loss)</b>                 | <b>(2,081)</b>       | 46                   | 476                  |

- (1) Includes unallocated income and expenses such as certain corporate-level operating expenses and other costs/income that are not allocated to the product segments.
- (2) Operating loss of Others includes items such as impairment, restructuring charges and other related closure costs including ST-Ericsson plans, unused capacity charges, phase-out and start-up costs, the NXP arbitration award charge and other unallocated expenses such as: strategic or special research and development programs, certain corporate-level operating expenses and other costs that are not allocated to the product segments, as well as operating earnings of the Subsystems and Other Products Group.

The following is a summary of operations by entities located within the indicated geographic areas for 2012, 2011 and 2010. Net revenues represent sales to third parties from the country in which each entity is located. Long-lived assets consist of property, plant and equipment, net (PP&E, net). A significant portion of property, plant and equipment expenditures is attributable to front-end and back-end facilities, located in the different countries in which the Company operates. As such, the Company mainly allocates capital spending resources according to geographic areas rather than along product segment areas.

**Net revenues**

| In millions of U.S dollars | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2010 |
|----------------------------|----------------------|----------------------|----------------------|
| The Netherlands            | 1,524                | 1,928                | 1,863                |

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

|                 |              |       |        |
|-----------------|--------------|-------|--------|
| France          | 189          | 172   | 174    |
| Italy           | 131          | 157   | 149    |
| USA             | 1,014        | 1,120 | 1,109  |
| Singapore       | 3,784        | 4,945 | 5,939  |
| Japan           | 418          | 497   | 436    |
| Other countries | 1,433        | 916   | 676    |
| <b>Total</b>    | <b>8,493</b> | 9,735 | 10,346 |

F-64



---

**Table of Contents****Property, plant and equipment**

| In millions of U.S dollars | December 31,<br>2012 | December 31,<br>2011 |
|----------------------------|----------------------|----------------------|
| The Netherlands            | 241                  | 124                  |
| France                     | 1,222                | 1,469                |
| Italy                      | 716                  | 812                  |
| Other European countries   | 169                  | 200                  |
| USA                        | 18                   | 17                   |
| Singapore                  | 441                  | 552                  |
| Malaysia                   | 238                  | 303                  |
| Other countries            | 436                  | 443                  |
| <b>Total</b>               | <b>3,481</b>         | <b>3,920</b>         |

F-65

**Table of Contents**

Schedule

**STMICROELECTRONICS N.V.**  
**VALUATION AND QUALIFYING ACCOUNTS**

| Valuation and qualifying accounts deducted<br>from the related asset accounts | Balance at<br>beginning<br>of<br>period | Translation<br>adjustment<br><br>(Currency | Charged to<br>costs and<br>expenses<br><br>millions of U.S. dollars) | Additions/<br>(Deductions) | Balance<br>at end of<br>period |
|---|---|--|--|----------------------------|--------------------------------|
| <b>2012</b>   |   |  |  |                            |                                |
| Inventories   | 60                                      |  | 95   | (106)                      | 49                             |
| Accounts Receivable   | 15                                      |  | 1  | (6)                        | 10                             |
| Deferred Tax Assets   | 1,514                                   | 6  | 78   | (9)                        | 1,589                          |
| <b>2011</b>   |   |  |  |                            |                                |
| Inventories   | 50                                      |  | 103  | (93)                       | 60                             |
| Accounts Receivable   | 17                                      |  | 1  | (3)                        | 15                             |
| Deferred Tax Assets   | 1,396                                   | (11)                                       | 138  | (9)                        | 1,514                          |
| <b>2010</b>   |   |  |  |                            |                                |
| Inventories   | 50                                      |  | 67   | (67)                       | 50                             |
| Accounts Receivable   | 19                                      |  | 1  | (3)                        | 17                             |
| Deferred Tax Assets   | 1,337                                   | (13)                                       | 81   | (9)                        | 1,396                          |

S-1