

STMICROELECTRONICS NV
Form 20-F
March 03, 2015
Table of Contents

As filed with the Securities and Exchange Commission on March 3, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

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

The Netherlands

(Address of principal executive offices)

Carlo Bozotti

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Geneva

Switzerland

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(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:
Common shares, nominal value 1.04 per share

Name of Each Exchange on Which Registered:
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

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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:

873,939,583 common shares at December 31, 2014

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 by the International Accounting Standards Board Other

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

	Page
<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>	15
<u>Item 5. Operating and Financial Review and Prospects</u>	31
<u>Item 6. Directors, Senior Management and Employees</u>	61
<u>Item 7. Major Shareholders and Related Party Transactions</u>	83
<u>Item 8. Financial Information</u>	88
<u>Item 9. Listing</u>	91
<u>Item 10. Additional Information</u>	92
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	109
<u>Item 12. Description of Securities Other than Equity Securities</u>	111
<u>PART II</u>	113
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	113
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	113
<u>Item 15. Controls and Procedures</u>	113
<u>Item 16A. Audit Committee Financial Expert</u>	114
<u>Item 16B. Code of Ethics</u>	114
<u>Item 16C. Principal Accountant Fees and Services</u>	114
<u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>	115
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	116
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	116
<u>Item 16G. Corporate Governance</u>	116
<u>PART III</u>	118
<u>Item 17. Financial Statements</u>	118
<u>Item 18. Financial Statements</u>	118
<u>Item 19. Exhibits</u>	118

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report on 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 the U.S. are to the United States of America and references to \$ and 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 our market share data in this Form 20-F 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 Form 20-F 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, we are required by Dutch law to report our Statutory and Consolidated Financial Statements, 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 Form 20-F, 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 anticipated by such statements due to, among other factors:

uncertain macro-economic and industry trends;

customer demand and acceptance for the products which we design, manufacture and sell;

unanticipated events or circumstances, which may either impact our ability to execute the planned reductions in our net operating expenses and/or meet the objectives of our R&D programs, which benefit from public funding;

the loading and the manufacturing performance of our production facilities;

the functionalities and performance of our IT systems, which support our critical operational activities including manufacturing, finance and sales;

variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;

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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;

Table of Contents

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

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 macro-economic or regional events, military conflict, social unrest, or terrorist activities; and

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

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, 2014. 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, 2014, 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.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In millions except per share and ratio data)				
Consolidated Statements of Income Data:					
Net sales	\$ 7,335	\$ 8,050	\$ 8,380	\$ 9,630	\$ 10,262
Other revenues	69	32	113	105	84
Net revenues	7,404	8,082	8,493	9,735	10,346
Cost of sales	4,906	(5,468)	(5,710)	(6,161)	(6,331)
Gross profit	2,498	2,614	2,783	3,574	4,015
Operating expenses:					
Selling, general and administrative	(927)	(1,066)	(1,166)	(1,210)	(1,175)
Research and development	(1,520)	(1,816)	(2,413)	(2,352)	(2,350)
Other income and expenses, net	207	95	91	109	90
Impairment, restructuring charges and other related closure costs	(90)	(292)	(1,376)	(75)	(104)
Total operating expenses	(2,330)	(3,079)	(4,864)	(3,528)	(3,539)
Operating income (loss)	168	(465)	(2,081)	46	476
Other-than-temporary impairment charge and realized gains (losses) on financial assets				318	
Interest income (expense), net	(18)	(5)	(35)	(25)	(3)
Income (loss) on equity-method investments and gain on investment divestiture	(43)	(122)	(24)	(28)	242
Gain (loss) on financial instruments, net	(1)		3	25	(24)

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Income (loss) before income taxes and noncontrolling interest	106	(592)	(2,137)	336	691
Income tax benefit (expense)	23	(37)	(51)	(181)	(149)
Net income (loss)	129	(629)	(2,188)	155	542
Net loss (income) attributable to noncontrolling interest	(1)	129	1,030	495	288
Net income (loss) attributable to parent company	128	(500)	(1,158)	650	830
Earnings per share (basic) attributable to parent company stockholders	0.14	(0.56)	(1.31)	0.74	0.94
Earnings per share (diluted) attributable to parent company stockholders	0.14	(0.56)	(1.31)	0.72	0.92
Number of shares used in calculating earnings per share (basic)	886.5	889.5	886.7	883.6	880.4
Number of shares used in calculating earnings per share (diluted)	889.8	889.5	886.7	904.5	911.1

Table of Contents

	2014	Year Ended December 31,			2010
		2013	2012	2011	
		(In millions except per share and ratio data)			
Consolidated Balance Sheets Data (end of period):					
Cash and cash equivalents	2,017	1,836	2,250	1,912	1,892
Short-term deposits		1	1		67
Marketable securities	334	57	238	413	1,052
Restricted cash			4	8	7
Non-current marketable securities					72
Total assets	9,008	9,173	10,434	12,094	13,349
Short-term debt	202	225	630	733	720
Long-term debt (excluding current portion)	1,603	928	671	826	1,050
Total parent company stockholders' equity	4,994	5,643	6,225	7,603	7,587
Common stock and capital surplus	3,898	3,737	3,711	3,700	3,671
Other Data:					
Dividend per share	0.40	0.40	0.40	0.40	0.28
Capital expenditures, net of proceeds from sales	(496)	531	476	1,258	1,034
Net cash from operating activities	715	366	612	880	1,794
Depreciation and amortization	\$ 811	\$ 910	\$ 1,107	\$ 1,279	\$ 1,240
Debt-to-equity ratio ⁽¹⁾	0.36	0.20	0.21	0.21	0.23

(1) Debt-to-equity ratio is the ratio between our total financial debt (bank overdrafts, short-term debt and long-term debt) and our total parent company stockholders' equity.

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 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 significantly. 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, but not limited to, declines in revenues, reductions in selling prices, underutilization of manufacturing capacity, deterioration of our gross margins, profitability and net cash flow, closure of our wafer fabrication plants ("fabs") and associated restructuring plans 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 nature and volatility of the semiconductor industry, it is difficult to predict future developments in the markets we serve, making it difficult 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.

Table of Contents

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 related 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. Furthermore, during certain periods, we have also experienced increased 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 .

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. Furthermore, the competitive environment of the semiconductor industry may result in consolidation and vertical integration at the customer level, which may lead to erosion of our market share, impact our capacity to compete and require us to restructure.

We compete in different product lines to various degrees on certain characteristics, for example, price, technical performance, product features, product design, 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 these characteristics, our business, financial condition and results of operations could be materially adversely affected.

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.

The semiconductor industry may also be impacted by changes in the political, social or economic environment, including as a result of military conflict, civil unrest and/or terrorist activities, as well as natural events such as severe weather, health risks or epidemics 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, military conflict, civil unrest or terrorist attacks;

natural events such as severe weather, earthquakes or tsunamis;

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.

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

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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.

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,

Table of Contents

including executed and possible future acquisitions, dispositions or joint ventures, will be successful and will not result in further impairment and associated charges.

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results, including, but not limited to, 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, the risk of the diversion of management's attention, the risk that we may be required to record charges related to the goodwill or other long-term assets associated with the acquired businesses and in the case of joint ventures, the risk of being unable to effectively control the joint venture when management acts independently. 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: 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; and our ability to retain customers of an acquired entity or business. Identified risks associated with divestitures include: loss of activities and technologies that may have complemented our remaining businesses or operations; and loss of important services provided by key employees that are assigned to divested activities.

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

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

There can be no assurance that we will successfully implement our strategic plan and achieve our financial targets, which is dependent upon solid revenue growth, improving gross margins and 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 is strongly correlated with the global macroeconomic environment and now averages single digit annual growth; 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 and wellness, and energy and power management savings; the growing importance of the Asia Pacific region, particularly 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.

In difficult market conditions, our high fixed costs adversely impact our results.

Semiconductor manufacturing is characterized by high fixed costs. In difficult market conditions, 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. We are not always able to cut our total costs in line with resulting revenue declines. As a result, our fixed costs associated with our manufacturing facilities may not be fully absorbed, leading to unused capacity charges, higher average unit costs and lower gross margins, adversely impacting our results.

Our financial results can be 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 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.

Table of Contents

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 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 (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. We also 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. 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 affected by economic conditions in Europe.

The financial markets and global economic conditions have been negatively impacted by the European economic crisis that began in 2010, resulting in a general slowdown of economic growth and higher debt levels. We cannot exclude a potential further deterioration of economic conditions, which could have a material adverse effect on our results given our significant operations and assets in Europe, in particular, our manufacturing activities in France, Italy and Malta.

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 manufacturing technologies, 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. These expenditures may increase in the future if we decide to upgrade or expand the capacity of our manufacturing facilities. 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.

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.

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. The foregoing may 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. In addition, the capital markets may from time to time offer terms of financing that are particularly favorable. We cannot exclude that we may access the capital markets opportunistically to take advantage of market conditions. 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 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 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.

Our R&D alliances provide us with a number of important benefits, including the sharing of costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. However, there can be no assurance that our 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. If these alliances terminate before our intended goals are accomplished we may incur additional unforeseen costs, and our business and prospects could be 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.

Table of Contents

If we fail to meet the conditions 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.

To support our proprietary R&D for derivative technology investments and investments in cooperative R&D ventures, we have, in the past, benefited, and will continue to benefit in the future, from state funding, such as from France and Italy. To receive this funding, we enter into agreements which set forth the parameters for state support to us under selected programs. These funding agreements require compliance with extensive regulatory requirements and set forth certain conditions relating to the nature and amount of the investments, as well as employment locally. If we fail to meet the regulatory requirements or applicable conditions, we may, under certain circumstances, be required to refund previously received amounts, which could have a material adverse effect on our results of operations. See Item 4. Information on the Company Public Funding . If there are changes in the state funding regimes, this could affect our continued ability to invest in R&D at current levels and we could experience a material adverse effect on our business and financial results.

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 our operating results from one period to the next. These factors include, among others, capital requirements, inventory management, availability of funding, competition, new product developments, technological changes, manufacturing problems and effective tax rates. In addition, 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 .

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 retain existing customers and attract new ones. A market decline in any of these industries or our inability to retain and attract customers could have a material adverse effect on our results of operations.

Growth of demand in the industries and segments into which our products are sold has fluctuated significantly in the past, and may in the future. Changes in these markets, coupled with a lower penetration of certain of our customers, could result in slower growth and a decline in demand for our products. In addition, if projected industry growth rates do not materialize as forecasted, our spending on process and product development ahead of market acceptance could have a material adverse effect on our business, financial condition and results of operations.

Our business is dependent upon our ability to retain existing customers. Our existing customers' product 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. Our business is also dependent upon our ability to attract new customers serving fast-growing markets. 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.

Disruptions in our relationships with any one of our key customers or distributors, 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 a limited number of customers and distributors. We cannot guarantee that our customers or distributors will continue to book the same level of sales with us that they have in the past, or will not purchase competing products over our products or will continue to succeed in the markets they serve. Many of our key customers and distributors operate in cyclical businesses that are also highly competitive, and their own demands and market positions may vary considerably. In recent years, some of our customers 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. If we were unable to maintain or enhance our market share with our key customers or distributors, or if they were to increase product returns or fail to meet payment

Table of Contents

obligations, our results of operations would 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.

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 sheets (Consolidated Balance Sheets). See 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 .

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. See Item 8. Financial Information Legal Proceedings . IP litigation 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. 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.

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 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

Table of Contents

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 addition, the acquisition or divestiture of businesses in certain 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. 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 changes in tax laws and regulations.

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. We are also subject to tax audits in certain jurisdictions. There can be no assurance that we will be successful in resolving potential tax claims that arose or can arise from these audits, which could result in material adjustments in our tax positions. 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.

Because we depend on a limited number of suppliers for 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 materials on a timely basis. Certain materials are available from a limited number of suppliers, or only from a limited number of suppliers in a particular region. We purchase certain materials such as copper and gold whose prices on the world markets have fluctuated significantly in the past and may in the future. Although supplies for the 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 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. 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 results of operations would be adversely affected if we were unable to obtain adequate supplies of materials or equipment in a timely manner or if there were significant increases in the costs of materials or problems with the quality of these materials.

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

We currently use outside contractors for a portion of our manufacturing activities. 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. 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 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.

Table of Contents

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, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. We have from time to time experienced bottlenecks and production difficulties that have caused delivery delays and quality control problems. We cannot guarantee that we will not experience bottlenecks, production or transition difficulties in the future.

We may be faced with product liability or warranty claims.

Our products may not in each case comply with specifications or customer requirements and, as a result, we may face product liability or warranty claims. Although our general practice is to contractually limit our liability to the repair, replacement or refund of defective products, these claims could result in significant expenses relating to compensation payments or other actions to maintain good customer relationships. 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 computer systems and networks are subject to attempted security breaches and other cybersecurity incidents, which, if successful, could impact our business.

We have, from time to time, experienced attempted cyber attacks of varying degrees to obtain access to our computer systems and networks. As of the date of this Form 20-F, no such attacks have succeeded in obtaining access to our critical systems. However, such attacks may be successful in future. Cyber attacks could result in the misappropriation of our proprietary information and technology, the compromise of personal and confidential information of our employees, customers or suppliers or interrupt our business. The reliability and security of our information technology infrastructure and software, and our ability to expand and continually update technologies in response to our changing needs is critical to our business. In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, state-sponsored intrusions, industrial espionage, employee malfeasance, and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and those of customers, suppliers, and some of those attempts may be successful. Such breaches could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of our, our customer, or other third party data or systems, theft of sensitive or confidential data including personal information and intellectual property, system disruptions, and denial of service. In the event of such breaches, we, our customers or other third parties could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and other financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. As these threats continue to develop and grow, we have been adapting the security measures and we continue to increase the amount we allocate to implement, maintain and/or update security systems to protect data and infrastructure. As a global enterprise, we could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection. Additionally, cyber attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to us, our customers, or other third party operations or services, financial loss, potential liability, and damage our reputation and affect our relationships with our customers and suppliers.

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 environmental laws and regulations that govern, among other things, the use, storage, discharge and disposal of chemicals, gases and other hazardous substances used in our operations. See Item 4. Information on the Company Environmental Matters .

Compliance with such laws and regulations 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

Table of Contents

expenses in adapting our manufacturing processes or waste and emission disposal processes. 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. Failure by us to control the use of, or adequately restrict the discharge of, chemicals or hazardous substances could subject us to future liabilities.

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.

The interests of our controlling shareholder, which is in turn indirectly controlled by the French and Italian governments, may conflict with other investors' interests. In addition, our controlling shareholder may sell our existing common shares or issue financial instruments exchangeable into our common shares at any time.

We have been informed that as of December 31, 2014, STMicroelectronics Holding N.V. (ST Holding), owned 250,704,754 shares, or approximately 27.5%, of our issued common shares. ST Holding may therefore be in a position to effectively control the outcome of decisions submitted to the vote at our shareholders' meetings, including but not limited to the appointment of the members of our Managing and Supervisory Boards.

We have been informed that ST Holding's shareholders, each of which is ultimately controlled by the French or Italian government, are party to a shareholders agreement (the STH Shareholders Agreement), which governs relations between them. We are not a party to the STH Shareholders Agreement. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders . The STH Shareholders Agreement includes provisions requiring the unanimous approval by the shareholders of ST Holding before ST Holding can vote its shares in our share capital, which may give rise to a conflict of interest between our interests and investors' interests, on the one hand, and the (political) interests of ST Holding's shareholders, on the other hand. Our ability to issue new shares or other securities giving access to our shares may be limited by ST Holding's desire to maintain its shareholding at a certain level and our ability to buy back shares may be limited by ST Holding due to a Dutch law requiring one or more shareholders acquiring 30% or more of our voting rights to launch a tender offer for our outstanding shares.

The STH Shareholders Agreement also permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at any time, thereby reducing the current level of their respective indirect interests in our common shares. 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 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 other factors.

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 not supported 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 .

Table of Contents

We are required to prepare financial statements under IFRS and we also prepare 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.

There are inherent limitations on the effectiveness of our controls.

There is no assurance that a system of internal control over financial reporting, including one determined to be effective, will prevent or detect all misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance regarding financial statement preparation and presentation. Projections of the results of any evaluation of the effectiveness of internal control over financial reporting into future periods are subject to inherent risk. The relevant controls may become inadequate due to changes in circumstances or the degree of compliance with the underlying policies or procedures may deteriorate.

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 our 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.

Table of Contents**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). We operated as SGS-Thomson Microelectronics N.V. until May 1998, when we changed our name to STMicroelectronics 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, 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, such as the Internet of Things (IoT), and serving many different end markets. Our key products include automotive, microcontrollers, smart power, digital consumer and MEMS and sensors. 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 customer, product, application or end market. Our product families are comprised of discrete and standard commodity components and differentiated application-specific products (defined as dedicated analog, mixed-signal and digital application-specific integrated circuits (ASIC) and application-specific standard products (ASSP) offerings and semi-custom devices) that are organized under our two product segments, which are: (i) Sense & Power and Automotive Products (SP&A) comprised of Automotive (APG), Industrial & Power Discrete (IPD), Analog & MEMS (AMS) and Other SP&A; and (ii) Embedded Processing Solutions (EPS) comprised of Digital Convergence Group (DCG), Imaging, Bi-CMOS ASIC and Silicon Photonics (IBP), Microcontrollers, Memory & Secure MCU (MMS) and Other EPS.

Our diversified product portfolio is built upon a unique, strong foundation of proprietary and differentiated leading-edge technologies. We use all of the prevalent function-oriented process technologies, including CMOS, bipolar and non-volatile 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 our pioneering fully depleted silicon-on-insulator (FD-SOI) technology offering superior performance and power efficiency compared to bulk CMOS, bipolar CMOS technologies (Bi-CMOS) and radio frequency silicon-on-insulator (RF-SOI) for mixed-signal and high-frequency 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, 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 some 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 .

Table of Contents

Results of Operations

For our 2014 Results of Operations, see Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information .

Strategy

We are a global leader in the semiconductor market serving customers across the spectrum of Sense & Power and Automotive Products and Embedded Processing Solutions. From energy management and savings to trust and data security, from healthcare and wellness to smart consumer devices, in the home, car and office, at work and at play, we are found everywhere microelectronics make a positive and innovative contribution to people's life. By getting more from technology to get more from life, ST stands for life.augmented.

Our strategy takes into account the evolution of the markets we serve and the environment and opportunities we see for the years to come. It is based on our leadership in our two product segments, SP&A and EPS. Both segments are supported by a Sales & Marketing organization with a particular focus on our major accounts, as well as on expanding our penetration of the mass market. Furthermore, we focus on five growth drivers: (i) Automotive Products, which make driving safer, greener and more entertaining; (ii) Digital Consumer and ASIC Products, which power the augmented digital lifestyle; (iii) MEMS and Sensors, which augment the consumer experience; (iv) Microcontrollers, which make everything smarter and more secure; and (v) Smart Power, which makes more of our energy resources. 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.

Product Segments

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.

Our product segments are as follows:

Sense & Power and Automotive Products (SP&A), comprised of the following product lines:

Automotive (APG);

Industrial & Power Discrete (IPD);

Analog & MEMS (AMS); and

Other SP&A;

Embedded Processing Solutions (EPS), comprised of the following product lines:

Digital Convergence Group (DCG);

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

Microcontrollers, Memory & Secure MCU (MMS); and

Other EPS.

In the second half of 2014, we announced that as of the first quarter of 2015 the Digital Convergence Group (DCG) and Imaging, BI-CMOS and Silicon Photonics (IBP) groups would be combined under one single organization, called Digital Product Group (DPG). DPG's focus is on ASSPs addressing home gateway and set-top box, as well as FD-SOI ASICs for consumer applications; FD-SOI and mixed process ASICs, including silicon photonics, addressing communication infrastructure; and differentiated imaging products.

In 2014, we revised our revenues by product line from prior periods following the reclassification of Image Signal Processor business from IBP product line to DCG product line. In addition, the Wireless former product line has been reclassified into the DCG product line. We believe that the revised 2013 and 2012 revenues presentation is consistent with that of 2014 and we use these comparatives when managing our company.

Table of Contents

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. See Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information .

Sense & Power and Automotive Products (SP&A)

Sense & Power is our way of defining the boundaries of our broad analog products portfolio. It is a simple indication that our analog products can be used to design any system requiring semiconductors from sensors, signal channel devices, output power stages discrete and/or integrated, as well as the complete power management blocks. Complemented by a comprehensive range of general purpose and application specific microcontrollers, Sense & Power analog devices can fulfill the needs of any design.

In addition, we have historically been one of the leading suppliers and innovators in the domain of semiconductor devices dedicated to automotive applications. With a portfolio spanning from complex power train microcontrollers, audio and infotainment devices and body and convenience dedicated and standard functions, we continue to maintain the leading edge position and focus. The products designed and manufactured specifically for automotive applications are complemented by a large range of automotive grade products, both tested and guaranteed to perform under the stringent automotive environmental conditions.

Automotive (APG)

We are a top automotive semiconductor vendor supplying chips to major car makers worldwide. We combine an unparalleled platform of advanced technologies with an unswerving commitment to quality, and a thorough understanding of the automotive market gained through close collaboration with leading customers. Our automotive-solutions portfolio covers all key application areas in the car: Powertrain, Safety, Body Electronics, and Infotainment.

(i) *Powertrain.* We provide silicon solutions for the full range of engine-management systems: for motorbikes and scooters to the most advanced drive-by-wire solutions. Developments in engine management are driven by both government emission regulations and energy concerns. We continue to work closely with major automotive OEMs, as we have for years, to reduce fuel consumption via advanced technologies such as Variable Valve Timing and Gasoline Direct Injection.

(ii) *Safety.* We provide a broad range of solutions to increase vehicle-occupant safety, including devices for airbags, anti-lock brakes, traction control, electric power steering and suspension systems. We are the leading supplier of chips for automotive airbags and anti-lock braking systems, which currently represent the largest portion of automotive safety electronics.

We are also a leading player in advanced safety systems that help avoid or minimize the severity of traffic accidents manufacturing chips for visual-aid driving-assistance such as lane-departure warning, forward-collision warning, vision/radar fusion and pedestrian detection for active safety behind the wheel. Our 3rd generation ADAS Vision Processor product reached production maturity and we are now developing the 4th generation in FD-SOI.

(iii) *Body Electronics.* Today's car body is a myriad of inter-networked electronic systems, from dome and door-zone controls, HVAC (heating, ventilation, and air-conditioning) systems, and seat controls to wiper and lighting controls. The penetration of electronics in the car is increasing all the time, as are the requirements for improved reliability and diagnostic capabilities.

We address the concept of the smart junction box, which is an intelligent power and switching center for the vehicle that integrates functions and features from exterior and cabin lighting to wipers, with a comprehensive architecture that consists of upgradable hardware and software modules.

With our proprietary VIPower silicon technology and thorough application knowledge, we have become the market leader in automotive lighting electronics, offering solutions for both exterior and interior lighting, from incandescent bulbs to LED- or HID (High-Intensity Discharge)-based systems.

(iv) *Infotainment.* Our car infotainment and navigation portfolio includes complete turnkey solutions for digital radio, navigation and telematics, and wireless connectivity in the car.

Table of Contents

We have leveraged our more than 20 years at the forefront of AM/FM radio technology to lead in digital radio. We produce all of the semiconductor components for car radios – from the tuner through the baseband to multimedia processing and playback – and the Company's car-radio systems are optimized for harsh reception environments and minimized power consumption.

Our portfolio of products for navigation includes the System-on-Chip solutions that were the industry's first monolithic devices capable of receiving signals from multiple satellite navigation systems, including BeiDou, GPS, GALILEO, GLONASS and QZSS, to improve user position accuracy and navigation in poor satellite visibility conditions, such as in urban canyons.

In 2014, APG experienced growth across all customers, including distribution and across applications. From a geographical perspective, we expanded our footprint with key OEMs, while also strengthening our leadership in China in engine management, body and audio applications. And our independent manufacturing strategy and secured supply chain helped us continue our strong momentum in Japan. APG's success leveraged our technology leadership in power with VIPower and BCD products, and expanded the portfolio of 32-bit microcontrollers doubling shipments as design wins started to ramp.

Industrial and Power Discrete (IPD)

IPD focuses on developing a broad range of innovative and competitive products including Power, Smart Power and Analog ICs to serve the most attractive markets such as smart grid, automation, portable and power conversion.

As one of the world's leading suppliers of both integrated and discrete power conversion semiconductors, our power management devices enable energy-saving, high-power-density and lower-standby-power design solutions. Our product portfolio includes highly-integrated AC-DC converters, switching DC-DC converters, linear voltage regulators, battery management ICs, LED drivers, photovoltaic ICs, MOSFET and IGBT drivers, motor drivers and more.

Leading-edge power technologies for both high-voltage and low-voltage applications combined with a full package range and innovative die bonding technologies exemplify our innovation in power transistors. Our portfolio includes MOSFETs ranging from -500 to 1500 V, silicon carbide (SiC) MOSFETs featuring the industry's highest temperature rating of 200 °C, IGBTs with breakdown voltages ranging from 350 to 1300 V and a wide range of power bipolar transistors.

Our portfolio of protection devices supports all industry requirements for electrical overstress and electrostatic surge protection, lightning surge protection and automotive protection. Our protection devices have passed all certifications, meeting or exceeding international protection standards for electrical hazards on electronics boards found in the demanding automotive, computer, consumer, industrial and telecom markets.

In 2014, we recorded growth in a number of applications in LED lighting (digital and analog solutions), Motor control ICs, IGBT and Intelligent Power modules for appliance and industrial applications and Field-Effect Rectifiers diodes to leading mobile phone charger manufacturers. We also ramped up production of high voltage rectifiers and transistors at a leading electric car maker.

IPD brought innovative technologies and products to the market, such as our power management chipset for servers, the galvanic isolation technology for industrial applications and our 1200V Silicon Carbide transistors. The group also expanded the automotive product portfolio with rectifiers, IGBT, Silicon Carbide diodes and thyristors.

Analog & MEMS (AMS)

Our product portfolio serving AMS focuses on the high-end analog world that comprises MEMS (micro electro-mechanical sensors), many kinds of sensors, interfaces, low power RF transceivers and analog front-end.

Our sensor and actuator portfolio includes MEMS (including accelerometers, gyroscopes, digital compasses, inertial modules, pressure sensors, humidity sensors and microphones), smart sensors and sensor hubs, temperature sensors and touch sensors. MEMS technology has become widely popular in sensors for measuring motion, acceleration, inclination and vibration. We offer a unique sensor portfolio, from discrete to fully-integrated solutions, high performance sensor fusion to improve the accuracy of multi-axis sensor systems in

Table of Contents

order to enable highly-demanding applications, such as indoor navigation and location based services and high-level quality products, already tested in different application fields, including mobile, portable, gaming, consumer, automotive and health care.

AMS also develops a comprehensive range of op amps, comparators and current-sense amplifiers. In addition to our portfolio of mainstream op amps and comparators, we offer targeted devices for healthcare, industrial, and automotive applications, as well as a range of high-performance products specifically designed to meet the tight requirements of the wearable market. The main features of our growing portfolio are low power, high precision and tiny packages.

Our FingerTip® family of controllers provides true multi-touch capability, supporting unlimited simultaneous touches. FingerTip also enhances multi-touch actions such as pinch-to-zoom, and supports stylus operations. The latest FingerTip series, the S Series, addresses high-end smartphones and tablets. The FingerTip S series can support a passive stylus, track a hovering finger, reject water drops and work with thick gloves. These devices represent a marked improvement over competing technologies by providing an optimal mix of low power, small size and highly-precise multiple finger tracking in a single chip.

Our connectivity ICs range from wireline to wireless solutions. For wireline communication, we offer a complete family of transceivers compatible with different protocol standards used in the industry (PRIME, Meters and More, IEC 61334-5-1, CAN and others). Wireless solutions include low-power RF solutions (based on sub-1GHz RF, Bluetooth and Wi-Fi technologies) RF solutions (sub-GHz to 5 GHz) and infrared communication ICs.

During 2014, microphones and touchscreen controllers, two recently added product families, both recorded growth, becoming significant contributors to AMS sales. The group also pursued expansion in key customer and application diversification with a leadership position in MEMS for wearable devices, expanding from motion to environmental sensors, with the ramp of MEMS for Automotive and a first design win for a combo motion MEMS for active safety. On a regional basis, it recorded growth in China where our MEMS were adopted in over 60 new phone models from 12 companies during 2014. AMS also launched the Open.MEMS initiative toward the mass market, providing easy licensing of sensor fusion software.

The group continued to innovate, introducing new technologies such as Piezoelectric for micro-actuation, where we announced a partnership for a new smartphone autofocus application; and, importantly, setting new benchmarks in motion MEMS with a new generation of 6-axis motion sensors, with ultra-low-power and leading noise performance for the consumer market, as well as the industry's smallest 6-axis sensor, qualified for non-safety automotive applications.

Embedded Processing Solutions (EPS)

Our products in the embedded processing segment are at the heart of electronics systems, and include microcontrollers, digital consumer products, imaging products, Memories, application processors and ASICs.

Our full set of microcontrollers includes general-purpose devices, secure microcontrollers for applications such as bank cards, IT security, e-government, public transport, and mobile communications and a series of embedded microprocessors for various applications in industrial, computing and communications markets.

In the digital consumer segment, we provide a strong portfolio of media application processors for set-top boxes and, media servers/gateways with an emphasis on minimizing customer platform migration/market customization costs and optimizing core use to drive next-generation features, silicon technologies that enable maximum integration and power efficiency and interoperability solutions for key digital interface standards.

Digital Convergence Group (DCG) and Imaging, Bi-CMOS ASIC & Silicon Photonics (IBP)

DCG and IBP (as combined, DPG) focus on three main areas: i) Consumer Products: ASSPs addressing home gateway and set-top box, as well as FD-SOI ASICs for consumer applications; ii) Networking Products: FD-SOI and mixed-process ASICs, including silicon photonics devices, addressing communications infrastructure; and (iii) Imaging: differentiated imaging and Time-of-Flight sensors for all applications.

Our products for home media and application platform SoCs comprise everything from multimedia/application processors, to front-end tuner ICs and bring a world of content into the home. We are placed to supply every IC used in home media and application platforms, ranging from simple broadcast set-top boxes

Table of Contents

(cable, digital terrestrial or satellite) to sophisticated media gateways/servers supporting broadcast and internet media. We leverage our vast experience, state-of-the-art technologies and IPs, and our network of partnerships to enable a new era of connected home products smart consumer devices that allow people to seamlessly and securely access any type of content or services across multiple devices in the home and on the go.

We have developed and patented our own technology, called FlightSense™, using Time-of-Flight principle in order to propose a new generation of high-accuracy proximity sensors. FlightSense™ technology can be used in a host of application areas such as communication and consumer, home appliance, auto and industrial, where accurate ranging, that is target reflectance independent, is required; as conventional infrared proximity sensor devices cannot output an absolute range measure in the same manner:

During 2014, we made the decision to discontinue our commodity camera module business and to focus on FlightSense™ proximity and specialized imaging sensors; last quarter, we also launched cost reduction initiatives targeting about \$100 million in annualized savings. At the same time, we focused on ramping up new families of innovative products. These included the Liege family of broadcast set-top-box products in 40-nm; 32-nm ASICs for Networking; and our FlightSense proximity sensor which went into volume production with a major smartphone maker. We also continued to focus our efforts on innovation and new products to boost our future revenues. We introduced Ultra HDp60-enabled 4K solutions in our Cannes and Monaco families and started shipping to lead customers. In addition, we won a number of important sockets with major operators both in the area of cable and satellite. We demonstrated full speed DOCSIS3.1, a key technology for cable operators; our FD-SOI technology progressed as we received first design awards in 14-nm for networking. In addition, we were awarded more than 20 new ASIC designs in Bi-CMOS, RF-SOI and Silicon Photonics.

Microcontrollers, Memory & Secure MCU (MMS)

MMS activities focus on microcontrollers dedicated to general purpose and secure applications as well as small density serial non-volatile memories.

Our product portfolio contains a comprehensive range of microcontrollers, from robust, low-cost 8-bit microcontrollers up to 32-bit ARM®-based Cortex®-M0 and M0+, Cortex®-M3, Cortex®-M4, Cortex®-M7 Flash microcontrollers with a wide choice of peripherals. We have also extended this range to include an ultra-low-power MCU platform.

The STM32 family of 32-bit Flash microcontrollers based on the ARM® Cortex®-M processor is designed to offer new degrees of freedom to microcontroller users. It offers a 32-bit product range that combines very high performance, real-time capabilities, digital signal processing, and low-power, low-voltage operation, while maintaining full integration and ease of development.

The unparalleled and large range of STM32 devices, based on an industry-standard core and accompanied by a vast choice of tools and software, makes this family of products the ideal choice, both for small projects and for entire platform decisions.

We offer leading-edge products for secure applications in traditional smartcard applications and embedded security applications. Throughout our 20+ year presence in the smartcard security industry, we have supplied the market's most advanced technologies and solutions, with a continuous focus on innovation and the highest levels of security certification. 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. Our secure microcontroller product portfolio offers compliance with the latest security standards up to Common Criteria EAL6+, ICAO, and TCG1.2. Our secure microcontrollers cover a complete range of interfaces for both contact and contactless communication, including ISO 7816, ISO 14443 Type A & B, NFC, USB, SPI and I²C.

Our secure-microcontroller platforms rely on a highly-secure architecture combined with leading edge CPUs, such as ARM's SC300 and SC000, and advanced embedded non-volatile memory technologies such as 90-nm embedded Flash and 90-nm embedded EEPROM technologies. We offer a wide range of small density serial non-volatile memories. The serial EEPROM family ranges from 1 Kbit to 2 Mbits and offers different serial interfaces: I²C, SPI, Microwire. The wide range of products are also automotive compliant, and very thin packages are available for applications where space is critical.

Table of Contents

RF memory and transceiver products are based on the 13.56 MHz carrier frequency and are also compatible with the Near Field Communications (NFC) technology. We offer one of the most comprehensive portfolios, which includes NFC/RFID transceivers, Dynamic NFC/RFID tags (also known as Dual Interface EEPROM) and Standalone RFID tags.

During 2014 we built on our 32-bit leadership with the STM32 general purpose MCU family growing revenue over 50% year on year. We expanded our product range: with new low power and high-performance families such as the industry-first microcontroller based on Cortex-M7, while strengthening the surrounding ecosystem with the launch of STM32 Open Development Environment. We had success across a broad customer base, including important wins in Sensor Hub applications. In Secure Microcontrollers, we maintained a solid Secure Element business, while in the banking market we deployed the STPay program, boosting support for the U.S. switch to highly secure EMV chip payment cards.

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 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 among the partners. For more information on our R&D partnerships and collaborations, see Item 4. Information on the Company Research and Development . We also have joint development programs with leading suppliers, such as Air Liquide, ASM Lithography and SOITEC, and electronic design automation tool producers, including Cadence, Mentor and Synopsys.

Customers and Applications

We design, develop, manufacture and market thousands of products that we sell to thousands of customers. Our major customers include Apple, Bosch, Cisco, Conti, Delta, Hewlett-Packard, Microsoft, Samsung, Seagate 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, Wintech and WPG Holdings. 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.

Sales, Marketing and Distribution

Our Sales & Marketing organization is organized with the primary objectives of accelerating sales growth and gaining market share, particularly with regards to: 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 lines. The Sales & Marketing organization is organized by a combination of country/area coverage and key accounts coverage.

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* In EMEA, there are seven sales organizations. Four are geographically defined and cover North, Central, West and South & Emerging Markets. Three sales units have worldwide responsibility for global sales of three Global Key Accounts. Marketing is organized to reflect the product lines. Combined, these organizations are collectively responsible for new and existing account development, technical support and logistics and services support. We also have an organization that manages our distribution network and supports EMS customers for manufacturing on behalf of our OEM customers.

Table of Contents

(ii) *Americas* In the Americas region, the sales and marketing team is organized into the following major accounts: Global Key Accounts, four New Major Accounts and four geographic sales units consisting of the West Coast, Central, East Coast and Latin America. Our marketing team that support and promote specific products are organized in line with our product lines. 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* The Greater China South Asia region comprises four geographic sales units with offices covering China (Hong Kong), India (Greater Noida), Taiwan (Taipei) and ASEAN/Australia & New Zealand (Singapore) including five New Major Accounts and four Regional Key Accounts. It is further supported by a dedicated Distribution and Mass Market coordination function, as well as key product lines.

(iv) *Japan-Korea* The Japan-Korea region comprises three geographic sales units with offices covering East Japan (Tokyo and Nagoya), West Japan (Osaka), Korea (Seoul) and four new major accounts. It is further supported by key product lines, plus a comprehensive Sales Channel Management that provides products and sales support for the regional distribution network. Each geographical sales unit sells each product from our portfolio that fits the applications. Marketing and Application 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.

The sales and marketing activities performed by our regional sales organizations are supported by product marketing that is carried out by each product group, 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.

Mass Market and Online Marketing Programs

During 2014, we created a new division, Mass Market and Online Marketing Programs, designed to help provide consistency and coordination of key activities associated with mass market development by working in close co-operation with the regions and product lines. The division covers several important responsibilities, such as mass market customer programs, mass market applications, global distribution administration, online marketing and mass market tools enablement.

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.

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.

Table of Contents

We combine front-end manufacturing and technology R&D under the same organization for our product segments, SP&A and EPS, to ensure a smooth flow of information between the R&D and manufacturing organizations. We leverage significant synergies and shared activities between the two segments to cross-fertilize both businesses. 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 \$1,520 million, \$1,816 million and \$2,413 million in 2014, 2013 and 2012, 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, particularly in the area of System-in-Package.

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, China, India, Singapore, the United Kingdom and the United States. 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.

We participate in partnerships with other semiconductor industry manufacturers. See Item 4. Information on the Company Alliances with Customers and Industry Partnerships . We have participated in the IBM Technology Development Alliance led by IBM, with Samsung and GlobalFoundries as core members, to jointly develop 10-nm and below process technologies. During the fourth quarter of 2014, we notified IBM of our intention to end participation in this alliance. We are also working with the CEA Leti and IBM to develop in Crolles our next 14FD-SOI derivative technology. We believe this FD-SOI technology completes the industry roadmap with a better choice than the Fin FET technology for applications targeting the best tradeoff between embedded processor solutions figure of merit and cost-effective design and manufacturing.

In France, our manufacturing facility in Crolles 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. We also participate in the Institut de Recherche Technologique (IRT), which was set up by CEA in the frame of the French initiative Investissements d Avenir and takes place on CEA's premises, through investment and by contributing the expertise of some of our researchers.

In Italy, our technology R&D development activities occur principally in Agrate and Catania. In Agrate, such activities encompass development, prototyping, pilot and volume production of new technologies with the objective of accelerating process industrialization and time to market for Smart Power (BCD) products, including on SOI, High Voltage CMOS as well as MEMS. In addition, we plan to set up a 300 mm pilot line for manufacturing and R&D for advanced BCD technology. 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, including Silicon Carbide (SiC) and Gallium Nitride (GaN) based devices. We also have an Advanced Systems Technology (AST) organization, primarily located in Agrate, which 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 certain R&D programs established by the EU, individual countries and local authorities in Europe (primarily in France and Italy). See Item 4. Information on the Company Public Funding .

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

We currently operate 13 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.

Location	Products	Technologies
Front-end facilities Crolles1, France	Application-specific products	Fab: 200-mm CMOS and Bi-CMOS, Analog/RF
Crolles2, France	Application-specific products and leading edge logic products; non-volatile memories and microcontrollers	Fab: 300 mm research and development on deep sub-micron (20-nm bulk and FD-SOI 14-nm) CMOS and differentiated SoC technology and manufacturing on advanced CMOS, imaging technologies and non-volatile memories and microcontrollers at (80, 55 and 40-nm)
Agrate, Italy	Non-volatile memories, microcontrollers and application-specific products MEMS	Fab 1: 200-mm BCD, MEMS, Microfluidics Fab 2: 200-mm, embedded Flash, research and development on non-volatile memories and BCD technologies and Flash (operating in consortium with Micron)
Rousset, France	Microcontrollers, non-volatile memories and Smartcard ICs, application-specific products	Fab 1: 200-mm CMOS, Smartcard, embedded Flash, Analog/RF
Catania, Italy	Power transistors, Smart Power and analog ICs and application-specific products, MEMS	Fab 1: 150-mm Power metal-on silicon oxide semiconductor process technology (MOS), VIPpower™, MO-3, MO-5 and Pilot Line RF Fab 2: 200-mm, Microcontrollers, Advanced BCD, power MOS
Tours, France	Protection thyristors, diodes and ASD power transistors, IPAD	Fab: 125-mm, 150-mm and 200-mm pilot line discrete
Ang Mo Kio, Singapore	Analog, microcontrollers, power transistors, commodity products, non-volatile memories, and application-specific products	Fab 1: 150-mm-bipolar, power MOS and BCD, EE PROM, Smartcard, Micros, CMOS logic Fab 2: 150-mm Microfluidics, MEMS, power MOS, Bi-CMOS, CMOS (wind-down of certain manufacturing lines ongoing)

Back-end facilities	Application-specific and standard products, microcontrollers	Fab 3: 200-mm BCD and Power MOS (Pilot line installation ongoing, under ramp-up)
Muar, Malaysia		Ball Grid Array, Power Automotive, SOIC, QFP

Table of Contents

Location	Products	Technologies
Kirkop, Malta	Application-specific products, MEMS, Embedded Flash for Automotive	Ball Grid Array, QFP, Land Grid Array
Toa Payoh, Singapore	Optical packages research and development, EWS	
Bouskoura, Morocco	Non-volatile memories, discrete and standard products, micro modules, RF and subsystems	Power, Power Automotive, SOIC, Micromodules
Shenzhen, China ⁽¹⁾	Non-volatile memories, optical packages, discrete, application-specific and standard products	Camera Module, SOIC, Power
Calamba, Philippines	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.

Fab 2 in Ang Mo Kio is to be reduced essentially to Microfluidics products, while in Catania Fab 1 will be progressively converted into 200-mm and merged with Fab 2. In 2014, our Longgang plant was closed and our backend activities in China were consolidated to Shenzhen.

At the end of 2014, our front-end facilities had a total maximum capacity of approximately 120,000 200-mm 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 300-mm wafer pilot-line fabrication facility in Crolles, France had an installed capacity of 3,600 wafers per week at the end of 2014, and we plan to increase production as required by market conditions and within the framework of our R&D Nano-2017 program.

We own all of our manufacturing facilities, but certain facilities (Muar-Malaysia, Shenzhen and Longgang, China, Toa Payoh and Ang Mo Kio-Singapore) are built on land, which are the subject of long-term leases.

We have historically subcontracted a portion of total manufacturing volumes to external suppliers. In 2014, we purchased approximately 8% from external foundries of our total silicon production. Our plan is to continue sourcing silicon from external foundries to give us flexibility in supporting our growth.

At December 31, 2014, we had approximately \$171 million in outstanding commitments for purchases of equipment and other assets for delivery in 2015. In 2014, our capital spending, net of proceeds, was \$496 million, below the \$531 million registered in 2013. In the 2012-2014 period the ratio of capital investment spending to net revenues was about 6.3%. For more information, see Item 5. Operating and Financial Review and Prospects Financial Outlook: Capital Investment .

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 15,000 patents and pending patent applications, corresponding to over 9,000 patent families (each patent family containing all patents originating from the same invention), including 500 original new patent applications filed in 2014.

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

Table of Contents

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 .

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 2014 with a backlog lower than we had compared to 2013, reflecting the impact of the wind down of the ST Ericsson business. For 2015, we entered the year with a backlog slightly lower than what we had entering 2014.

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

Table of Contents

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, InvenSense, Marvell, Maxim, MediaTek, Microchip Technology, 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 lines, 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.

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.

The following table lists our consolidated subsidiaries and our percentage ownership as of December 31, 2014:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Australia, Sydney	STMicroelectronics PTY Ltd	100
Belgium, Diegem	Proton World International N.V.	100
Brazil, Sao Paulo	South America Comércio de Cartões Inteligentes Ltda	100
Brazil, Sao Paulo	STMicroelectronics Ltda	100
Canada, Ottawa	STMicroelectronics (Canada), Inc.	100
China, Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
China, Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China, Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China, Shenzhen	Shenzhen STS Microelectronics Co. Ltd	60
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
Finland, Nummela	STMicroelectronics Finland OY	100
France, Crolles	STMicroelectronics (Crolles 2) SAS	100
France, Grenoble	STMicroelectronics (Grenoble 2) SAS	100
France, Le Mans	STMicroelectronics (Grand Ouest) SAS	100
France, Grenoble	STMicroelectronics (Alps) SAS	100
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
Holland, Amsterdam	STMicroelectronics Finance B.V.	100

Table of Contents

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Holland, Amsterdam	STMicroelectronics International N.V.	100
Hong Kong	STMicroelectronics Ltd	100
India, New Delhi	STMicroelectronics Marketing Pvt Ltd	100
India, Noida	STMicroelectronics Pvt Ltd	100
Israel, Netanya	STMicroelectronics Ltd	100
Italy, Agrate Brianza	STMicroelectronics S.r.l.	100
Italy, Aosta	Dora S.p.A.	100
Italy, Catania	CO.RI.M.ME.	100
Italy, Naples	STMicroelectronics Services S.r.l.	100
Italy, Torino	ST-POLITO Scarl	75
Japan, Tokyo	STMicroelectronics KK	100
Malaysia, Kuala Lumpur	STMicroelectronics Marketing SDN BHD	100
Malaysia, Muar	STMicroelectronics SDN BHD	100
Malta, Kirkop	STMicroelectronics (Malta) Ltd	100
Mexico, Guadalajara	STMicroelectronics Marketing, S. de R.L. de C.V.	100
Morocco, Casablanca	Electronic Holding S.A.	100
Morocco, Casablanca	STMicroelectronics S.A.S. (Maroc)	100
Philippines, Calamba	STMicroelectronics, Inc.	100
Philippines, Calamba	Mountain Drive Property, Inc.	40
Singapore, Ang Mo Kio	STMicroelectronics Asia Pacific Pte Ltd	100
Singapore, Ang Mo Kio	STMicroelectronics Pte Ltd	100
Spain, Barcelona	STMicroelectronics Iberia S.A.	100
Sweden, Kista	STMicroelectronics A.B.	100
Switzerland, Geneva	STMicroelectronics S.A.	100
Switzerland, Geneva	INCARD S.A.	100
Switzerland, Geneva	ST New Ventures S.A.	100
Thailand, Bangkok	STMicroelectronics (Thailand) Ltd	100
United Kingdom, Marlow	Inmos Limited	100
United Kingdom, Marlow	STMicroelectronics Limited	100
United Kingdom, Bristol	STMicroelectronics (Research & Development) Limited	100
United Kingdom, Marlow	Synad Technologies Limited	100
United States, Coppel	STMicroelectronics Inc.	100
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	STMicroelectronics (North America) Holding, Inc.	100
United States, Wilsonville	The Portland Group, Inc.	100

The following table lists our principal equity-method investments and our percentage ownership as of December 31, 2014:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Italy, Catania	3Sun S.r.l.	33.3
Brazil, Sao Paulo	Incard do Brazil Ltda	50.0
Switzerland, Geneva	ST-Ericsson SA	50.0

Public Funding

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We receive funding mainly from French, Italian and European Union governmental entities. Such funding is generally provided to encourage R&D activities, industrialization and local economic development. Public funding in France, Italy and Europe generally is open to all companies, regardless of their ownership or country of incorporation. The conditions for receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with European Union regulations, as well as

Table of Contents

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. Our funding programs are classified under three general categories: funding for research and development activities, capital investment, and loans. We also benefit from tax credits for R&D activities in several countries (notably in France). See Item 5. Operating and Financial Review and Prospects Results of Operations and Notes to our Consolidated Financial Statements.

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 (JTI) such as ENIAC (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. In 2014, we submitted new large projects supporting, in particular, our digital CMOS power roadmaps, to ECSEL (Electronic Components and Systems for European Leadership), a public-private partnership for electronic components and systems, which started in early 2014 and will run for 7 years. We were awarded 3 projects, two in France and one in Italy.

In Italy, there are national funding programs intended to support industry R&D in any segment. These programs often cover several years and the approval phase is quite long, up to two or three years. There are also regional funding tools for research that are supported by local initiatives, primarily in the regions of Sicily, Campania and Val d'Aosta. These programs require local economic development in terms of industrial exploitation, new professional hiring and/or cooperation with local academia and public laboratories. In 2014, we signed a contract with the Italian government to set-up manufacturing processes based on Cu and NiPd in Catania.

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 Plant investment and related benefits, requesting information from the Italian government about the status and the ownership of the benefits of the M6 Plant 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 Plant case. To our knowledge, no proceedings are ongoing.

In France, support for R&D is given by public research agencies, generally to a consortium of partners involving 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.

In France, additional R&D funding is given by the French Ministry of Industry (FCE) and local public authorities. Specific support for microelectronics is provided through FCE to all the companies in the semiconductor industry with activities in France.

In support of our R&D activities, we signed the Nano2017 program with the French government in 2013, which was approved by the European Union in the second quarter of 2014 and, in our role as Coordinator and Project Leader of Nano2017, we have been allocated an overall funding budget of about 400 million for the period 2013-2017, subject to the conclusion of agreements every year with the public authorities and linked to

Table of Contents

the achievement of technical parameters and objectives. See Item 5. Operating and Financial Review and Prospects . We believe the Nano2017 R&D program will strengthen our leadership in key technologies such as FD-SOI (low-power, high-performance processing), next-generation imaging (differentiated and Time of Flight sensors) and next-generation embedded non-volatile memories. These technologies are at the core of our embedded processing solutions which include microcontrollers, imaging solutions, digital consumer products, application processors and digital ASICs. The pan-European enlargement of this program (with partners in about 20 European countries) will also contribute to the strengthening of European cooperation in the micro-nanoelectronics sector, along the entire value chain, from materials and equipment to components and system design. This program relies on leading industry clusters in Europe, such as Dresden (Germany), Leuven-Eindhoven (Belgium-the Netherlands) and Grenoble-Crolles (France). This program contains obligations to maintain a minimum level of employment and investment during a certain period of time.

There can be no assurance that we will receive anticipated funding on a timely basis or that we will continue to benefit from such government support. 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, material suppliers and external silicon foundries and back-end 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 materials, including silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases. The prices of many of these 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 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 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.

Environmental Matters

Our manufacturing operations use many chemicals, gases and other hazardous substances, and we are subject to a variety of evolving environmental, 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

Table of Contents

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, with the technical specification ISO/TS16949:2009; with the environmental standards ISO14001 and the European EMAS (Eco Management and Audit Scheme); and with the energy management standard ISO 50001 for all of our front-end sites.

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 was 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 was 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) Directive 2006/66/EC (Battery Directive) 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 equipment placed on the market and also introduces 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, since our products, being semiconductor components (not equipment) are excluded from the WEEE take back scope. At this stage, only one subsidiary (located in France) participates to a take back consortium for battery products.

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 .

**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: Capital Investment . 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.

Table of Contents

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;

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

recognition and measurement of loss contingencies;

valuation at fair value of assets acquired or sold, including intangibles, goodwill, investments and tangible assets;

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 impairment testing on long-lived assets;

estimated value of the consideration to be received and used as fair value for asset groups classified as assets held for sale and the assessment of probability of realizing the sale;

assessment of other-than-temporary impairment charges on financial assets, including equity-method investments;

recognition and measurement of restructuring charges and other related exit costs;

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

assumptions used in calculating pension obligations and other long-term employee benefits;

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

allocation between debt and equity of the various components of an issued hybrid instrument and measurement at fair value of the liability component based on a discount rate adjustment technique.

We base the estimates and assumptions on historical experience and on various other factors such as market trends, market information used by market participants 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.

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Our Consolidated Financial Statements include the ST-Ericsson joint ventures; in particular, until the end of August 2013, we fully consolidated ST-Ericsson SA and related affiliates (JVS), which was owned 50% plus a controlling share by us. Following the transfer of one share to Ericsson and the new shareholder agreement, we ceased to hold control and to consolidate JVS and started to account for it under the equity method as of September 1, 2013. The other joint venture, focused on fundamental R&D activities, whose parent company is ST-Ericsson AT SA (JVD), was owned 50% plus a controlling share by Ericsson and was therefore accounted for by us under the equity method until its sale to Ericsson on August 2, 2013.

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

Table of Contents

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 our sale to distributors. 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 do not conform, we will repair or replace them, or issue a credit note 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 usually associated with end-user customers, not with distribution channels. 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 of time 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.

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. These arrangements generally do not include performance-, cancellation-, termination-, or refund-type provisions.

Trade accounts receivable. 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 2014, 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.

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, 2014, the value of goodwill in our Consolidated Balance Sheet amounted to \$82 million.

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

Table of Contents

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 our MMS reporting unit goodwill during the third quarter of 2014 and concluded that there was no impairment. Impairment charges could 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, 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 reporting 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.

During the third quarter of 2014, we tested the dedicated long-lived assets of DCG reporting unit for impairment. The result was that all dedicated intangible assets, composed of acquired technologies, and amounting to \$23 million, were fully impaired due to the fact that their projected cash flows, over their remaining useful life, were less than their carrying value. The current DCG plan has been impacted by faster-than-expected revenue decline of legacy products and slower than anticipated customer transition to new key technologies.

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, 2014, the value of intangible assets subject to amortization in our Consolidated Balance Sheet amounted to \$193 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 300-mm 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.

Table of Contents

We evaluate each reporting 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. In 2014, no impairment charge was recorded on property, plant and equipment.

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. Reserve for obsolescence is 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, we could record additional inventory reserve, which would have a negative impact on our gross margin.

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 2014, the restructuring charges and other related closure costs amounted to \$66 million before taxes, mainly in connection with our plan affecting around 450 employees worldwide and targeting an estimated \$100 million of annualized savings in the EPS segment, as well as our initiative to reduce quarterly net operating expenses, comprised of combined selling, general and administrative and research and development expenses, net of R&D grants, in the range of \$550 to \$600 million.

Share-based compensation. We measure the cost of share-based service awards based on the fair value of the award on the grant date. In 2014, our share-based compensation plans awarded shares contingent on the achievement of certain performance conditions based on financial objectives, including our financial results

Table of Contents

when compared to industry performance. In 2014, approximately one-half of the shares awarded were contingent on the achievement of certain performance conditions. 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 the fixed performance conditions including those relating to industry performance compared to our financial results, and our best estimates of award forfeitures and employees' service periods. Our assumptions related to industry performance are generally taken with a one quarter lag in line with the availability of market information. In 2014, we recorded a total charge of approximately \$36 million relating to our outstanding stock award plans.

Income (loss) on Equity-method Investments. We record our 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. In case of triggering events, such as continuing difficult market conditions, which could lead to continued operating 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. In 2014, we recognized a loss of approximately \$51 million related to our equity investment in 3Sun. On July 22, 2014, we signed an agreement with Enel Green Power to transfer our equity stake in 3Sun. Pursuant to this agreement, at closing, subject to customary precedent conditions, we will pay up to 15 million to Enel Green Power in exchange for our full release from any obligation concerning the joint venture or Enel Green Power. Also, at closing, we will forgive the outstanding 13 million shareholders loan to the joint venture. In addition, we recognized a profit of \$8 million related to other investments, including our share of profit in ST-Ericsson JVS for about \$9 million and a loss of approximately \$1 million related to our equity investment in Incard do Brazil Ltda which has been accounted for under the equity method since August 31, 2014. We are continuing to monitor our equity investments and, if required, other-than-temporary impairment charges could negatively impact our future results. As of December 31, 2014, the value in our Consolidated Balance Sheets of our equity investments was \$56 million.

Financial assets. We classify our financial assets in the following two categories, trading and available-for-sale. Such classification depends on the purpose for which the investments are acquired. 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 measured 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 minimize the use of unobservable inputs. As of December 31, 2014, the value in our Consolidated Balance Sheet of our financial assets was \$334 million invested in U.S. Treasury Bonds classified as assets available-for-sale.

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 tax benefit expected to be received related to the current year taxable profit and 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 require potential tax claims or assessments in various jurisdictions. In such an event and in case any tax assessment exceeds our provisions, we could be required to record additional charges in our accounts, which could significantly exceed our best estimates and our existing 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

Table of Contents

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 or the possibility to settle uncertain tax positions against available net operating loss carry forwards or similar tax losses and credits. We record a valuation allowance against the deferred tax assets when we consider it is more likely than not that the deferred tax assets will not be realized.

As of December 31, 2014, we had current deferred tax assets of \$97 million and non-current deferred tax assets of \$386 million, net of valuation allowances.

We could be required to record further valuation allowances thereby reducing the amount of total deferred tax assets, resulting in an increase of our income tax charge, 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 take 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 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, 2014, 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 probable 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, facts or communications, unexpected 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 .

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 and 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, 2014, 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 we are unable to accurately 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 was to materialize. For further details of our legal proceedings refer to Item 8. Financial Information Legal Proceedings and Note 22 to our Consolidated Financial Statements.

Table of Contents

There can be no assurance 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-Employment Benefits. Our results of operations and our Consolidated Balance Sheets include amounts for pension obligations and post-employment benefits that are measured using actuarial valuations. At December 31, 2014, our pension and post-employment benefit obligations net of plan assets amounted to \$392 million. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds, turnover rates and salary increase rates. These assumptions used in the determination of the net periodic benefit cost 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.

As a consequence of our decision to downsize our United Kingdom (UK) operations, we have proposed that the UK pension schemes (the Bristol Scheme and the Marlow Scheme) be merged, which will generate moderate funding savings and provide the Trustees with additional security. The merger of the two schemes is still under discussion with the Trustees and is not expected to materially change our pension liabilities.

Fiscal Year 2014

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. In 2014, the first quarter ended on March 29, the second quarter ended on June 28, the third quarter of 2014 ended on September 27 and the fourth quarter ended on December 31. 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 and can also differ from equivalent prior years' periods. In 2015, the first quarter will end on March 28, the second quarter will end on June 27, the third quarter will end on September 26 and the fourth quarter will end on December 31.

2014 Business Overview

Our results of operations for each period were as follows:

	Year ended December 31,		December 31, 2014	Three Months Ended September 27, 2014		December 31, 2013
	2014	2013		(Unaudited, in millions, except per share amounts)		
	(In millions, except per share amounts)					
Net revenues	\$ 7,404	\$ 8,082	\$ 1,829	\$ 1,886	\$ 2,015	
Gross profit	2,498	2,614	619	646	662	
Gross margin as percentage of net revenues.	33.7%	32.3%	33.8%	34.3%	32.9%	
Operating income (loss)	168	(465)	38	37	(11)	
Net income (loss) attributable to parent company	128	(500)	43	72	(36)	
Earnings per share	\$ 0.14	\$ (0.56)	\$ 0.05	\$ 0.08	\$ (0.04)	

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

Based on published industry data by WSTS, semiconductor industry revenues increased in 2014 on a year-over-year basis by approximately 10% for the TAM and 8% for the SAM, to reach approximately \$336 billion and \$151 billion, respectively. In the fourth quarter, the TAM and the SAM increased on a year-over-year basis by approximately 9% and 6%, respectively. Sequentially, in the fourth quarter of 2014, the TAM decreased by less than 1% while the SAM decreased by approximately 3%.

Overall, 2014 has been a year where we have made significant steps forward along three main axes: 1) Product and Technology Leadership; 2) Customer Expansion; and 3) Operational and Financial performance.

Table of Contents

We have worked hard to re-focus our product portfolio, de-emphasizing certain areas and redeploying our resources. As a result, we have become a much stronger company in terms of innovation and time-to-market.

In terms of our product and technology leadership, new flagship products in 2014 included, among many others, our 32-bit microcontrollers for general purpose and automotive applications, MEMS microphones and motion MEMS, touch-screen controllers, ultra-HD products for set-top box and low voltage power MOSFETs and IGBTs. With regards to customer expansion, our mass market initiatives were successful, with revenues in the distribution channel reaching 31% of total 2014 revenues compared to 26% last year. Finally, in 2014, the company made solid progress on key performance and financial metrics. Despite lower revenues, we achieved a significant turnaround year-over-year with operating income, improving by \$633 million; net income, improving by \$628 million and free cash flow, improving by \$376 million.

With reference to our revenues performance, we registered in 2014 a decline of 8.4%, mainly due to the significant reduction of legacy ST-Ericsson products revenues following our decision to exit the joint venture. Excluding the former ST-Ericsson products our revenues declined by 1.8%, mainly due to a decline in sales of commodity image sensor products and a faster than anticipated revenues decline of set-top-box prior generation products and motion MEMS prior generation products, only partially compensated by increased revenues in microcontrollers, automotive products, industrial and power products and new generations of acoustic and environmental MEMS.

Our fourth quarter 2014 revenues amounted to \$1,829 million, a 3.0% sequential decrease, slightly above the midpoint of our guidance for the quarter. The decrease in revenues was mostly due to a weaker performance from our SP&A segment resulting from a market softening in IPD and a temporary manufacturing delay in APG. On a year-over-year basis, our fourth quarter revenues decreased by 9.2% or a 4.6% decrease excluding legacy ST-Ericsson products. SP&A segment revenues decreased by approximately 6% mainly due to lower sales in AMS. EPS segment revenues decreased by about 15% mainly due to the phasing-out of the legacy ST-Ericsson products. Excluding legacy ST-Ericsson products, our EPS segment revenues decreased by approximately 3%. Compared to the served market, our quarterly performance was in line with SAM sequentially while it was below it on a year-over-year basis.

Our effective average exchange rate was \$1.34 for 1.00 for the full year 2014, compared to \$1.31 for 1.00 for the full year 2013. Our effective average exchange rate for the fourth quarter of 2014 was \$1.29 for 1.00, compared to \$1.34 for 1.00 for the third quarter of 2014 and \$1.34 for 1.00 in the fourth quarter of 2013. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see Impact of Changes in Exchange Rates .

Our 2014 gross margin was 33.7% of revenues, increasing by 140 basis points compared to the prior year, primarily due to improved manufacturing efficiencies and a positive product mix, partially offset by declining selling prices, higher unused capacity charges in digital technology and an unfavorable currency effect.

Our fourth quarter 2014 gross margin was 33.8%, decreasing by 50 basis points on a sequential basis, in line with our guidance for the quarter. The sequential erosion of the gross margin is reflecting a pricing pressure and higher unused capacity charges, partially offset by manufacturing efficiencies and a favorable currency effect. On a year-over-year basis, our fourth quarter gross margin improved by 90 basis points reflecting the combined benefits of manufacturing efficiencies, a more favorable product mix and a favorable currency effect, partially offset by lower selling prices and higher unused capacity charges.

Our operating expenses amounted to \$2,447 million in 2014, decreasing by about 15% from \$2,882 million in the prior year, primarily due to the ST-Ericsson exit as well as the savings resulting from our cost control initiatives and savings plans initiated in the prior year. Our fourth quarter 2014 operating expenses experienced a slight sequential increase of about 1% mainly due to a longer calendar. On a year-over-year basis, our quarterly operating expenses decreased by approximately 7% mostly due to the savings resulting from our cost control initiatives and a favorable currency effect.

Other income and expenses, net, in 2014 increased to \$207 million compared to \$95 million in the prior year, mainly due to the higher level of R&D funding following the European Union approval of the Nano2017 program, partially offset by a lower gain on sale of businesses and non-current assets as well as higher phase-out costs resulting from our manufacturing consolidation plans.

Our operating income was \$168 million in 2014, improving from a loss of \$465 million in the prior year, mainly due to lower operating expenses as a result of the exit of ST-Ericsson and the savings resulting from our cost savings plans initiated in the prior year.

Table of Contents

In 2014, our free cash flow significantly improved from negative \$179 million in 2013 to positive \$197 million in 2014. In the course of the year, we have paid dividends to shareholders totaling \$354 million and used \$156 million of cash to repurchase 20 million shares of our common stock.

Business Outlook

In the first quarter, we expect revenues to decrease sequentially by about 5% at the midpoint plus or minus 3.5 percentage points, which is better than our normal seasonal evolution. First quarter revenues outlook reflects no one-time licensing revenue compared to the fourth quarter, our high exposure to New Year holidays in Asia as well as a shorter accounting calendar. Gross margin in the first quarter is expected to be about 33.2%, plus or minus 2.0 percentage points and reflects high unused capacity charges negatively impacting gross margin by about 120 basis points. In 2015, our main objective is to continue to deliver year-over-year improvement by returning to revenue growth and by continuing to improve our cost structure.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.24 to 1.00 for the 2015 first quarter and includes the impact of existing hedging contracts. The first quarter will close on March 28, 2015.

*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 10, 2014, we announced that we and InvenSense have settled all pending proceedings between us and have entered into a patent cross license agreement. Under the terms of the settlement, neither we nor InvenSense has made any admission of liability with respect to such proceedings. Other terms between the parties are confidential.

On April 28, 2014, we announced the appointment of Mr. Jean-Marc Chery as Chief Operating Officer. Mr. Chery continues to hold overall responsibility for Embedded Processing Solutions, as well as for central manufacturing operations including Packaging and Test Manufacturing. He also continues in his role of Vice Chairman of our Corporate Strategic Committee and will continue to report to Carlo Bozotti, President and Chief Executive Officer.

On April 28, 2014, we announced the main resolutions that were submitted for shareholder adoption at our Annual General Meeting of Shareholders which was held in Amsterdam, The Netherlands, on June 13, 2014. The main resolutions, proposed by the Supervisory Board, included:

The distribution of a cash dividend of US\$0.10 in the second quarter of 2014, and of US\$0.10 in the third quarter of 2014, per common share, which was paid in June and September of 2014, respectively, to shareholders of record in the month of each quarterly payment. The amount of the second and third quarter of 2014 cash dividend was stable with respect to previous quarterly dividend distributions;

The reappointment of Mr. Carlo Bozotti as the sole member of the Managing Board and the Company's President and Chief Executive Officer for a three-year term, expiring at the 2017 Annual General Meeting;

The reappointment for a three-year term, expiring at the 2017 Annual General Meeting, of the following members of the Supervisory Board: Messrs. Didier Lombard, Jean d'Arthuys, Jean-Georges Malcor and Alessandro Rivera;

The appointment as new members of the Supervisory Board, for a three-year term expiring at the 2017 Annual General Meeting, of: Ms. Heleen Kersten and Mr. Maurizio Tamagnini in replacement of Mr. Tom de Waard and Mr. Bruno Steve, whose terms expired;

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The adoption of our 2013 Statutory Annual Accounts prepared in accordance with International Financial Reporting Standards. The Statutory Annual Accounts for the year ended December 31, 2013, are posted on the Company's website and were filed with the Netherlands Authority for the Financial Markets (AFM) on April 28, 2014; and

The appointment of PricewaterhouseCoopers Accountants N.V. as our external auditor for the 2014 and 2015 financial years.

Table of Contents

On April 30, 2014, we announced the appointment of Mr. Paul Grimme as Executive Vice President, Mass Market and Online Marketing Programs, a new position created to coordinate the sales & marketing activities in this strategic and growing area for the company. He continues to report to Carlo Bozotti, President and Chief Executive Officer. Mr. Paul Cihak takes over from Mr. Grimme as Executive Vice President and General Manager, Sales & Marketing, Europe, Middle East and Africa. Mr. Bob Krysiak, Executive Vice President and President for the Americas Region, joins the Corporate Strategic Committee replacing Mr. Paul Grimme in his role.

In the first quarter of 2014, we obtained a favorable ruling in Switzerland on the transfer of the majority of ST-Ericsson deductible operating losses. In addition, ST-Ericsson JVS entered into liquidation on April 15, 2014.

On May 14, 2014, we and Samsung Electronics Co. Ltd. announced the signing of a comprehensive agreement on 28-nm Fully Depleted Silicon-on-Insulator (FD-SOI) technology for multi-source manufacturing collaboration. The licensing accord provides customers with advanced manufacturing solutions from Samsung s state-of-the-art 300-mm facilities and assures the industry of high-volume production for our FD-SOI technology.

On June 13, 2014, we announced that all the resolutions announced on April 28, 2014 were approved at our Annual General Meeting of Shareholders (AGM). Following the conclusion of the AGM, the members of the Supervisory Board appointed Mr. Maurizio Tamagnini as the Chairman and Mr. Didier Lombard as the Vice-Chairman of the Supervisory Board, respectively, for a three-year term expiring at the 2017 AGM.

On June 25, 2014, the European Commission approved 400 million in aid for the Nano2017 R&D program led by us; the aid, granted to us by France for the development of new technologies in the Nanoelectronics sector, was in line with European Union state-aid rules.

On June 26, 2014, we announced the pricing of a \$1 billion dual-tranche offering of convertible bonds (the Senior Bonds). The Senior Bonds were issued in two tranches, one of \$600 million with a maturity of 5 years and one of \$400 million with a maturity of 7 years. We intend to use the net proceeds of the offering for general corporate purposes. We also announced the launch of a share buy-back program for the repurchase of up to twenty million ordinary shares, intended to meet our obligations in relation to our employee stock award plans.

On June 27, 2014, we announced the publication of our 2013 Sustainability Report. This Form 20-F contains comprehensive details of our Sustainability strategy, policies and performance during 2013 and illustrates how our sustainability programs play a major role throughout the business to create value for all of our stakeholders.

On July 22, 2014, we signed an agreement with Enel Green Power to transfer our equity stake in 3Sun, a joint venture in the photovoltaic panels manufacturing. Pursuant to this agreement, at closing, subject to customary precedent conditions, we will pay up to 15 million to Enel Green Power in exchange for our full release from any obligation concerning the joint venture or Enel Green Power. Also, at closing, we will forgive the outstanding 13 million shareholders loan to the joint venture.

On August 21, 2014, we announced the posting of our IFRS 2014 Semi Annual Accounts for the six-month period ended June 28, 2014, on our website and filed with the Netherlands Authority for the Financial Markets.

On September 3, 2014, we announced that we and Tessera Technologies, Inc. reached a settlement for all outstanding claims and litigation between us. The terms and conditions of the agreement between the companies are confidential.

On November 10, 2014, we announced the completion of the repurchase of 20 million shares of our common stock for a total of \$156 million under the share buy-back program announced on June 26, 2014. The repurchased shares will be held as treasury shares and used to meet our obligations in relation to our employee stock award plans.

On November 20, 2014, we were recognized among the world s most innovative companies, as we were named a Thomson Reuters Top 100 Global Innovator for the third consecutive year. This prestigious award recognizes companies around the world for their outstanding commitment to innovation, the protection of ideas and the commercialization of inventions.

Table of Contents

On December 4, 2014, our Supervisory Board approved a cash dividend of \$0.10 per common share for each of the fourth quarter of 2014 and the first quarter of 2015, paid in December 2014 and to be paid in March 2015, respectively, to shareholders of record of each quarterly payment.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

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.

Our product segments are as follows:

Sense & Power and Automotive Products (SP&A), comprised of the following product lines:

Automotive (APG);

Industrial & Power Discrete (IPD);

Analog & MEMS (AMS); and

Other SP&A;

Embedded Processing Solutions (EPS), comprised of the following product lines:

Digital Convergence Group (DCG);

Imaging, BI-CMOS ASIC and Silicon Photonics (IBP);

Microcontrollers, Memory & Secure MCU (MMS); and

Other EPS.

In the second half of 2014, we announced that as of the first quarter of 2015 the Digital Convergence Group (DCG) and Imaging, BI-CMOS and Silicon Photonics (IBP) groups would be combined under one single organization, called Digital Product Group (DPG). DPG's focus is on ASSPs addressing home gateway and set-top box, as well as FD-SOI ASICs for consumer applications; FD-SOI and mixed process ASICs, including silicon photonics, addressing communication infrastructure; and differentiated imaging products.

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In 2014, we revised our revenues by product line from prior periods following the reclassification of Image Signal Processor business from IBP product line to DCG product line. In addition, the Wireless former product line has been reclassified into the DCG product line. We believe that the revised 2013 and 2012 revenues presentation is consistent with that of 2014 and we use these comparatives when managing our company.

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 .

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, selling, general and administrative (SG&A) expenses and a part of research and development (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, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. As of the first quarter of 2015, our internal policy regarding unallocated costs will be amended to allocate unused capacity charges to our product lines. 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. Finally, R&D grants are allocated to our product lines proportionally to the incurred R&D expenses on the sponsored projects.

Table of Contents**Annual Results of Operations**

The following table sets forth certain financial data from our Consolidated Statements of Income:

	Year Ended December 31,					
	2014		2013		2012	
	\$ million	% of net revenues	\$ million	% of net revenues	\$ million	% of net revenues
Net sales	\$ 7,335	99.1%	\$ 8,050	99.6%	\$ 8,380	98.7%
Other revenues	69	0.9	32	0.4	113	1.3
Net revenues	7,404	100	8,082	100	8,493	100
Cost of sales	(4,906)	(66.3)	(5,468)	(67.7)	(5,710)	(67.2)
Gross profit	2,498	33.7	2,614	32.3	2,783	32.8
Selling, general and administrative	(927)	(12.5)	(1,066)	(13.2)	(1,166)	(13.8)
Research and development	(1,520)	(20.5)	(1,816)	(22.5)	(2,413)	(28.4)
Other income and expenses, net	207	2.8	95	1.2	91	1.1
Impairment, restructuring charges and other related closure costs	(90)	(1.2)	(292)	(3.6)	(1,376)	(16.2)
Operating income (loss)	168	2.3	(465)	(5.8)	(2,081)	(24.5)
Interest expense, net	(18)	(0.2)	(5)	(0.0)	(35)	(0.4)
Loss on equity-method investments	(43)	(0.6)	(122)	(1.5)	(24)	(0.3)
Gain (loss) on financial instruments, net	(1)	(0.0)			3	0.0
Income (loss) before income taxes and noncontrolling interest	106	1.4	(592)	(7.3)	(2,137)	(25.2)
Income tax benefit (expense)	23	0.3	(37)	(0.5)	(51)	(0.6)
Net income (loss)	129	1.7	(629)	(7.8)	(2,188)	(25.8)
Net loss (income) attributable to noncontrolling interest	(1)	(0.0)	129	1.6	1,030	(12.2)
Net income (loss) attributable to parent company	\$ 128	1.7%	\$ (500)	(6.2)%	\$ (1,158)	(13.6)%

Net revenues

	Year Ended December 31,			% Variation	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(In millions)				
Net sales	\$ 7,335	\$ 8,050	\$ 8,380	(8.9)%	(3.9)%
Other revenues	69	32	113	113.7	(71.5)
Net revenues	\$ 7,404	\$ 8,082	\$ 8,493	(8.4)%	(4.8)%

Our 2014 net revenues decreased compared to prior year, mainly due to the significant reduction of legacy ST-Ericsson products revenues following our decision to exit the joint venture, in addition to revenues reduction in DCG, Imaging products and AMS, mostly due to transition from prior generation products. Net revenues decreased by 8.4% as a result of a decline in average selling prices of approximately 7% and a decline in volume of approximately 2%. The reduction in average selling prices resulted from a pricing effect, down by approximately 5%, and a less favorable product mix of about 2%. Excluding legacy ST-Ericsson products, our revenues decreased by 1.8% compared to prior year.

In 2013, our net revenues decreased compared to the year-ago period mainly due to our decision to exit from ST-Ericsson, less favorable market conditions and a lower level of licenses. Net revenues decreased by 4.8% with a decrease of approximately 9% in average selling prices of which approximately 6% was due to a pure price effect and 3% was due to a less favorable product mix, partially offset by an increase of approximately 4% in volume. In 2013, net revenues excluding the Wireless product line increased by 3.2%.

No customer exceeded 10% of our total net revenues for the years 2014, 2013 and 2012.

Table of Contents*Net revenues by product line and product segment*

	Year Ended December 31,			% Variation	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(In millions)				
Automotive (APG)	\$ 1,807	\$ 1,668	\$ 1,554	8.3%	7.3%
Industrial & Power Discrete (IPD)	1,865	1,801	1,747	3.6	3.1
Analog & MEMS (AMS)	1,102	1,306	1,320	(15.7)	(1.0)
Other SP&A			1		
Sense & Power and Automotive Products (SP&A)	4,774	4,775	4,622	0.0	3.3
Digital Convergence Group (DCG)	756	1,492	2,275	(49.3)	(34.4)
Imaging, BI-CMOS ASIC and Silicon Photonics (IBP)	330	409	395	(19.4)	3.8
Microcontrollers, Memory & Secure MCU (MMS)	1,507	1,367	1,147	10.2	19.2
Other EPS	15	1	9		
Embedded Processing Solutions (EPS)	2,608	3,269	3,826	(20.2)	(14.6)
Total net revenues of product segments	7,382	8,044	8,448	(8.2)	(4.8)
Others	22	38	45		
Total consolidated net revenues	\$ 7,404	\$ 8,082	\$ 8,493	(8.4)%	(4.8)%

For the year 2014, our revenues were down by approximately 20% for EPS, mainly due to the weak performance of DCG, including the wind-down of the legacy ST-Ericsson products and IBP, partially offset by a strong increase in MMS. Excluding legacy ST-Ericsson products, EPS segment revenues decreased by approximately 4%. SP&A revenues were stable as a result of the increase in APG and IPD being offset by the decrease in AMS resulting from portfolio pruning and MEMS product generation transition. The segment Others includes revenues from the sales of Subsystems of \$8 million and sales of materials and other products not allocated to product segments of \$14 million.

In 2013, SP&A registered an increase of approximately 3%, while EPS revenues were down by approximately 15%. Within SP&A, all product lines except AMS increased their revenues with APG up by approximately 7% and IPD up by approximately 3%. Within EPS, DCG registered a decline of approximately 34% following the wind-down of the ST-Ericsson joint venture while IBP and MMS increased by about 4% and 19%, respectively.

Net Revenues by Market Channel:⁽¹⁾

	Year Ended December 31,		
	2014	2013	2012
	(As percentage of net revenues)		
OEM	69%	74%	78%
Distribution	31	26	22
Total	100%	100%	100%

(1) Original Equipment Manufacturers (OEM) are the end-customers to which we provide direct marketing application engineering support, while Distribution customers refers to the distributors and representatives that we engage to distribute our products around the world.

Our revenues in Distribution registered an increase of about 5 percentage points and 4 percentage points for the years 2014 and 2013, respectively, reaching a 31% share of total revenues as of December 31, 2014. The increase in Distribution plays an important role in our customer base expansion and diversification while also contributing to the increase of our gross margin.

Net Revenues by Location of Shipment:⁽¹⁾

	Year Ended December 31,			% Variation	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(In millions)				

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EMEA	\$ 1,938	\$ 1,958	\$ 2,100	(1.1)%	(6.8)%
Americas	1,128	1,221	1,253	(7.6)	(2.5)
Greater China-South Asia	3,334	3,400	3,555	(1.9)	(4.4)
Japan-Korea	1,004	1,503	1,585	(33.2)	(5.2)
Total	\$ 7,404	\$ 8,082	\$ 8,493	(8.4)%	(4.8)%

Table of Contents

(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.

By location of shipment, revenues declined in all regions for both years 2014 and 2013. In 2014, the largest decline is in the Japan & Korea region, mainly due to the phasing out of legacy ST-Ericsson products.

Gross profit

	Year Ended December 31,			Variation	
	2014	2013 (In millions)	2012	2014 vs 2013	2013 vs 2012
Cost of sales	\$ (4,906)	\$ (5,468)	\$ (5,710)	10.3%	4.2%
Gross profit	\$ 2,498	\$ 2,614	\$ 2,783	(4.4)%	(6.1)%
Gross margin (as percentage of net revenues)	33.7%	32.3%	32.8%	140 bps	(50) bps

In 2014, gross margin was 33.7%, increasing by approximately 140 basis points compared to prior year due to improvement in manufacturing efficiencies and a positive product mix, partially offset by declining selling prices, higher unused capacity charges in digital technology and an unfavorable currency effect. Unused capacity charges amounted to \$53 million in 2014 compared to \$32 million in 2013.

In 2013, gross margin was 32.3%, decreasing by 50 basis points compared to the prior year, mainly due to the negative impact of selling prices, lower technology licensing revenues and a less favorable product mix, partially offset by improved manufacturing efficiencies, lower unused capacity charges and the absence of the \$53 million one-time charge related to the 2012 arbitration award to NXP.

Operating expenses

	Year Ended December 31,			Variation	
	2014	2013 (In millions)	2012	2014 vs 2013	2013 vs 2012
Selling, general and administrative expenses	\$ (927)	\$ (1,066)	\$ (1,166)	13.1%	8.6%
Research and development expenses	\$ (1,520)	\$ (1,816)	\$ (2,413)	16.3%	24.7%
As percentage of net revenues	(33.0)%	(35.7)%	(42.2)%	270 bps	650 bps

The 2014 operating expenses decreased compared to 2013 mainly due to the ST-Ericsson exit as well as the savings resulting from our cost savings plans initiated in the prior year. As a percentage of revenues, our operating expenses amounted to 33.0%, decreasing by approximately 270 basis points.

The 2013 operating expenses decrease is mainly associated with the exit of ST-Ericsson and our cost savings initiatives. As a percentage of revenues, operating expenses amounted to 35.7% in 2013, decreasing by approximately 650 basis points.

The R&D expenses were net of research tax credits, which amounted to \$145 million in 2014, \$146 million in 2013 and \$152 million in 2012.

Other income and expenses, net

	Year Ended December 31,		
	2014	2013 (In millions)	2012
Research and development funding	\$ 231	\$ 57	\$ 102
Phase-out and start-up costs	(16)	(4)	

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Exchange gain, net	4	8	5
Patent costs	(28)	(40)	(20)
Gain on sale of businesses and non-current assets	24	83	9
Other, net	(8)	(9)	(5)
Other income and expenses, net	\$ 207	\$ 95	\$ 91
As percentage of net revenues	2.8%	1.2%	1.1%

Table of Contents

In 2014, we recognized an income, net, of \$207 million, improving compared to \$95 million in 2013. The increase is mainly due to the higher level of R&D funding following the European Union approval of the Nano2017 program and includes in the year the catch-up related to year 2013, partially offset by a lower gain on sale of businesses and non-current assets as well as higher phase-out costs resulting from our manufacturing consolidation plans.

In 2013, we recognized an income, net, of \$95 million, increasing compared to an income, net, of \$91 million in 2012, mainly due to the sale of businesses and non-current assets associated with the Global Navigation Satellite System business in ST-Ericsson and with the sale of Portland Compiler Group in ST, partially offset by a lower amount of R&D funding. No grants from the Nano-2017 R&D program were recognized in 2013.

Impairment, restructuring charges and other related closure costs

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Impairment, restructuring charges and other related closure costs	\$ (90)	\$ (292)	\$ (1,376)

In 2014, we recorded \$90 million of impairment, restructuring charges and other related closure costs, primarily consisting of: (i) \$30 million of restructuring charges related to the EPS restructuring plan; (ii) \$24 million of restructuring charges related to our plan 600; (iii) \$23 million of impairment charges on the DCG dedicated intangible assets; and (iv) \$12 million of restructuring charges related to the manufacturing consolidation plans.

In 2013, we recorded \$292 million of impairment, restructuring charges and other related closure costs, consisting of: (i) \$88 million in restructuring charges related to our plan 600; (ii) \$86 million in impairment and restructuring charges related to the ST-Ericsson exit; (iii) \$56 million in impairment charges on the DCG goodwill and dedicated intangible assets following our yearly impairment test; (iv) \$37 million in impairment and restructuring charges related to the manufacturing consolidation plans; (v) \$9 million in restructuring charges related to the ST-Ericsson restructuring plans before deconsolidation; (vi) \$5 million impairment charge on Veredus as a result of the reclassification of its assets as Assets held for sale as of December 31, 2013, following the sale of a 51% stake of the company to a third party investor in 2014; and (vii) \$11 million related to other restructuring initiatives.

In 2012, we recorded \$1,376 million of impairment, restructuring charges and other related closure costs, consisting of: (i) \$1,234 million as a non-cash impairment on our Wireless goodwill and other intangible assets; (ii) \$66 million related to the ST-Ericsson restructuring plan announced in April 2012; (iii) \$23 million related to the manufacturing restructuring plan as part of the closure of our Carrollton (Texas) and Phoenix (Arizona) sites; (iv) \$21 million related to the ST-Ericsson restructuring plans previously announced in 2011 and 2009; (v) \$20 million recorded in relation to our Digital restructuring plan announced in October 2012; (vi) \$8 million related to other restructuring initiatives; and (vii) \$4 million impairment charge on certain intangibles.

Operating income (loss)

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Operating income (loss)	\$ 168	\$ (465)	\$ (2,081)
As percentage of net revenues	2.3%	(5.8)%	(24.5)%

Our operating results in 2014 improved compared to 2013, mainly due to improved manufacturing efficiencies, savings in operating expenses, higher other income and lower amounts of impairment and restructuring charges, which were partially offset by declining selling prices and an unfavorable currency impact.

Our operating results improved in 2013 compared to the prior year, positively impacted by lower impairment charges and savings in operating expenses, mainly in R&D, and negatively impacted by a lower level of gross profit primarily due to the reduced level of net revenues.

Table of Contents**Operating income (loss) by product segment:**

	2014		Year Ended December 31, 2013		2012	
	\$ millions	% of net revenues	\$ millions	% of net revenues	\$ millions	% of net revenues
Sense & Power and Automotive Products (SP&A)	\$ 447	9.4%	\$ 270	5.7%	\$ 409	8.8%
Embedded Processing Solutions (EPS)	(103)	(3.9)	(399)	(12.2)	(883)	(23.1)
Total operating income (loss) of product segments	344	4.7	(129)	(1.6)	(474)	(5.6)
Others ⁽¹⁾	(176)		(336)		(1,607)	
Total consolidated operating income (loss)	\$ 168	2.3%	\$ (465)	(5.8)%	\$ (2,081)	(24.5)%

(1) Operating loss of Others includes items such as impairment, restructuring charges and other related closure costs, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items 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.

In 2014, SP&A registered an operating income of \$447 million or approximately 9% of revenues, improving from \$270 million or about 6% of revenues and reflecting a significant improvement across a number of product families, in particular in the area of Automotive and Industrial, Power and Discrete products. EPS registered an improvement in its operating loss from \$399 million or approximately 12% of revenues to an operating loss of \$103 million or about 4% of revenues, mainly due to the exit of ST-Ericsson, the savings resulting from our costs savings plans initiated in the prior year and the impact of the Nano2017 R&D funding. The segment Others decreased its losses to \$176 million, from \$336 million in the prior year, mainly due to lower impairment and restructuring charges, partially offset by higher phase-out costs resulting from our manufacturing consolidation plans as well as higher unused capacity charges.

In 2013, SP&A registered operating income of \$270 million or approximately 6% of revenues, down from \$409 million or about 9% of revenues, mainly as a consequence of increased operating expenses also following the reassignment to the segment of some resources from ST-Ericsson aimed to accelerate and improve product innovation for the segment. EPS registered an improvement in its operating loss from \$883 million or approximately 23% of revenues to an operating loss of \$399 million or about 12% of revenues, mainly due to the reduced level of operating expenses as a consequence of the exit from ST-Ericsson and the gain from the sale of businesses only partially offset by reduced gross profit due to the lower revenues level. The segment Others decreased its losses to \$336 million in 2013, from \$1,607 million in 2012, mainly due to lower impairment and restructuring charges.

Reconciliation to consolidated operating income (loss):

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Total operating income (loss) of product segments	\$ 344	\$ (129)	\$ (474)
Unused capacity charges	(53)	(32)	(172)
Impairment, restructuring charges and other related closure costs	(90)	(292)	(1,376)
Strategic and other research and development programs	(7)	(15)	(12)
Phase-out and start-up costs	(16)	(5)	
NXP arbitration award			(54)
Other non-allocated provisions ⁽¹⁾	(10)	8	7
Total operating loss Others	(176)	(336)	(1,607)
Total consolidated operating income (loss)	\$ 168	\$ (465)	\$ (2,081)

(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.

Table of Contents**Interest expense, net**

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Interest expense, net	\$ (18)	\$ (5)	\$ (35)

In 2014, interest expense and fees on our borrowings and our committed credit facilities amounted to \$30 million, of which \$10 million non-cash interest expense related to the dual tranche senior unsecured convertible bonds issued on July 3, 2014 (the Senior Bonds), partially balanced by a \$12 million interest income.

In 2013, interest expense was \$5 million, comprised of \$23 million interest expense partially offset by \$18 million of interest income, including a one-time interest payment received with respect to a U.S. tax refund in the second quarter of 2013.

Loss on equity-method investments

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Loss on equity-method investments	\$ (43)	\$ (122)	\$ (24)

In 2014, we recorded a charge of \$43 million, of which \$1 million related to our share in Incard do Brazil Ltda which has been accounted for under the equity method since August 31, 2014 and \$51 million related to 3Sun, including impairment and other charges associated with our decision to exit the joint venture, partially offset by a \$9 million gain related to our share in ST-Ericsson JVS. On July 22, 2014, we signed an agreement to transfer all 3Sun ownership and obligations to Enel Green Power.

In 2013, we recorded a charge of \$122 million, of which \$104 million related to our share in 3Sun, which consisted of a \$35 million operating loss and \$69 million as non-cash item following their asset impairment, \$7 million loss related to ST-Ericsson JVS which has been accounted for under the equity-method since September 1, 2013, \$6 million loss in relation with MicroOLED SAS and \$5 million loss for ST-Ericsson JVD.

Income tax benefit (expense)

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Income tax benefit (expense)	\$ 23	\$ (37)	\$ (51)

During 2014, we registered an income tax benefit of \$23 million, reflecting the actual taxes calculated on our income before income taxes in each of our jurisdictions. This tax benefit included the recognition of deferred tax assets, net of valuation allowances, associated with our estimates of the net operating loss recoverability in certain jurisdictions, one-time tax benefits related to previous year adjustments and our best estimate on additional tax charges related to potential uncertain tax positions and claims.

Net loss (income) attributable to noncontrolling interest

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Net loss (income) attributable to noncontrolling interest	\$ (1)	\$ 129	\$ 1,030
As percentage of net revenues	(0.0)%	1.6%	12.2%

In 2014, we recorded \$1 million representing the income attributable to noncontrolling interest. In 2013, we recorded \$129 million loss attributable to noncontrolling interest, mainly relating to Ericsson's interest in the ST-Ericsson joint venture prior to the deconsolidation as of

September 1, 2013.

Net loss attributable to parent company

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Net loss (income) attributable to parent company	\$ 128	\$ (500)	\$ (1,158)
As percentage of net revenues	1.7%	(6.2)%	(13.6)%

Table of Contents

For 2014, we reported a net income of \$128 million, compared to a net loss of \$500 million and \$1,158 for 2013 and 2012 respectively. The 2014 net income represented earnings per share of \$0.14 compared to \$(0.56) and \$(1.31) for 2013 and 2012, respectively.

In 2014, the impact after tax of impairment, restructuring charges and other related closure costs and other one-time items, a non U.S. GAAP measure, was approximately \$(0.15) per share, while it was approximately \$(0.33) and \$(0.98) per share in 2013 and 2012, respectively.

Quarterly Results of Operations

Certain quarterly financial information for the years 2014 and 2013 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.

Net revenues

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013	% Variation Sequential	% Variation Year-Over- Year
Net sales	\$ 1,806	\$ 1,870	\$ 2,008	(3.4)%	(10.1)%
Other revenues	23	16	7	42.7	239.4
Net revenues	\$ 1,829	\$ 1,886	\$ 2,015	(3.0)%	(9.2)%

Our fourth quarter 2014 net revenues were \$1,829 million, decreasing by 9.2% compared to the year-ago period as a result of an approximate 10% decrease in average selling prices, slightly offset by higher volume. Excluding legacy ST-Ericsson products, our revenues decreased by 4.6%.

On a sequential basis, our revenues decreased by 3.0%, slightly above the midpoint of our guidance for the quarter. The sequential decrease resulted from an approximate 1% decrease in average selling prices combined with an approximate 2% decrease in units sold.

No customer exceeded 10% of our total net revenues in the fourth quarters of 2014 and 2013 as well as in the third quarter of 2014.

Table of Contents*Net revenues by product line and product segment*

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013	% Variation Sequential	% Variation Year-Over- Year
Automotive (APG)	\$ 436	\$ 464	\$ 449	(6.0)%	(3.0)%
Industrial & Power Discrete (IPD)	462	486	447	(5.1)	3.1
Analog & MEMS (AMS)	266	268	337	(0.4)	(20.9)
Sense & Power and Automotive Products (SP&A)	1,164	1,218	1,233	(4.4)	(5.7)
Digital Convergence Group (DCG)	166	202	307	(18.0)	(46.1)
Imaging, BI-CMOS ASIC and Silicon Photonics (IBP)	93	84	112	11.6	(16.3)
Microcontrollers, Memory & Secure MCU (MMS)	388	377	357	2.9	8.6
Other EPS	13				
Embedded Processing Solutions (EPS)	660	663	776	(0.4)	(14.9)
Total net revenues of product segments	1,824	1,881	2,009	(3.0)	(9.2)
Others	5	5	6		
Total consolidated net revenues	\$ 1,829	\$ 1,886	\$ 2,015	(3.0)%	(9.2)%

By product segment, both SP&A and EPS registered a decrease of approximately 6% and 15% respectively on a year-over-year basis. Excluding legacy ST-Ericsson products, EPS segment revenues decreased by approximately 3% year-over-year. Within SP&A, both APG and AMS decreased their revenues by approximately 3% and 21% respectively while IPD revenues increased by approximately 3%. Within EPS, IBP and DCG, including legacy ST-Ericsson products, registered a decline of revenues of approximately 16% and 46% respectively while MMS increased by about 9%.

By product segment, SP&A revenues decreased by approximately 4% while EPS revenues were stable on a sequential basis. Within the SP&A segment, IPD suffered from a market slowdown while a temporary manufacturing delay impacted APG performance. Within EPS, IBP and MMS increased their revenues by about 12% and 3% respectively while DCG, including legacy ST-Ericsson products, registered a decline of revenues of approximately 18%.

Net Revenues by Market Channel⁽¹⁾

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in %)	December 31, 2013
OEM	68%	68%	73%
Distribution	32	32	27
Total	100%	100%	100%

(1) Original Equipment Manufacturers (OEM) are the end-customers to which we provide direct marketing application engineering support, while Distribution customers refers to the distributors and representatives that we engage to distribute our products around the world. Our revenues in Distribution registered an increase of about 5 percentage points year-over-year, reaching a 32% share of total revenues.

Net Revenues by Location of Shipment⁽¹⁾

	Three Months Ended September 27, 2014 (Unaudited, in %)	% Variation Sequential
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	December 31, 2014	September 27, 2014 (Unaudited, in millions)	December 31, 2013		Year-Over- Year
EMEA	\$ 458	\$ 503	\$ 474	(8.9)%	(3.2)%
Americas	277	297	293	(6.8)	(5.7)
Greater China-South Asia	869	842	902	3.2	(3.6)
Japan-Korea	225	244	346	(8.1)	(35.1)
Total	\$ 1,829	\$ 1,886	\$ 2,015	(3.0)%	(9.2)%

Table of Contents

(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.

By location of shipment, revenues declined in all regions year-over-year while sequentially only Greater China-South Asia region's revenue increased. On a year-over-year basis, the largest decline is in the Japan & Korea region, mainly due to the phasing out of legacy ST-Ericsson products.

Gross profit

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013	Variation Sequential	Variation Year-Over- Year
Cost of sales	\$ (1,210)	\$ (1,240)	\$ (1,353)	2.4%	10.5%
Gross profit	\$ 619	\$ 646	\$ 662	(4.3)%	(6.6)%
Gross margin (as percentage of net revenues)	33.8%	34.3%	32.9%	(50) bps	90 bps

Fourth quarter gross margin was 33.8%, increasing on a year-over-year basis by approximately 90 basis points, mainly due to improved manufacturing efficiencies, a more favorable product mix and a positive currency effect, partially offset by the negative impact of lower selling prices and higher unused capacity charges. Unused capacity charges amounted to \$29 million compared to \$7 million in the previous year quarter.

On a sequential basis, gross margin in the fourth quarter decreased by 50 basis points, mainly due to the negative impact of selling prices and increased unused capacity charges, partially offset by improved manufacturing efficiencies and a positive currency effect. Unused capacity charges amounted to \$14 million in the previous quarter.

Operating expenses

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013	Variation Sequential	Variation Year-Over- Year
Selling, general and administrative expenses	\$ (235)	\$ (226)	\$ (249)	(3.9)%	5.6%
Research and development expenses	\$ (376)	\$ (377)	\$ (407)	0.2%	7.7%
As percentage of net revenues	(33.5)%	(32.0)%	(32.6)%	(150) bps	(90) bps

The amount of our operating expenses decreased on a year-over-year basis, mainly due to the savings resulting from our cost savings plans initiated in the prior year and a favorable currency effect. On a sequential basis our operating expenses increased mainly due to a longer calendar. As a percentage of revenues, our operating expenses amounted to 33.5%, increasing both year-over-year and sequentially by approximately 90 and 150 basis points, respectively.

Fourth quarter 2014 R&D expenses were net of research tax credits, which amounted to \$42 million, compared to \$43 million in the fourth quarter of 2013 and \$34 million in the third quarter of 2014.

Table of Contents**Other income and expenses, net**

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013
Research and development funding	\$ 53	\$ 27	\$ 28
Phase-out and start-up costs	(3)	(7)	(3)
Exchange gain, net		2	2
Patent costs, net of reversal of unused provisions		1	(13)
Gain on sale of non-current assets		11	1
Other, net		(2)	(3)
Other income and expenses, net	\$ 50	\$ 32	\$ 12
As percentage of net revenues	2.7%	1.7%	0.6%

In the fourth quarter of 2014, we recognized an income, net, of \$50 million, increasing year-over-year due mostly to the recognition of Nano 2017 R&D grants, including some catch-up related to previous period, as well as lower patent costs.

On a sequential basis the increase is mostly related to lower phase-out costs and the catch-up of some R&D funding, partially offset by lower gain on sale of businesses.

Impairment, restructuring charges and other related closure costs

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013
Impairment, restructuring charges and other related closure costs	\$ (20)	\$ (38)	\$ (29)

In the fourth quarter of 2014, we recorded \$20 million of impairment, restructuring charges and other related closure costs, consisting of: (i) \$17 million of restructuring charges related to the EPS restructuring plan; (ii) \$1 million of restructuring charges related to our plan 600; and (iii) \$2 million of restructuring charges related to the manufacturing consolidation plans.

In the fourth quarter of 2013, we recorded \$29 million of impairment, restructuring charges and other related closure costs, consisting of: (i) \$20 million restructuring charges related to our plan 600; (ii) \$5 million impairment charge on Veredus as a result of the reclassification of its assets as Assets held for sale as of December 31, 2013; (iii) \$2 million restructuring charges related to the manufacturing consolidation plans; and (iv) \$2 million related to other restructuring initiatives.

In the third quarter of 2014, we recorded \$38 million of impairment, restructuring charges and other related closure costs, primarily consisting of: (i) \$23 million of impairment charges on the DCG dedicated intangible assets; and (ii) \$13 million of restructuring charges related to the EPS restructuring plan.

Operating income (loss)

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013
Operating income (loss)	\$ 38	\$ 37	\$ (11)
As percentage of net revenues	2.1%	1.9%	(0.6)%

The fourth quarter of 2014 registered an operating income of \$38 million compared to an operating loss of \$11 million in the year-ago quarter and an operating income of \$37 million in the prior quarter. Compared to the year-ago period, the improvement in our operating results was mainly due to the savings in operating expenses, lower amounts of impairment and restructuring charges and higher other income. On a

sequential basis, while the operating income was stable, we experienced an increase in operating expenses offset by lower impairment and restructuring charges and higher other income.

Table of Contents**Operating income (loss) by product segment**

	Three Months Ended (unaudited)					
	December 31, 2014		September 27, 2014		December 31, 2013	
	\$ million	% of net revenues	\$ million	% of net revenues	\$ million	% of net revenues
Sense & Power and Automotive Products (SP&A)	\$ 102	8.8%	\$ 114	9.4%	\$ 96	7.7%
Embedded Processing Solutions (EPS)	(10)	(1.5)	(27)	(4.1)	(66)	(8.5)
Total operating income (loss) of product segments	92	5.0	87	4.6	30	1.5
Others ⁽¹⁾	(54)		(50)		(41)	
Total consolidated operating income (loss)	\$ 38	2.1%	\$ 37	1.9%	\$ (11)	(0.6)%

(1) Operating loss of Others includes items such as impairment, restructuring charges and other related closure costs, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items 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.

On a year-over-year basis, both segments improved their performance with SP&A increasing its operating income and EPS decreasing its operating loss. On a sequential basis, EPS decreased its operating loss while SP&A operating income decreased.

Reconciliation to consolidated operating income (loss)

	December 31, 2014	Three Months Ended September 27, 2014	December 31, 2013
	(Unaudited, in millions)		
Total operating income of product segments	\$ 92	\$ 87	\$ 30
Unused capacity charges	(29)	(14)	(7)
Impairment, restructuring charges and other related closure costs	(20)	(38)	(29)
Strategic and other research and development programs	(2)	(2)	(1)
Phase-out and start-up costs	(3)	(7)	(3)
Other non-allocated provisions ⁽¹⁾		11	(1)
Total operating loss Others	(54)	(50)	(41)
Total consolidated operating income (loss)	\$ (38)	\$ 37	\$ (11)

(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.

Interest expense, net

	December 31, 2014	Three Months Ended September 27, 2014	December 31, 2013
	(Unaudited, in millions)		
Interest expense, net	\$ (6)	\$ (7)	\$ (3)

We recorded a net interest expense of \$6 million, compared to an expense of \$3 million in the prior-year quarter and \$7 million in the prior quarter. The year-over-year increase resulted from the interest expense on the Senior Bonds. The non-cash interest expense of the Senior Bonds amounted to \$5 million in the third and fourth quarter of 2014.

Income (loss) on equity-method investments

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013
Income (loss) on equity-method investments	\$ 17	\$	\$ (12)

Table of Contents

In the fourth quarter of 2014, we recorded a profit of \$17 million mostly related to our share of the profit in ST-Ericsson JVS. In the fourth quarter of 2013, we recorded a charge of \$12 million, of which \$7 million related to our share of the losses in ST-Ericsson JVS and \$5 million related to our share in 3Sun.

Income tax benefit (expense)

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013
Income tax benefit (expense)	\$ (3)	\$ 42	\$ (8)

During the fourth quarter of 2014, we registered an income tax expense of \$3 million, reflecting actual tax charges and benefits in each jurisdiction as well as the true-up of tax provisions based upon the most updated visibility on open tax matters in several jurisdictions.

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 periods 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 income (loss) attributable to parent company

	December 31, 2014	Three Months Ended September 27, 2014 (Unaudited, in millions)	December 31, 2013
Net income (loss) attributable to parent company	\$ 43	\$ 72	\$ (36)
As percentage of net revenues	2.3%	3.8%	(1.8)%

For the fourth quarter of 2014, we reported a net income of \$43 million, compared to a net loss of \$36 in the prior-year quarter and a net income of \$72 million in the prior quarter. The fourth quarter net income represented earnings per share of \$0.05 compared to \$(0.04) in the prior-year quarter and \$0.08 in the prior quarter.

In the fourth quarter of 2014, the impact per share after tax of impairment, restructuring charges and other related closure costs and other one-time items, a non U.S. GAAP measure, was approximately \$(0.02) per share, while it was approximately \$(0.03) and \$(0.05) per share in the prior-year and prior quarters, respectively.

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 certain of our products sold in Europe) 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 our level of revenues when reported in U.S. dollars or the depreciation of the Euro compared to the U.S. dollar could decrease our level of revenues when reported in U.S. dollars. Over time the prices in the industry tend to align to the equivalent amount in U.S. dollars, except that there is a lag between the changes in the currency rate and the adjustment in the price paid in local currency, which is proportional to the amplitude of the currency swing, and such adjustment could be only partial. 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 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.

Table of Contents

In summary, as our reporting currency is the U.S. dollar, exchange rate fluctuations affect our results of operations: in particular, if the U.S. dollar weakens, our results are negatively impacted since we receive only 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 2014 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 \$1.34 for 1.00 for the full year 2014, compared to \$1.31 for 1.00 for the full year 2013. Our effective exchange rate was \$1.29 for 1.00 for the fourth quarter of 2014, \$1.34 for 1.00 for the third quarter of 2014 and \$1.34 for 1.00 for the fourth quarter of 2013. These effective exchange rates reflect the actual exchange rates combined with the impact of cash flow hedging contracts that matured in the period.

The time horizon of our cash flow hedging for manufacturing costs and operating expenses may run up to 24 months, for a limited percentage of our exposure to the Euro and under certain currency market circumstances. As of December 31, 2014, the outstanding hedged amounts were 625 million to cover manufacturing costs and 432 million to cover operating expenses, at an average exchange rate of about \$1.32 to 1.00 (considering the collars at upper strike), maturing over the period from January 5, 2015 to December 3, 2015. As of December 31, 2014, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory resulted in a deferred loss of approximately \$73 million before tax, recorded in Accumulated other comprehensive income (loss) in the Consolidated Statements of Equity, compared to a deferred profit of approximately \$39 million before tax at December 31, 2013.

We also hedge certain manufacturing costs denominated in Singapore dollars (SGD); as of December 31, 2014, the outstanding hedged amounts were SGD 136 million at an average exchange rate of about SGD 1.28 to \$1.00 maturing over the period from January 8, 2015 to December 4, 2015. As of December 31, 2014, these outstanding hedging contracts resulted in a deferred loss of approximately \$3 million before tax, recorded in Accumulated other comprehensive income (loss) in the Consolidated Statements of Equity, compared to a deferred loss of approximately \$1 million before tax at December 31, 2013.

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 four quarters and a declining percentage of our exposure in each quarter thereafter. In 2014, as a result of our cash flow hedging, we recorded a net loss of \$2 million, consisting of a loss of about \$1 million to selling, general and administrative expenses and a loss of about \$1 million to costs of goods sold, while in 2013, we recorded a net profit of \$33 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 our consolidated foreign exchange exposure resulted in a net gain of \$4 million recorded in Other income and expenses, net in our 2014 Consolidated Statement of Income compared to a net gain of \$8 million recorded in 2013.

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

Table of Contents

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, 2014, 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 .

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 (including the sale without recourse of receivables), non-cash interest expense on the Senior Bonds 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 expenses are also dependent upon fluctuations in interest rates, since our financial liabilities include European Investment Bank Floating Rate Loans at Libor and Euribor plus variable spreads.

At December 31, 2014, our total financial resources, including cash and cash equivalents and marketable securities, generated an average interest income rate of 0.63%. At the same date, the average interest rate on our outstanding debt was 1.83% while the average rate of the cash interests on our total debt at redemption value was 0.67%.

Impact of Changes in Equity Prices

As of December 31, 2014, 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 reduced due to further losses or impairment charges of our equity-method investments. See Note 10 to our Consolidated Financial Statements.

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 Investors Service (Moody's) and A- from Standard & Poor's (S&P) 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 \$2,351 million as of December 31, 2014, increasing compared to \$1,894 million at December 31, 2013. As of December 31, 2014, our total liquidity and capital resources were comprised of \$2,017 million in cash and cash equivalents and \$334 million in marketable securities, all considered as current assets.

As of December 31, 2014, marketable securities were \$334 million invested in U.S. Government Treasury Bonds with an average rating of Aaa/AA+/AAA from Moody's, S&P and Fitch, respectively. The weighted average maturity of the marketable securities portfolio was 5.3 years. The securities are classified as available-for-sale and reported at fair value. This fair value measurement corresponds to a Level 1 fair value hierarchy measurement.

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 2014, our net cash increased by \$181 million, due to the net cash from operating and financing activities exceeding the net cash used in investing activities.

Table of Contents

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

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Net cash from operating activities	\$ 715	\$ 366	\$ 612
Net cash used in investing activities	(784)	(379)	(396)
Net cash from (used in) financing activities	262	(388)	135
Effect of changes in exchange rates	(12)	(13)	(13)
Net cash increase (decrease)	\$ 181	\$ (414)	\$ 338

Net cash from operating activities. Net cash from operating activities is the sum of (i) net income (loss) adjusted for non-cash items and (ii) changes in net working capital. The net cash from operating activities in 2014 was \$715 million, increasing compared to \$366 million in the prior year period. Net cash from operating activities for 2014 compared to the prior year benefited from an increased net income adjusted for non-cash items, partially offset by the unfavorable changes in net working capital.

Net cash used in investing activities. Investing activities used \$784 million of cash in 2014, mainly due to payments for the purchase of tangible, intangible, financial assets and marketable securities, partially offset by the proceeds from the sale of marketable securities and the sale of businesses. The increase in net cash used in investing activities compared to the \$379 million in the prior year was primarily due to a higher payment for purchase of marketable securities, net of proceeds, a lower amount of proceeds from the sale of businesses and a lower amount of payments for purchase of tangible assets, net of proceeds. Payments for purchase of tangible assets, net of proceeds, totaled \$496 million, compared to \$531 million in 2013.

Net cash from (used in) financing activities. Net cash from financing activities was \$262 million for 2014, compared to the \$388 million used in 2013. The increase in the net cash from financing activities was primarily due to the \$994 million net proceeds from the issuance of the Senior Bonds in 2014, partially offset by \$156 million of repurchases of common stock. The 2014 amount included \$354 million in dividends paid to stockholders compared to \$346 million paid in 2013.

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, which are considered as temporary financial investments. The result of this definition is ultimately net cash from operating activities plus payment for purchase and proceeds from sale of tangible, intangible and financial assets and proceeds received in the sale of businesses. 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 and investing activities to sustain our operations. 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 and net cash variation from joint ventures deconsolidation, 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 Flows:

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Net cash from operating activities	\$ 715	\$ 366	\$ 612
Net cash used in investing activities	(784)	(379)	(396)
Excluding:			
<i>Payment for purchase and proceeds from sale of marketable securities, change in short-term deposits, restricted cash, net and net variation for joint ventures deconsolidation</i>	266	(166)	(183)
<i>Payment for purchase and proceeds from sale of tangible and intangible assets⁽¹⁾</i>	(518)	(545)	(579)
Free Cash Flow (non U.S. GAAP measure)	\$ 197	\$ (179)	\$ 33

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- (1) Reflects the total of the following line items reconciled with our Consolidated Statements of Cash Flows relating to the investing activities: Payment for purchase of tangible assets, Proceeds from sale of tangible assets, Payment for purchase of intangible assets, Payment for purchase of financial assets, Proceeds from sale of financial assets, Proceeds received in sale of businesses.

Table of Contents

Free Cash Flow was positive \$197 million in 2014, compared to negative \$179 million in 2013, reflecting the exit from ST-Ericsson, our performance improvement, monetization of non strategic assets and collection of a higher level of R&D grants including a catch-up of prior year grants.

Capital Resources

Net Financial Position (non U.S. GAAP measure). Our Net Financial Position represents the difference between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities, short-term deposits and restricted cash, and our total financial debt includes 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. Our Net Financial Position for each period has been determined as follows from our Consolidated Balance Sheets:

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Cash and cash equivalents	\$ 2,017	\$ 1,836	\$ 2,250
Marketable securities	334	57	238
Restricted cash			4
Short-term deposits		1	1
Total financial resources	2,351	1,894	2,493
Bank overdrafts and short-term debt	(202)	(225)	(630)
Long-term debt	(1,603)	(928)	(671)
Total financial debt	(1,805)	(1,153)	(1,301)
Net Financial Position	\$ 546	\$ 741	\$ 1,192

Our Net Financial Position as of December 31, 2014 was a net cash position of \$546 million, decreasing compared to the net cash position of \$741 million at December 31, 2013, as a result of our dividends payment, the repurchase of common stock and the debt resulting from the issuance of the Senior Bonds exceeding our positive Free Cash Flow and the net proceeds from the issuance of the Senior Bonds.

At December 31, 2014, our financial debt was \$1,805 million, composed of (i) \$202 million of current portion of long-term debt and (ii) \$1,603 million of long-term debt. The breakdown of our total financial debt included: (i) \$900 million in European Investment Bank loans (the EIB Loans), (ii) \$888 million in the Senior Bonds, (iii) \$16 million in loans from other funding programs, and (iv) \$1 million of capital leases. The EIB Loans are comprised of four long-term amortizing credit facilities as part of our 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 \$48 million remained outstanding as at December 31, 2014. 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 \$109 million remained outstanding as of December 31, 2014. The third, signed in 2010, is a 350 million multi-currency loan to support our industrial and R&D programs. It was drawn mainly in U.S. dollars for an amount of \$321 million and only partially in Euros for an amount of 100 million, of which \$331 million remained outstanding as of December 31, 2014. The fourth, signed in the first quarter of 2013, is a 350 million multicurrency loan which also supports our R&D programs. It was drawn in U.S. dollars for an amount of \$471 million, of which \$412 million is outstanding as of December 31, 2014.

Additionally, we had unutilized committed medium-term credit facilities with core relationship banks of \$583 million.

Our long-term debt contains standard conditions, but does not impose minimum financial ratios.

As of December 31, 2014, debt payments at redemption value by period were as follows:

	Total	Payments Due by Period					Thereafter
		2015	2016	2017	2018	2019	
	(In millions)						
Long-term debt (including current portion)	\$ 1,917	\$ 202	\$ 193	\$ 117	\$ 116	\$ 715	\$ 574

Table of Contents

The Senior Bonds were issued on July 3, 2014, for a principal amount of \$1,000 million (Tranche A for \$600 million and Tranche B for \$400 million), due 2019 and 2021, respectively, for net proceeds of approximately \$994 million. Tranche A bonds were issued as zero-coupon bonds while Tranche B bonds bear a 1% per annum nominal interest, payable semi-annually. The conversion price at issuance was approximately \$12 on each tranche. The Senior Bonds are convertible by the bondholders if certain conditions are satisfied on a net-share settlement basis, except if an alternative settlement is elected by us. We can also redeem the Senior Bonds prior to their maturity in certain circumstances. Upon initial recognition, the proceeds were allocated between debt and equity by determining the fair value of the liability component using an income approach. The liability component will accrete to par value until maturity based on the effective interest rate (Tranche A: 2.40% and Tranche B: 3.22%, including 1% p.a. nominal interest). In the computation of diluted earnings per share, the Senior Bonds will be dilutive only for the portion of net-share settlement underlying the conversion premium when the conversion option is in the money.

In March 2006, STMicroelectronics Finance B.V. (ST BV), a wholly owned subsidiary, issued floating rate senior bonds. These bonds, which matured on March 17, 2013, paid a quarterly coupon rate of the three-month Euribor plus 0.40%. On March 17, 2013, we repaid at maturity with available cash the residual outstanding bonds in the amount of \$455 million.

On June 26, 2014 we announced the launch of a share buy-back program for the purchase of up to 20 million ordinary shares, as authorized by the shareholders meeting held on June 13, 2014. Purchases of shares were made on the Borsa Italiana exclusively and were completed on November 10, 2014. The purchased shares will not be retired but are currently intended to meet our future obligations in relation to the employee stock award plans.

Our current rating with rating agencies are as follow: Moody's: Baa3 with stable outlook; S&P: BBB- with stable outlook; Fitch (on an unsolicited basis): BBB- with stable outlook.

Contractual Obligations, Commercial Commitments and Contingencies

Our contractual obligations, commercial commitments and contingencies as of December 31, 2014, and for each of the five years to come and thereafter, were as follows:⁽¹⁾

	Total	2015	2016	2017	2018	2019	Thereafter
Operating leases ⁽²⁾	\$ 199	\$ 47	\$ 34	\$ 27	\$ 21	\$ 13	\$ 57
Purchase obligations ⁽²⁾	391	362	15	6	5	3	
of which:							
<i>Equipment and other asset purchases</i>	171	171					
<i>Foundry purchases</i>	83	83					
<i>Software, design, technologies and licenses</i>	137	108	15	6	5	3	
Other obligations ⁽²⁾	512	284	117	81	28	2	
Long-term debt obligations (including current portion) ⁽³⁾⁽⁴⁾	1,917	202	193	117	116	715	574
of which:							
<i>Capital leases⁽³⁾</i>	1	1					
Pension obligations ⁽³⁾	392	9	21	24	33	31	274
Other long-term liabilities ⁽³⁾	182		60	10	9	7	96
Total	\$ 3,593	\$ 904	\$ 440	\$ 265	\$ 212	\$ 771	\$ 1,001

(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, 2014.

(3) Items reflected on the Consolidated Balance Sheet at December 31, 2014. For long-term debt obligations the difference between the total obligations and the total carrying amount of long-term debt is due to the unamortized discount on the dual tranche senior unsecured convertible bonds.

(4) See Note 13 to our Consolidated Financial Statements at December 31, 2014 for additional information related to long-term debt.

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.

Table of Contents

Operating leases are mainly related to building leases and to equipment. The amount disclosed is composed of minimum payments for future leases from 2015 to 2019 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 Senior Bonds. In 2015, we expect to redeem with available cash and cash equivalents a \$202 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 \$392 million consist of our best estimates of the amounts projected to be payable by us for the pension and post-employment plans. 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 14 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 \$10 million which qualifies as a defined benefit plan and was classified as an other long-term liability at December 31, 2014.

Other long-term liabilities include future obligations related to our restructuring plans and miscellaneous contractual obligations. In accordance with the authoritative guidance for accounting for uncertainty in income taxes, as of December 31, 2014, we had unrecognized tax benefits of \$313 million. We do not expect to recognize any of these tax benefits in 2015. 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, 2014.

Financial Outlook: Capital Investment

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 capital expenditure to be approximately \$600 million in 2015, to be adjusted based on demand thereafter. The most important of our 2015 capital expenditure projects are expected to be: (a) for our front-end facilities: (i) in our 300-mm fab in Crolles, technology evolution and mix evolution to support the production ramp up of new technologies and start-up of the infrastructure for its next expansion phase; (ii) a few selective programs of mix evolution, mainly in the area of analog processes; (iii) qualification and ramp-up of technologies in 200-mm in Singapore and Catania and start-up of the infrastructure for the next expansion phase in Catania; and (iv) quality, safety, maintenance, and productivity and cost savings investments in both 150-mm and 200-mm front-end fabs; (b) for our back-end facilities, capital expenditures will mainly be dedicated to: (i) capacity growth on certain package families, to sustain market demand and secure service to strategic customers; (ii) modernization and rationalization 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) to meet increased demand and changed product mix.

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 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.

Table of Contents

In support of our R&D activities, we signed the Nano2017 program with the French government in 2013, which was approved by the European Union in the second quarter of 2014 and, in our role as Coordinator and Project Leader of Nano2017, we have been allocated an overall funding budget of about 400 million for the period 2013-2017, subject to the conclusion of agreements every year with the public authorities and linked to the achievement of technical parameters and objectives. The Nano2017 contract contains certain covenants which, in the event they are not fulfilled, may affect our ability to access such funding.

As a result of our exit from the ST-Ericsson joint venture, our exposure is limited to covering 50% of ST-Ericsson's needs to complete the wind-down, which are estimated to be not material to our consolidated cash flows, based on our current visibility of the ST-Ericsson liquidation balance.

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 10 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 General Meeting of Shareholders (AGM) upon a non-binding proposal of our Supervisory Board, with a minimum of six members. Decisions by our AGM 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.

Our Supervisory Board was composed of the following nine members as of December 31, 2014:

Name	Position	Year Appointed	Term Expires	Age
Maurizio Tamagnini	Chairman	2014 ⁽¹⁾	2017	49
Didier Lombard	Vice Chairman	2004	2017	72
Jean d'Arthuys	Member	2011	2017	48
Janet G. Davidson	Member	2013	2016	58
Heleen Kersten	Member	2014 ⁽²⁾	2017	49
Jean-Georges Malcor	Member	2011	2017	58
Alessandro Ovi	Member	2007	2016	70

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Alessandro Rivera	Member	2011	2017	44
Martine Verluyten	Member	2012	2015	63

- (1) Mr. Tamagnini was appointed as a member of our Supervisory Board on June 13, 2014.
- (2) Ms. Kersten was appointed as a member of our Supervisory Board on June 13, 2014.

Table of Contents

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 meets at least five times a year, including once per quarter to approve our quarterly, semi-annual 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).

Pursuant to Dutch law, there is no mandatory retirement age for members of our Supervisory Board. Members of the Supervisory Board may be suspended or dismissed by our annual shareholders' meeting. Our Supervisory Board may make a proposal to our annual shareholders' meeting for the suspension or dismissal of one or more of its members. Each member of our Supervisory Board must resign no later than three years after appointment, as described in our Articles of Association, but may be reappointed following the expiration of his/her term of office.

Biographies of our Current Supervisory Board Members

Maurizio Tamagnini has been a member and the Chairman of our Supervisory Board since June 2014. He also serves on our Supervisory Board's Nominating and Corporate Governance Committee and chairs its Compensation Committee and Strategic Committee. Mr. Tamagnini is currently Chief Executive Officer and Chairman of the Investment Committee of Fondo Strategico Italiano Spa (FSI), an investment company with 4.4 billion capital which invests in large corporates, sponsored by Cassa di Risparmio di Padova e Rovigo. He was previously Southern European Manager of the Corporate & Investments Banking division of Bank of America Merrill Lynch and a member of the Executive Committee of Bank of America Merrill Lynch for the EMEA region. Mr. Tamagnini has gained over 25 years of experience in the financial sector specializing in the areas of Corporate Finance, Private Equity, Debt and Equity. Mr. Tamagnini is also Chairman of the Joint Venture between FSI and Qatar Holding (IQ Made in Italy Investment Company Spa) with capital endowment of up to 2 billion in total for investments in the food, brands, furniture & design and tourism sectors. He is also a member of the Advisory Board of RDIF (the Russian Direct Investment Fund), of the Italian Ministry of Economic Development Industrial Compact task force and was a member of the Organization Committee for the 2014 Worldwide Female Volleyball Championships, held in Milan. He holds a degree in International Monetary Economics from Bocconi University in Milan and has also studied at the Rensselaer Polytechnic Institute in Troy, New York, USA.

Didier Lombard has been a member of our Supervisory Board since 2004 and has been its Vice-Chairman since June 2014. He was the Supervisory Board's Chairman from 2011 until 2014. Mr. Lombard serves on our Supervisory Board's Compensation Committee, Strategic Committee and Nominating and Corporate Governance Committee. Mr. Lombard was appointed Chairman and Chief Executive Officer of Orange (formerly 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 Orange 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 Orange's Senior Executive Vice President in charge of technologies, strategic partnerships and new usages and as a member of Orange's Executive Committee. Mr. Lombard was also a member of the board of directors of Thales until May 2014. He is also the Chairman of the board of directors of 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.

Jean d'Arthuys has been a member of our Supervisory Board since May 2011. Mr. d'Arthuys serves on our Supervisory Board's Compensation Committee, Strategic Committee and Nominating and Corporate Governance Committee. Mr. d'Arthuys is also the Chairman and CEO of FTICI. He joined Bpifrance (formerly Fonds Stratégique d'Investissement) 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 Première 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 is also a member of the board of directors of Eutelsat Communications S.A. and Talend Inc. Mr. d'Arthuys graduated from HEC Business School.

Table of Contents

Janet G. Davidson has been a member of our Supervisory Board since June 2013. She serves on our Supervisory Board's Audit Committee and Strategic Committee. She began her career in 1979 as a member of the Technical Staff of Bell Laboratories, Lucent Technologies (as of 2006 Alcatel Lucent), and served from 1979 through 2011 in several key positions, most recently as Chief Strategy Officer (2005–2006), Chief Compliance Officer (2006–2008) and EVP Quality & Customer Care (2008–2011). From 2005 through 2012, Ms. Davidson was a member of the Lehigh University Board of Trustees. In 2007 she served on the Riverside Symphonia Board of Trustees and in 2005 and 2006, Ms. Davidson was a member of the Liberty Science Center Board of Trustees. Ms. Davidson was a member of the board of the Alcatel Lucent Foundation from 2011 until 2014. Ms. Davidson is a graduate of the Georgia Institute of Technology (Georgia Tech), Atlanta, GA, USA, and Lehigh University, Bethlehem, PA, USA and holds a Master's degree in Electrical Engineering.

Heleen Kersten has been a member of our Supervisory Board since June 2014. She serves on our Supervisory Board's Audit Committee and Compensation Committee and chairs its Nominating and Corporate Governance Committee. Ms. Kersten is a partner at Stibbe in Amsterdam, where she held the position of managing partner from 2008 to 2013. Stibbe is a Benelux law firm with offices in Amsterdam, Brussels, Luxembourg, London, New York, Dubai and Hong Kong. She began her career in 1989 with Stibbe before joining Davis Polk in New York and London (1992-1993). After her return to Stibbe Amsterdam, she rose through the ranks to become a partner in 1997. As a member of the Bar of Amsterdam since 1989, Ms. Kersten specializes in mergers and acquisitions, equity capital markets, corporate law and corporate governance. Ms. Kersten is currently a member of the supervisory boards of Egeria Investment B.V. (since 2007 and Chairman since October 2014) and Van Lanschot N.V. (since 2011). Ms. Kersten holds master's degrees in Dutch law and tax law, both from Leiden University in the Netherlands.

Jean-Georges Malcor has been a member of our Supervisory Board since May 2011. He also serves on our Supervisory Board's Audit Committee. Mr. Malcor is the Chief Executive Officer of CGG. 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. 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 in January 2010 as President and became CEO on June 30, 2010. Since June 2013, Mr. Malcor has been a member of the Supervisory Board (as well as its Appointment and Compensation Committee) of the Fives Group.

Alessandro Ovi was a member of our Supervisory Board from 1994 until his term expired at our Annual General Meeting of Shareholders in March 2005. He was reappointed to our Supervisory Board at the 2007 Annual General Meeting of Shareholders. Mr. Ovi serves on our Supervisory Board's Audit Committee and Strategic Committee. 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. He 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 and Almaviva 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.

Alessandro Rivera has been a member of our Supervisory Board since May 2011. Mr. Rivera serves on our Supervisory Board's Compensation Committee and Nominating and Corporate Governance Committee. He 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,

Table of Contents

banking foundations, accounting, finance, corporate governance and auditing. Since 2008, Mr. Rivera has been the Government representative in the Consiglio Superiore of the Bank of Italy, and in the Financial Services Committee. Since 2013 he has been a member of the Board of Directors and Compensation Committee of Cassa Depositi e Prestiti. From 2011 to 2014 he was a member of the Board of Directors and Compensation Committee of Poste Italiane S.p.A.. From 2008 to 2011 he was a member of the European Securities 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. Ms. Verluyten serves on our Supervisory Board's Audit Committee and has been its Chair since April 22, 2013. 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 is also member of the board of directors of Thomas Cook plc, 3i plc and GBL (group Bruxelles Lambert). Ms. Verluyten began her career in 1973 at KPMG as an Auditor.

Supervisory Board Committees

Membership and Attendance. As of December 31, 2014, the composition of the four standing committees of our Supervisory Board was as follows: (i) Ms. Martine Verluyten is the Chair of the Audit Committee, and Ms. Janet G. Davidson, Ms. Heleen Kersten and Messrs. Jean-Georges Malcor and Alessandro Ovi are members of the Audit Committee; (ii) Mr. Maurizio Tamagnini is the Chairman of the Compensation Committee, and Mr. Jean d'Arthuys, Ms. Heleen Kersten, Messrs. Didier Lombard and Alessandro Rivera are members of the Compensation Committee; (iii) Ms. Heleen Kersten is the Chair of the Nominating and Corporate Governance Committee, and Messrs. Jean d'Arthuys, Didier Lombard, Alessandro Rivera and Maurizio Tamagnini are members of the Nominating and Corporate Governance Committee; and (iv) Mr. Maurizio Tamagnini is the Chairman of the Strategic Committee, and Ms. Janet G. Davidson and Messrs. Jean d'Arthuys, Didier Lombard and Alessandro Ovi are members of the Strategic Committee.

Detailed information on attendance at full Supervisory Board and Supervisory Board Committee meetings during 2014 is as follows:

Number of Meetings Attended in 2014	Full Board	Audit Committee	Compensation Committee	Strategic Committee	Nominating & Corporate Governance Committee
Maurizio Tamagnini ⁽¹⁾	7	n/a	1	5	2
Didier Lombard	11	n/a	2	5	7
Jean d'Arthuys	8	n/a	1	4	5
Janet G. Davidson	11	9	n/a	5	n/a
Heleen Kersten ⁽²⁾	6	4	n/a	n/a	2
Jean-Georges Malcor	11	9	n/a	n/a	n/a
Alessandro Ovi	10	7	n/a	5	n/a
Alessandro Rivera	9	n/a	2	n/a	6
Bruno Steve ⁽³⁾	4	n/a	1	0	6
Martine Verluyten	11	10	n/a	n/a	n/a
Tom de Waard ⁽⁴⁾	4	4	1	n/a	5

(1) Mr. Tamagnini was appointed as a member of our Supervisory Board on June 13, 2014.

(2) Ms. Kersten was appointed as a member of our Supervisory Board on June 13, 2014

(3) Mr. Steve's mandate as member of our Supervisory Board expired on June 13, 2014.

(4) Mr. de Waard's mandate as a member of our Supervisory Board expired on June 13, 2014.

Table of Contents

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 10 times during 2014. At many of the Audit Committee's meetings, the committee received presentations on current financial and accounting issues and had the opportunity to discuss with our CEO, CFO, Head of Corporate Control, General Counsel, Chief Compliance Officer, Chief Audit and Risk Executive and external 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, 2014, and the results press release was published on January 28, 2015.

Our Audit Committee approved the compensation of our external auditors for 2014 and discussed the scope of their audit, audit related and non-audit related services for 2015. The Audit Committee also initiated the selection process of our next external auditors, who will be proposed for appointment at our 2015 General Meeting of Shareholders.

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 were 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 this 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 General Meeting of Shareholders, which was held on June 13, 2014. See Item 3. Key Information Risk Factors Risks Related to Our Operations .

Also in 2014, our Audit Committee reviewed with our external auditors our compliance with Section 404 of the Sarbanes-Oxley Act. In addition, our Audit Committee regularly reviewed management's conclusions as to the effectiveness of internal control over financial reporting, and supervised the implementation of our corporate Enterprise Risk Management (ERM) process which is led by our Chief Audit and Risk Executive.

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 was established to advise our Supervisory Board in relation to the compensation of our President and Chief Executive Officer and sole member of our Managing Board, including the variable portion of such compensation based on performance criteria recommended by our Compensation Committee. Our Compensation Committee also reviews the stock based compensation plans for our senior managers and key employees. Our Compensation Committee met 2 times in 2014.

Among its main activities, in 2014 our Compensation Committee: (i) reviewed the objectives met as compared to the performance criteria relating to the CEO bonus for the fiscal year ended on December 31, 2013; (ii) reviewed the performance criteria relating to the CEO bonus for the fiscal year ending on December 31, 2014; and (iii) established, on behalf and with the approval of the entire Supervisory Board, the applicable performance criteria, which must be met by senior managers and selected key 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 bonus of our CEO be based on, among other factors, the Company's share price evolution versus SOXX, revenues growth as well as certain financial targets and special programs.

For the 2014 invested 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 evolution, as compared against a panel of semiconductor companies, and cash flow targets.

Table of Contents

Strategic Committee. Our Strategic Committee was established to advise the Supervisory Board on and monitor key developments within the semiconductor industry and our overall strategy, and is, in particular, involved in supervising the execution of corporate strategies and in reviewing long-term planning and budgeting. Our Strategic Committee met 5 times in 2014. In addition, there were strategic discussions, many of which occurred at extended Supervisory Board meetings and involved all Supervisory Board members. 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 advise the Supervisory Board on the selection criteria and procedures relating to the appointment of members to our Supervisory Board and Managing Board, and to review principles relating to corporate governance. Our Nominating and Corporate Governance Committee met 7 times during 2014 to discuss proposals for the appointment of members to our Supervisory Board, recent developments in Dutch and U.S. law and best practices regarding corporate governance, the process for the self-evaluation of our Supervisory Board, and preparations for our 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, to ensure the continuing education and training of our Supervisory Board members and to maintain record keeping. Mr. Gabriele Pagnotta serves as Secretary, Mr. Bertrand Loubert serves as Vice Secretary and Mr. Philippe Dereeper, our Chief Compliance Officer, serves as Executive Secretary for our Supervisory Board, and for each of the Committees of our Supervisory Board.

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 Giorgio Ambrosini.

The STH Shareholders Agreement between our principal indirect shareholders contains provisions with respect to the appointment of the Secretary, Vice Secretary and Controllers. See 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, who was re-appointed in 2014 for a three-year term to expire at the end of our 2017 Annual General Meeting of Shareholders, 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

Table of Contents

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 senior managers may not serve on the board of a public company without the prior approval of our Supervisory Board. Pursuant to the charter adopted by our Supervisory Board, the sole member of our Managing Board must inform our Supervisory Board of any (potential) conflict of interest and pursuant to such charter and Dutch law, any Managing Board resolution regarding a transaction in relation to which the sole member of our Managing Board has a conflict of interest must be approved and adopted by our Supervisory Board. Should our entire Supervisory Board also have a conflict of interest, the resolution must be adopted by our shareholders' meeting pursuant to Dutch law. 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 senior managers 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 Consolidated 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, FTICI, Italian Ministry of the Economy and Finance, Bpifrance 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 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 semi-annual 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 Sheets and notes thereto in our most recently adopted (statutory) annual accounts.

Table of Contents***Senior Management***

Our senior managers support our Managing Board in its management of the Company, without prejudice to our Managing Board's ultimate responsibility.

Our organizational chart is as follows:

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 senior management, include:

Corporate Operations Reviews (COR), which meets twice per quarter to review monthly results and short-term forecasts.

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.

Corporate Strategic Committee, which meets six times per year, sets corporate policy, coordinates strategies of our various functions and drives major cross functional programs.

Our senior managers as of December 31, 2014 were:

Name	Position	Years with Company	Years in Semi-Conductor Industry	Age
Carlo Bozotti	President and Chief Executive Officer	38	38	62
Jean-Marc Chery	Chief Operating Officer	30	30	54
Carlo Ferro	Chief Financial Officer, Executive Vice President Finance, Legal, Infrastructure and Services	15	15	54
Mario Arlati	Executive Vice President, Strategies and Business Management Sense & Power and Automotive Products (SP&A)	40	40	66
Georges Auguste	Executive Vice President, General Manager, Packaging and Test Manufacturing	28	40	65
Eric Aussedat	Executive Vice President, General Manager, Imaging Division	33	33	61
Orio Bellezza	Executive Vice President, General Manager, Front-End Manufacturing & Technology R&D Sense & Power and Automotive Products (SP&A)	31	31	55

Table of Contents

Name	Position	Years with Company	Years in Semi-Conductor Industry	Age
Gian Luca Bertino	Executive Vice President, General Manager, Digital Product Group	17	28	55
Philippe Brun	Corporate Vice President, Human Resources and Sustainable Development	28	28	56
Marco Luciano Cassis	Executive Vice President, President, Japan and Korea Region	27	27	51
Paul J. Cihak ⁽¹⁾	Executive Vice President, General Manager, Sales & Marketing, Europe, Middle East and Africa	16	21	43
Andrea Cuomo	Executive Vice President, Advanced Systems Technology and Special Projects, STMicroelectronics; Chairman 3Sun	31	31	60
Claude Dardanne	Executive Vice President, General Manager, Microcontroller, Memory & Secure MCU Group	32	35	62
Lorenzo Grandi	Corporate Vice President, Corporate Control	27	27	53
Paul Grimme	Executive Vice President, Mass Market and Online Marketing Programs	6	34	55
Fabio Gualandris	Executive Vice President, Product Quality Excellence	27	30	55
François Guibert	Executive Vice President, President, Greater China and South Asia Region	34	37	61
Joël Hartmann	Executive Vice President, Front-End Manufacturing & Technology R&D, Embedded Processing Solutions (EPS)	14	36	59
Otto Kosgalwies	Executive Vice President, Company Infrastructures and Services	31	31	59
Robert Krysiak	Executive Vice President, President, Americas Region	32	32	60
Philippe Magarshack	Executive Vice President, Chief Technology Officer, Embedded Processing Solutions	20	29	53
Marco Monti	Executive Vice President, General Manager Automotive Product Group	28	28	53
Carmelo Papa	Executive Vice President, General Manager, Industrial & Power Discrete Group	32	32	65
Georges Penalver	Chief Strategy Officer, Executive Vice President, Strategy, Communication, Human Resources and Quality	3	3	58
Steven Rose	Corporate Vice President & General Counsel	23	23	52
Benedetto Vigna	Executive Vice President, General Manager, Analog, MEMS & Sensors Group	20	20	45

(1) Mr. Paul J. Cihak has held this position since April 2014.
Biographies of our Current Senior Management

Carlo Bozotti is President and Chief Executive Officer and has held this position since March 2005. He is the Sole Member of the Managing Board and chairs ST's Corporate Strategic Committee. Mr. Bozotti joined

Table of Contents

SGS-ATES (later renamed SGS Microelettronica), a predecessor company to STMicroelectronics, in 1977. Ten years later, when SGS Microelettronica of Italy merged with Thomson Semiconducteurs of France to form a new European champion, which is ST today and is among the leading semiconductor companies worldwide, Mr. Bozotti became General Manager of the Telecom Product Division. Subsequently, he was promoted to Director of Corporate Strategic Marketing and Key Accounts and, later, to Corporate Vice President, Marketing and Sales, Americas. In 1994, Mr. Bozotti was appointed Corporate Vice President for Europe and the Headquarters Regions, overseeing the Company's sales in Europe, as well as sales to key customers and strategic marketing worldwide. From 1998 to 2005, Mr. Bozotti served as Corporate Vice President and General Manager of the Memory Products Group. Mr. Bozotti is a member of the High-Level Group on Key Enabling Technologies (HLG) and the Electronics Leaders Group (ELG) launched in 2010 and 2013, respectively, by the European Commission. Mr. Bozotti graduated with a degree in Electronic Engineering from the University of Pavia, Italy.

Jean-Marc Chery is Chief Operating Officer and has held this position since April 2014. He is also in charge of ST's Embedded Processing Solutions (EPS) Segment and the Packaging & Test Manufacturing for the whole Company. Mr. Chery is Vice Chairman of ST's Corporate Strategic Committee. Chery began his career in the Quality organization of Matra, the French engineering group. In 1986, he joined Thomson Semiconducteurs, which subsequently became ST, and held various management positions in product planning and manufacturing, rising to lead ST's wafer fabs in Tours, France, and later in Rousset, France. In 2005, Mr. Chery led the company-wide 6-inch wafer-production restructuring program before taking charge of ST's Front-End Manufacturing operations in Asia Pacific. In 2008, he was promoted Chief Technology Officer and assumed additional responsibilities for Manufacturing and Quality (2011) and the Digital Product Sector (2012). He chairs the Board of STS, ST's manufacturing joint venture in China, and holds board memberships at the European microelectronics R&D programs CATRENE and AENEAS. Mr. Chery graduated with a degree in Engineering from the ENSAM engineering school in Paris, France.

Carlo Ferro is Executive Vice President, Finance, Legal, Infrastructure and Services, and Chief Financial Officer (CFO). He has held the CFO position at ST since May 2003, with temporary suspension during his tenure at ST-Ericsson, where he first served as Chief Operating Officer (February 2012 – March 2013) and President and Chief Executive Officer from April 2013 through April 2014, leading the re-organization to split up the joint-venture business and resources to the two shareholders ST and Ericsson and wind down the JV. Since August 2013, Mr. Ferro's overall responsibilities at ST have encompassed, in addition to Finance and Control, Central Operational Planning, Global Procurement, Legal, Intellectual Property, Compliance, Information and Communication Technology, Investor Relations, and Public Affairs in Italy. He is a member of ST's Corporate Strategic Committee. From 1992 to 1996, Mr. Ferro gained extensive experience in Planning and Control, Corporate Finance and M&A at Finmeccanica, the leading Italian high-tech engineering and manufacturing group and a former shareholder of STMicroelectronics. Over the next three years he held executive positions for Elsag Bailey Process Automation NV, a global leader in process control listed at NYSE, first as Vice President for Strategic Planning, and later as Vice President for Planning and Control and Principal Financial Officer. In 1999, Ferro joined ST as Group Vice President Corporate Finance, overseeing finance and accounting for all the Company's worldwide affiliates, tax planning, internal control, internal audit, and finance for M&A. In 2002, he became Deputy CFO, and was promoted to Chief Financial Officer in 2003. Mr. Ferro sits on the Board of Directors of STS, the Company's manufacturing joint venture in China, holds board memberships at ST's affiliates in France and Italy, and is Chairman of the Board of Directors of ST-Ericsson in liquidation SA. He served as Chairman of Incard and sole Managing Director of ST Service Srl. Mr. Ferro graduated in Business and Economics from the LUISS Guido Carli University in Rome, where he served as a professor of Planning and Control until 1996 and as an associate professor of Finance from 2008 through 2011. He is a Certified Public Accountant in Italy.

Mario Arlati is Executive Vice President, Strategies and Business Management for the Sense & Power and Automotive Products (SP&A) Segment and has held this position since August 2013. Mr. Arlati started his professional career at SGS-ATES, a predecessor company of STMicroelectronics. He was an integral member of the teams that managed the 1987 merger of SGS Microelettronica and Thomson Semiconducteurs, and later, in 1994, ST's Initial Public Offering on the NYSE and Euronext Paris, followed in 1998 by ST's listing on the Borsa Italiana. Mr. Arlati's career has covered all of the various functions including Accounting, Business Control, Finance, and Consolidation Reporting, in positions of increasing responsibility. He was promoted to Corporate Controller and later became Chief Accounting Officer and Head of External Reporting. He also participated in the establishment of the ST Foundation, an independent charitable organization, serving as a Director since its inception. From February 2012 to July 2013, Mr. Arlati served as Chief Financial Officer of ST. He graduated with a degree in Business and Economics from Università Cattolica in Milan, Italy.

Table of Contents

Georges Auguste is Executive Vice President and General Manager of the Packaging and Test Manufacturing organization and has held this position since May 2011. Mr. Auguste started his career in semiconductors with Philips as a technical manager. He joined Thomson Semiconducteurs, a predecessor company to STMicroelectronics, in 1986, and two years later was appointed General Manager of the manufacturing facility in Nancy, France. From 1990, Mr. Auguste served as Managing Director of the Company's operations in Morocco. In 1997, he was appointed Director of the Total Quality and Environment Group, and, in 1999, he was promoted to Corporate Vice President, responsible for implementing ST's goals to reduce consumption of natural resources and further improve quality. In 2005, Mr. Auguste's mission was enlarged to cover the coordination of ST's corporate responsibility strategy, encompassing social, ethical and environmental aspects. In 2008, he became Executive Vice President, Director of Product Quality Excellence, addressing product quality matters throughout the Company's operations. Mr. Auguste graduated with an engineering degree from the Ecole Supérieure d'Electricité in Paris and holds the diploma of the Institut d'Administration des Entreprises (Institute of Business Administration).

Eric Aussedat is Executive Vice President and General Manager of the Imaging Division and has held this position since October 2014. 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 Planning Manager of the Video Products Group in 1986. Later on, he was appointed to manage the product and manufacturing planning operations of INMOS, a UK company acquired by ST. Subsequently, he supervised the Engineering and Test Strategy for the Programmable Product Group before his promotion to head ST's Microcontroller Division in 1995. In 2000-2004, Mr. Aussedat led the TV and Display Division and became General Manager of ST's Cellular Communication Division in 2005. Two years later, he was appointed General Manager of the Imaging Division. In 2012, Mr. Aussedat was appointed ST's Executive Vice President in charge of the Imaging, Bi-CMOS ASIC and Silicon Photonics Group. 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 and General Manager of Front-End Manufacturing & Technology R&D for the Sense & Power and Automotive Products (SP&A) Segment. He has been responsible for Front-End Manufacturing since 2008 and assumed additional responsibility for technology R&D for automotive and industrial & multisegment products in February 2012. He is a member of ST's Corporate Strategic Committee. Mr. Bellezza joined SGS-ATES, a predecessor company to STMicroelectronics, in 1984. He soon moved to the Company's Central R&D organization and participated in several key projects, including the introduction of process technology modules for manufacturing sub-micron non-volatile memories. In 1996, Mr. Bellezza was appointed Director of ST's R&D facility in Agrate and led its upgrade and expansion into the Company's development center for non-volatile memory and smart-power technologies. In 2002, he became Vice President of Central R&D, and in 2005, was appointed to Vice President and Assistant General Manager of Front-End Technology and Manufacturing. He has published technical papers and earned several patents in non-volatile memories. Mr. Bellezza graduated with a degree in Chemistry from the University of Milan (Università degli Studi di Milano), Italy.

Gian Luca Bertino is Executive Vice President and General Manager of the Digital Product Group that encompass Consumer, Networking and Imaging products. He has held this position since October 2014. Mr. Bertino started his professional career with Olivetti Personal Computers, where he rose through the ranks to Head of Development, Portable PCs. He joined SGS-Thomson Microelectronics (now STMicroelectronics) in 1997 as a Market Development Manager. The following year he was appointed Director of the Computer and Consumer Business Unit, responsible for sales and marketing in Europe, and was promoted to Europe Region Vice President, Computer and Consumer, in 2000. In 2003, Mr. Bertino joined ST's Telecommunications, Peripherals and Automotive Group as Vice President and General Manager of the Data Storage Division, where he strengthened the Company's partnerships in the storage segment. In 2005, he was promoted to Corporate Vice President and General Manager of ST's Computer Product Group, and in 2008, Mr. Bertino's group was expanded to include the Communication Infrastructure organization. Mr. Bertino graduated with a degree in Electronic Engineering from the Polytechnic of Turin, Italy.

Philippe Brun is a Corporate Vice President in charge of Human Resources & Sustainable Development. Responsible for HR since August 2012, his mission was expanded to cover the Company's social responsibility, as well as environment, health, and safety in August 2013. 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

Table of Contents

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 degree in Aerospace engineering from the University of Colorado and a management degree from the IFG School of Business (France).

Marco Cassis is an Executive Vice President and President of the Japan and Korea Region. Mr. Cassis has led ST's operations in Japan since 2005 and his mandate was expanded to include Korea after the re-organization of the Company's regional structure in January 2010. Mr. Cassis joined SGS-Thomson Microelectronics (now STMicroelectronics) as a car radio chip designer in 1987. Six years later, he moved to Japan to help expand the Company's audio business with major Japanese players and contributed to the establishment of ST's strategic alliance with Pioneer in the late 1990s. In 2000, Mr. Cassis took charge of the Audio Business Unit and he was subsequently promoted to Director of Audio and Automotive Group, responsible for design, marketing, sales, application support and customer service. In 2004, Mr. Cassis was named Vice President of Marketing for automotive, computer peripheral, and telecom products. In 2005, he advanced to VP Automotive Segment Group and joined the Board of STMicroelectronics K.K., the Japanese subsidiary. Mr. Cassis graduated with a degree in Electronic Engineering from the Polytechnic of Milan, Italy.

Paul Cihak is Executive Vice President and General Manager, Sales & Marketing for the Europe, Middle East and Africa Region, and has held this position since April 2014. Mr. Cihak began his career with Hewlett Packard in 1994. He spent five years working in HP's Inkjet printing business before being hired into strategic account management by STMicroelectronics in 1999. In 2003, Mr. Cihak managed an industry-leading e-Business supply chain project cited as one of the first successful B2B RosettaNet programs in the world. Mr. Cihak rose through the ranks to become Director of Sales in 2004, Vice President of Sales in 2007, and Vice President of ST's Computer and Peripheral accounts in 2011 leading all aspects of the sales, marketing, application engineering, customer service, and business development strategy. He was promoted in 2012 to lead ST's largest sales Business Unit managing three Global Key Accounts for the Company. Mr. Cihak was born in San Diego, CA, in 1971. He graduated from the University of Oregon with a degree in History and Political Science and holds a MBA from Portland State University.

Andrea Cuomo is Executive Vice President, Advanced Systems Technology (AST) and Special Projects, and has held this position since January 2012. He also serves as Chairman of the Board at 3Sun, ST's photovoltaic joint venture with Enel Green Power and Sharp. Mr. Cuomo joined SGS Microelettronica, a predecessor company to STMicroelectronics, in 1983, and rose to become Vice President for the Headquarters Region in 1994. In 1998, he created the AST group, a key organization in the development of ST's system knowledge and advanced architectures. In 2002, Mr. Cuomo was promoted to Corporate Vice President and AST General Manager, and took on further responsibilities as Chief Strategy Officer in 2005. In 2008, Mr. Cuomo was appointed Executive Vice President, General Manager of Sales and Marketing for Europe and AST and his portfolio was later expanded to include the Middle East and Africa. His board memberships include the International Advisory Board at the HEC Business School in Paris, the International Advisory Board of Nano-Tera, a Swiss National program for Nanotechnologies, and TTFactor, the IP utilization arm of the Istituto Europeo di Oncologia. Mr. Cuomo studied Nuclear Science at the Polytechnic of Milan.

Claude Dardanne is Executive Vice President and General Manager of the Microcontroller, Memory & Secure MCU (Microcontroller) Group and has held this position since January 2007. He is a member of ST's Corporate Strategic Committee. Mr. Dardanne started his career with Thomson Semiconducteurs, a predecessor company to ST. From 1982, he was responsible for microcontroller and microprocessor marketing. Between 1989 and 1994, he was Marketing Director at Apple Computer and Alcatel-Mietec. In 1994, he rejoined ST as Director of Central Marketing for the Memory Products Group. In 1998, Mr. Dardanne became Head of the EEPROM Division and was later appointed Group Deputy General Manager and Head of the Smart Card Division. He became head of MMS Group, consolidating Microcontroller, Memory and Secure microcontrollers activities, when it was formed in early 2007. Under his leadership the Group has become a key asset in revenue and market-share growth and profitability. ST is now a world leader of the Microcontroller market. Mr. Dardanne graduated with a degree in Electronic Engineering from the Ecole Supérieure d'Ingénieurs en Génie Electrique in Rouen, France.

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

Table of Contents

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, Mass Market and Online Marketing Programs, and has held this position since April 2014. 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, he 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. In 2009 Mr. Grimme joined STMicroelectronics and was appointed Executive Vice President and General Manager of STMicroelectronics' Automotive Product Group. In January 2012, Mr. Grimme became General Manager, Sales & Marketing, for STMicroelectronics' Europe, Middle East and Africa Region. He 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 an Executive Vice President in charge of 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 smart-card 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 of the Greater China and South Asia Region. He has led ST's operations in Asia Pacific since 2006; his responsibilities were expanded to include Greater China in 2010. Mr. Guibert joined Thomson Semiconducteurs, a predecessor company to STMicroelectronics, in 1981, after three years at Texas Instruments. He was appointed Director of Semicustom Business for Asia Pacific in 1987 and later became President of ST's Taiwan operations. Mr. Guibert also held senior positions in Corporate Business Development and Investor Relations. In 2005, he was promoted to Corporate Vice President, Emerging Markets Region General Manager. Mr. Guibert serves as Director of ST's JV with Shenzhen High Tech Industrial Company. He chairs the EU-ASEAN Business Council, the Board of Advisors for the Singapore Semiconductor Industry Association, and sits on boards at EuroCham in Singapore and Alliance Francaise de Singapour. Mr. Guibert previously chaired the Board at Veredus Laboratories and was a board member at the Singapore Economic Development Board. He was decorated Knight of the National Order of Merit in France in 2009. Mr. Guibert graduated with a degree in Electronic Engineering from Ecole Centrale Marseille, France.

Joël Hartmann is Executive Vice President, Front-End Manufacturing and Technology R&D, Embedded Processing Solutions (EPS), and has held this position since February 2012. He is in charge of ST's manufacturing operations in Crolles and Rousset, France, Technology and Design Platforms for EPS. From 1979 to 2000, Mr. Hartmann worked at CEA-Leti, an applied-research center for microelectronics, information and healthcare technologies in France. In 2000, he joined STMicroelectronics as Director of the Crolles2 Alliance, the semiconductor manufacturing R&D initiative of STMicroelectronics, NXP and Freescale Semiconductor. In 2008, Mr. Hartmann was promoted to Group Vice President and Director of Advanced CMOS Logic & Derivative Technologies. From 2010 to 2012, he gained additional responsibilities as a co-leader of the Semiconductor Research and Development Center in Fishkill, NY, within the IBM ISDA Technology Alliance for the development of advanced CMOS process. Mr. Hartmann sits on the Board of the SOI Industry Consortium Initiative and is a Member of the IEEE Electron Device Society. He has filed 15 patents on semiconductor technology and devices and authored 10 publications in this field to date. He graduated from the Ecole Nationale Supérieure de Physique de Grenoble with a degree in Physics.

Otto Kosgalwies is Executive Vice President in charge of Company Infrastructures and Services and has held this position since November 2004. Central Planning was added to his mandate in 2008. Mr. Kosgalwies is a

Table of Contents

member of ST's Corporate Strategic Committee. Mr. Kosgalwies joined SGS Bauelemente, a predecessor company to STMicroelectronics, in 1984. He took charge of central marketing for European distribution in 1992, and three years later, he began to oversee the regional sales and marketing operations. In 1997, Mr. Kosgalwies was appointed Managing Director of the Company's site in Munich, Germany. In 2001, he was promoted to Group Vice President for Sales & Marketing in Europe and General Manager of Supply Chain Management, responsible for the effective flow of goods and information from suppliers to end users at the global level. Mr. Kosgalwies graduated with a degree in Business and Economics from the Ludwigs-Maximilian University in Munich.

Robert Krysiak is an Executive Vice President and President of the Americas Region and has held this position since January 2010. He also chairs ST's Task Force on Electronic Manufacturing Services, the Worldwide Computer Market Program, and the Worldwide Medical Program. Mr. Krysiak is a member of ST's Corporate Strategic Committee. He started his career in 1983 with INMOS, a company acquired by SGS-Thomson Microelectronics (now STMicroelectronics) in 1989. He formed and led a CPU design group and in 1997 was appointed Group Vice President and General Manager of ST's STAR division, which incorporated 16/32/64-bit microcontrollers and DSP products. In 1999, he became Group VP 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, Mr. Krysiak was appointed Corporate Vice President and General Manager of ST's Greater China region. Mr. Krysiak graduated from Cardiff University, UK, with a degree in Electronics and holds an MBA from the University of Bath, UK.

Philippe Magarshack is Executive Vice President, Chief Technology Officer, Embedded Processing Solutions, and has held this position since January 2015. From 1985 to 1989, Mr. Magarshack worked as a microprocessor designer at AT&T Bell Labs in the USA. 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 held several roles in CAD and Libraries management for advanced integrated-circuit manufacturing processes. In 2005, Mr. Magarshack was appointed Group Vice President and General Manager of Central CAD and Design Solutions at ST's Technology R&D and Manufacturing organization. In 2012, he was promoted to Executive Vice President in charge of Design Enablement & Services. He has been President of the Minalogic Collaborative R&D Cluster in Grenoble since June 2014. Mr. Magarshack graduated with an engineering degree in Physics from Ecole Polytechnique, Palaiseau, France, and with an Electronics Engineering degree from Ecole Nationale Supérieure des Télécommunications in Paris, France.

Marco Monti is Executive Vice President and General Manager of the 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, Mr. Monti 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.

Carmelo Papa is Executive Vice President, General Manager of the Industrial & Power Discrete Group and has held this position since January 2012. He also holds overall responsibility for the System Lab, part of ST's Central Labs organization. Mr. Papa sits on the Board of Directors of ST New Ventures SA and is a member of ST's Corporate Strategic Committee. Mr. Papa started his professional career with 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, Mr. Papa was appointed Corporate Vice President, responsible for ST's sales and marketing in Emerging Markets. In 2005, he was chosen to lead the Micro, Power and Analog Group and his mandate was expanded in 2007 as head of the Industrial & Multisegment Sector. Mr. Papa is currently serving his second term as Chairman of the European Platform on Smart Systems, an industry-driven initiative focused on innovation in nanotechnologies and smart systems integration. Mr. Papa graduated with a degree in Nuclear Physics from the University of Catania.

Table of Contents

Georges Penalver is Chief Strategy Officer, Executive Vice President Strategy, Communication, Human Resources and Quality and has held this position since August 2013. His overall responsibilities include Corporate Strategy and Development, Corporate Communication, Human Resources, Corporate Security, Product Quality Excellence and Public Affairs in France and EU. He is a member of ST's Corporate Strategic Committee. Mr. Penalver 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. He 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, responsible, at the group level, for product marketing and management of services in France Telecom Orange, 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 (until July 2012) of Cathaya Capital Fund. He was installed as a Knight of the French Ordre National du Mérite in 2003. 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.

Steven Rose is Corporate Vice President & General Counsel in charge of legal matters and has held this position since August 2013. Mr. Rose started his career as a corporate attorney at the law firm Gardere & Wynne in Dallas, Texas, providing legal advice and services to public and private companies. He joined SGS-THOMSON Microelectronics (now STMicroelectronics) in 1991 as the Associate General Counsel for the U.S. subsidiary, STMicroelectronics, Inc. In 2006, he was appointed to serve as the Senior Associate General Counsel for the Americas, Greater China & South Asia, and Japan & Korea regions, in addition to serving as Vice President, Secretary & General Counsel and a Director of STMicroelectronics, Inc. Mr. Rose obtained a degree in Accounting from Oklahoma State University and a Juris Doctor degree from the University of Oklahoma College of Law.

Benedetto Vigna is Executive Vice President, General Manager of the Analog, MEMS & Sensors Group, and has held this position since September 2011. He is a member of ST's Corporate Strategic Committee. In 1995, Mr. Vigna joined STMicroelectronics' R&D Labs and launched the Company's efforts in MEMS. Under his leadership, ST's MEMS accelerometers and gyroscopes found early success with large consumer equipment manufacturers for motion-activated user interfaces and more recently he has built on those wins piloting successful moves into microphones, magnetic sensors, and touch-screen controller markets. In 2007, Mr. Vigna's scope was enlarged to include management of Sensors, RF, High-Performance Analog and Mixed Signal, as well as Interface, Audio for Portable, and General-Purpose Analog products. Mr. Vigna has filed more than 170 patents on micromachining to date, authored numerous publications, and delivered many speeches at international conferences. He sits on the industrial board of several EU-funded programs. In 2013, Mr. Vigna won the prestigious European SEMI Award for his contribution to the MEMS industry and was acknowledged as the Executive of the Year by the MEMS Industry Group. 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 .

Table of Contents**Compensation***Supervisory Board Compensation*

The aggregate compensation for current and former members of our Supervisory Board with respect to service in 2014 was 1,011,500, before any applicable withholding taxes, as set forth in the following table.

Supervisory Board Members	Directors Fees⁽¹⁾
Maurizio Tamagnini ⁽²⁾	159,000
Didier Lombard	171,000
Jean d Arthuys	0 ⁽³⁾
Janet G. Davidson	106,500
Heleen Kersten ⁽⁴⁾	98,500
Jean-Georges Malcor	97,500
Alessandro Ovi	107,000
Alessandro Rivera	95,500
Martine Verluyten	150,500
Bruno Steve ⁽⁵⁾	11,000
Tom de Waard ⁽⁶⁾	15,000
Total	1,011,500

- (1) These amounts include a fixed annual compensation for the directors' mandate, together with attendance fees from January 1, 2014 until December 31, 2014.
- (2) Mr. Tamagnini was appointed as a member and Chairman of our Supervisory Board on June 13, 2014.
- (3) Mr. d Arthuys would have been entitled to receive 101,500 in 2014, but he waived his right to receive any compensation from the Company in relation to his mandate as a member of our Supervisory Board.
- (4) Ms. Kersten was appointed as a member of our Supervisory Board on June 13, 2014.
- (5) Mr. Steve's mandate as member of our Supervisory Board expired on June 13, 2014.
- (6) Mr. de Waard's mandate as a member of our Supervisory Board expired on June 13, 2014.

We do not have any service agreements with members of our Supervisory Board. We did not extend any loans or overdrafts to any of our Supervisory Board members. Furthermore, we have not guaranteed any debts or concluded any leases with any of our Supervisory Board members or their families.

Senior Management Compensation

Our senior management, including Mr. Carlo Bozotti, the sole member of our Managing Board and our President and CEO, receive a combination of short term and long term compensation, including fixed salary, annual cash bonus incentive, long term incentive in the form of unvested stock awards, pensions rights and other cash or non-cash benefits.

The following table sets forth the total amount paid as compensation in 2014, 2013 and 2012 to the members of our senior management (including Mr. Carlo Bozotti) on duty on December 31st of each year, before applicable withholding taxes and social contributions (amounts in millions):

	2014	2013	2012
Total⁽¹⁾	\$ 18.0	\$ 17.4	\$ 20.4

- (1) In addition, relative charges and non-cash benefits were approximately \$11.7 million in 2014, \$10.9 million in 2013 and \$11.4 million in 2012.

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The annual cash bonus incentive, which we call Corporate Executive Incentive Program (the "EIP"), entitles selected executives to a yearly bonus based upon the assessment of the achievement of individual objectives that are set on a yearly basis and focused, inter alia, on return on net assets, customer service, profit, cash flow and market share. The maximum bonus awarded under the EIP is based upon a percentage of the executive's salary and is adjusted to reflect the overall performance of our Company.

The amounts paid in 2014 to the 26 members of our senior management (including Mr. Carlo Bozotti, the sole member of our Managing Board, President and CEO) pursuant to the Corporate Executive Incentive Program represented approximately 29.84% of the total compensation paid to our senior management.

Table of Contents

	Bonus paid in 2014 (2013 performance)	Bonus paid in 2013 (2012 performance)	Bonus paid in 2012 (2011 performance)
Bonus (cash) amount	\$ 5,361,171	\$ 3,878,183	\$ 4,179,233
Ratio bonus / base salary + EIP	29.84%	22.67%	20.46%

Our Supervisory Board has approved the establishment of a complementary pension plan for certain members of our senior management, comprising the sole member of our Managing Board, President and CEO, and certain other key executives as selected by the sole member of our Managing Board, President and CEO, according to the general criteria of eligibility and service set up by the Supervisory Board upon the proposal of its Compensation Committee. With 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 2014, we made a contribution of approximately \$0.3 million to the plan of our current sole member of our Managing Board, President and CEO, and \$0.5 million to the plan for all other beneficiaries. The amount of pension plan payments made for other beneficiaries, such as former employees retired in 2014 and no longer salaried in 2014, was \$0.7 million.

We did not extend any loans or overdrafts to the sole member of our Managing Board, President and CEO, nor to any other member of our senior management. Furthermore, we have not guaranteed any debts or concluded any leases with the sole member of the Managing Board, nor with any other member of our senior management or their families.

The members of our senior management, including the sole member of our Managing Board, President and CEO, were covered in 2014 under certain group life and medical insurance programs provided by us. The aggregate additional amount set aside by us in 2014 to provide pension, retirement or similar benefits for our senior management, including the sole member of our Managing Board, President and CEO, 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.

Managing Board Compensation

Mr. Carlo Bozotti, the sole member of our Managing Board and President and CEO, receives compensation in the form of: a fixed salary, annual bonus, stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances. Set forth in the following table is Mr. Carlo Bozotti's total compensation in 2014, 2013 and 2012:

	2014	2013	2012
Salary (US dollars)	997,755	1,059,559	1,028,792
Bonus⁽¹⁾ (US dollars)	808,308	1,165,514	823,035
Charges and Non-cash Benefits⁽²⁾ (US dollars)	1,183,521	1,181,232	655,807
Total	\$ 2,989,584	\$ 3,406,305	\$ 2,507,634

- (1) The bonus paid in 2014, 2013 and 2012 was approved by the Compensation Committee and Supervisory Board with respect to the 2013, 2012 and 2011 financial year, respectively, based on the evaluation and assessment of the actual fulfillment of a number of pre-defined objectives for such year.
- (2) Including stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances. In accordance with the resolutions adopted at our Annual General Meeting of Shareholders held on May 30, 2012, the bonus of the sole member of our Managing Board and President and CEO in 2014 and 2013 included a portion of a bonus payable in stock awards and corresponding to 47,809 and 33,621 shares, respectively, based on fulfillment of a number of pre-defined objectives. In addition, Mr. Bozotti was granted, in accordance with the compensation policy adopted by our General Meeting of Shareholders and subsequent shareholder authorizations, up to 100,000 unvested 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.

Mr. Bozotti was re-appointed as sole member of our Managing Board and President and Chief Executive Officer of our company by our Annual General Meeting of Shareholders on June 13, 2014 for a three year period. 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, the EIP, Pension and other items covered by

Table of Contents

the compensation policy adopted by our General meeting of Shareholders. While, as of 2013, the relationship between a member of the managing board and a listed Dutch company will be treated as a mandate agreement, not an employment agreement, existing employment agreements, including the employment agreement between us and our sole member of the Managing Board, will remain in effect.

(i) CEO Bonus

In accordance with the resolutions adopted at our Annual General Meeting of Shareholders held on May 30, 2012, the annual bonus of the sole member of our Managing Board and President and CEO is composed of a portion payable in cash (up to a maximum of 150% of the base salary for the relevant year) and a portion payable in shares (up to a maximum of 60% of the base salary for the relevant year), all subject to the assessment and fulfillment of a number of pre-defined conditions which are set annually by the Compensation Committee of our Supervisory Board.

Consistent with the compensation policy adopted by our General Meeting of Shareholders, the Supervisory Board, upon the recommendation of its Compensation Committee, set the conditions and performance criteria that must be met by Mr. Bozotti for the attribution of his 2014 bonus. Those conditions are based, inter alia, on revenues, certain budget targets, share price evolution, as well as certain special projects. The evaluation and assessment of the fulfillment of those conditions and performance criteria, will be done by the Compensation Committee of our Supervisory Board within the first months of the following year (i.e. in 2015 for the 2014 CEO bonus), in order to determine the actual amount of the CEO bonus for 2014.

(ii) CEO Stock Awards

The Supervisory Board, upon recommendation of the Compensation Committee, determine whether the performance criteria, each equally weighted at 33.33% as described below, have been met and conclude whether and to which extent all eligible employees, including Mr. Bozotti, are entitled to any stock awards under the stock award plan. The stock awards vest 32% one year, a further 32% two years and the remaining 36% three years, respectively, after the date of the grant as defined by the plan, provided that Mr. Bozotti is still an employee at such time (subject to the acceleration provisions in the event of a change in control).

Unvested Stock Awards Allocation

Year ⁽¹⁾	Performance Achieved	Result	Details
2013	33.33% ⁽²⁾	1 criteria out of 3 met	Evolution of Sales criteria not met
			Evolution of Operating Income criteria not met
			Operating Cash Flow target met
2012	66.67% ⁽²⁾	2 criteria out of 3 met	Evolution of Sales criteria met
			Evolution of Operating Income criteria not met
			Cash Flow target met
2011	0.00% ⁽²⁾	0 criteria out of 3 met	Evolution of Sales criteria not met
			Evolution of Operating Income criteria not met
			Return on net assets (Rona) target not met

(1) For 2014, the assessment of the fulfillment of the conditions and performance criteria, will be done by the Compensation Committee of our Supervisory Board in March/April, 2015 in order to determine the actual number of stock awards to be allocated for 2014.

(2) In accordance with the resolution adopted by our General Meeting of Shareholders, the maximum grant allowed for each of 2011, 2012, 2013 and 2014 was 100,000 unvested stocks awards.

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During 2014, 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.

For further information regarding stock options and other stock based compensation granted to members of our Supervisory Board, the Managing Board and our senior management, please refer to [Stock Awards and Options](#) below.

Share Ownership

None of the members of our Supervisory Board and Managing Board or our senior management holds shares or options to acquire shares representing more than 1% of our issued share capital.

Table of Contents

Stock Awards and Options

Our stock-based compensation 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 unvested stock awards for our senior management as well as key employees. Upon the proposal of our Supervisory Board, our Annual General Meeting of Shareholders held on June 21, 2013 resolved to abolish and terminate the stock-based compensation for members and professionals of our Supervisory Board as (previously) included in the three-year stock-based compensation plans for members and professionals of the Supervisory Board.

Pursuant to the shareholders' resolutions adopted by our general meetings of shareholders, 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 unvested 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 unvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance;

approved conditions relating to our 2010 unvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance;

approved conditions relating to our 2011 unvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance;

approved conditions relating to our 2012 unvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance;

approved, for a four year period, our 2013 unvested 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 (for selected employees) and continued service with us; and

approved conditions relating to our 2014 unvested stock award allocation under the 2013 Stock Award Plan, including restriction criteria linked to our performance (for selected employees).

We use our treasury shares to cover the stock awards granted under the unvested stock award plans. In the year ended as of December 31, 2014, 3,238,820 stock awards granted in relation to 2012 and 2013 had vested, leaving 36,857,722 treasury shares outstanding. The stock based awards granted in 2014 generated an expense of \$15 million in the consolidated statement of income for 2014, 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 or professionals 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

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2001 Stock Option Plan. Our 2001 Annual General Meeting of 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.

Table of Contents

In 2005, our shareholders at our Annual General Meeting of Shareholders approved a modification to our 2001 Stock Option Plan so as to provide the grant of up to four million unvested 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 unvested stock awards instead of stock options to our President and CEO. A total of 4,159,915 unvested stock awards have been granted pursuant to the modification of such plan, which includes unvested stock awards that were granted to employees who subsequently left our Company thereby forfeiting their awards. Certain forfeited unvested stock 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 unvested stock awards at the defined vesting dates in 2006, 2007 and 2008. Of the shares awarded, none remain outstanding and unvested as of December 31, 2014.

2001 Plan (Employees)**April 25, 2001****(outstanding grants)**

	Tranche 10	Tranche 11	Tranche 12	Tranche 13	Tranche 14	Tranche 15	Tranche 16	Tranche 17
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 Mar 05	32% on 3 Jun 05	32% on 24 Oct 05	32% on 2 Jan 06	32% on 26 Apr 06	32% on 1 Sep 06	32% on 31 Jan 07	32% on 17 Mar 07
	32% on 14 Mar 06	32% on 3 Jun 06	32% on 24 Oct 06	32% on 2 Jan 07	32% on 26 Apr 07	32% on 1 Sep 07	32% on 31 Jan 08	32% on 17 Mar 08
	36% on 14 Mar 07	36% on 3 Jun 07	36% on 24 Oct 07	36% on 2 Jan 08	36% on 26 Apr 08	36% on 1 Sep 08	36% on 31 Jan 09	36% on 17 Mar 09
Number of Shares which may be acquired with Outstanding Options as of December 31, 2014	0	0	0	0	0	0	4,300	0
Held by Managing Board/Senior Management	0	0	0	0	0	0	0	0

2008 Unvested Share Award Plan 2011 Allocation

In accordance with the Employee Unvested Share Award Plan, as approved by our 2008 Annual General Meeting of Shareholders and further approved by our 2011 Annual General Meeting of Shareholders, up to 6,150,000 unvested 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 unvested stock awards to our President and CEO. 5,976,630 unvested stock awards have been granted under such allocation as of December 31, 2014, out of which none remain outstanding and unvested as of December 31, 2014.

2008 Unvested Share Award Plan 2012 Allocation

In accordance with the Employee Unvested Share Award Plan, as approved by our 2008 Annual General Meeting of Shareholders and further approved by our 2012 Annual General Meeting of Shareholders, up to 6,500,000 unvested 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 unvested Stock Awards to our President and CEO. 6,520,765 unvested stock awards have been granted under such allocation as of December 31, 2014, out of which 1,380,204 remain outstanding but unvested as of December 31, 2014.

2013 Unvested Share Award Plan 2013 Allocation

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In accordance with the Employee Unvested Share Award Plan, as approved by our 2013 Annual General Meeting of Shareholders, up to 6,900,000 unvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders meeting in 2013 approved the grant of up to 100,000 unvested stock awards to our President and CEO. 6,412,045 unvested stock awards have been granted under such allocation as of December 31, 2014, out of which 2,872,368 remain outstanding but unvested as of December 31, 2014.

Table of Contents**2013 Unvested Share Award Plan 2014 Allocation**

In accordance with the Employee Unvested Share Award Plan, as approved by our 2013 Annual General Meeting of Shareholders, up to 6,900,000 unvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders meeting in 2014 approved the grant of up to 100,000 unvested stock awards to our President and CEO. 6,959,210 unvested stock awards have been granted under such allocation as of December 31, 2014, out of which 6,923,705 remain outstanding and unvested as of December 31, 2014.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board, has approved the conditions which shall apply (when applicable) to the vesting of such awards. These conditions relate both to our financial performance meeting certain defined criteria in 2014, and to the continued presence at the defined vesting dates in 2015, 2016 and 2017 of the beneficiaries of the unvested 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 6,900,000 for 2014.

Supervisory Board Stock Based Compensation Plans

2002 Stock Option Plan for members and professionals of our Supervisory Board. Our 2002 Annual General Meeting of Shareholders approved the adoption of a stock option plan for members and professionals of our Supervisory Board (the 2002 Stock Option Plan). The 2002 Stock Option Plan provided for the grant of 12,000 options per year to each member of our Supervisory Board and 6,000 options per year to the professionals of our Supervisory Board. Pursuant to the 2002 Stock Option Plan, stock options for the subscription of 396,000 shares were granted to the members and professionals of our Supervisory Board, as shown in the table below:

2002 Stock Option Plan**(for Supervisory Board members and professionals)**

Date of Annual Shareholders Meeting	March 27, 2002		
	Tranche 1	Tranche 2	Tranche 3
Date of the grant	25 Apr 2002	14 Mar 2003	26 Apr 2004
Total Number of Shares which may be purchased	132,000	132,000	132,000
Vesting Date	25 May 2002	14 Apr 2003	26 May 2004
Expiration Date	25 Apr 2012	14 Mar 2013	26 Apr 2014
Exercise Price	\$31.11	\$19.18	\$22.71
Terms of Exercise	All exercisable after 1 year	All exercisable after 1 year	All exercisable after 1 year
Number of Shares to be acquired with Outstanding Options as of December 31, 2014	0	0	0

At December 31, 2014, no options to purchase 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 General Meeting of Shareholders 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 stock awards per year for each member of the Supervisory Board and 3,000 stock awards for each of the professionals of the Supervisory Board at an exercise 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 stock awards per year for each member of the Supervisory Board and 7,500 stock awards per year for each professional of the Supervisory Board for the remaining year of the plan.

In 2005, 66,000 stock awards were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2008. In 2006, 66,000 stock awards were granted to the beneficiaries under such plan, which had all vested as of December 31, 2009. In 2007, 165,000 stock awards were granted to the beneficiaries under such plan, which had all vested as of December 31, 2010.

Table of Contents

The table below reflects the grants to the Supervisory Board members and professionals under the 2005 Stock Based Compensation Plan as of December 31, 2014.

	2005	2006	2007
Total number of stock awards outstanding	22,115	21,000	46,500
Expiration date	25 Oct 2015	29 Apr 2016	28 Apr 2017

2008, 2009 and 2010 Stock based Compensation for members and professionals of the Supervisory Board. Our 2008 Annual General Meeting of Shareholders 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 stock awards per year for each member of the Supervisory Board and 7,500 stock awards for each of the professionals of the Supervisory Board at an exercise price of 1.04 per share, corresponding to the nominal value of our shares. In 2008, 165,000 stock awards were granted to the beneficiaries under such plan, out of which 60,000 were outstanding as of December 31, 2014. In 2009, 165,000 stock awards were granted to the beneficiaries under such plan, out of which 75,000 were outstanding as of December 31, 2014. In 2010, 172,500 stock awards were granted to the beneficiaries under such plan, out of which 75,000 were outstanding as of December 31, 2014.

The table below reflects the grants to the Supervisory Board members and professionals under the 2008 Stock Based Compensation Plan as of December 31, 2014.

	2008	2009	2010
Total number of stock awards outstanding	60,000	75,000	75,000
Expiration date	16 May 2018	20 May 2019	27 May 2020

2011 and 2012 Stock-based Compensation for members and professionals of the Supervisory Board. Our 2011 Annual General Meeting of Shareholders 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 stock awards per year for each member of the Supervisory Board and 7,500 stock awards for each of the professionals of the Supervisory Board at an exercise price of 1.04 per share, corresponding to the nominal value of our shares. In 2011, 172,500 stock awards were granted to the beneficiaries under such plan, out of which 97,500 were outstanding as of December 31, 2014. In 2012, 180,000 stock awards were granted to the beneficiaries under such plan, out of which 102,500 were outstanding as of December 31, 2014.

At our Annual General Meeting of Shareholders held on June 21, 2013, it was resolved to abolish and terminate the stock-based compensation for our Supervisory Board members and professionals as (previously) included in the three-year Stock-Based Compensation Plan for members and professionals of the Supervisory Board. No options were granted in 2013 to the Supervisory Board.

	2011	2012
Total number of stock awards outstanding	97,500	102,500
Expiration date	05 May 21	02 June 22

Employees

The tables below set forth the breakdown of employees by main category of activity and geographic area for the past three years. The 2012 figures included the employees of the consolidated entities of ST-Ericsson JVS.

	At December 31,		
	2014	2013	2012
France	9,960	10,350	10,430
Italy	9,530	9,450	8,840
Rest of Europe	840	950	2,190
United States	870	1,040	1,280

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Mediterranean (Malta, Morocco, Tunisia)	4,520	4,490	4,440
Asia	17,900	19,110	21,280
Total	43,620	45,390	48,460

Table of Contents

	At December 31,		
	2014	2013	2012
Research and Development	8,680	8,970	11,490
Marketing and Sales	2,200	2,190	2,460
Manufacturing	28,080	29,550	29,450
Administration and General Services	2,150	2,220	2,520
Divisional Functions	2,510	2,460	2,540
Total	43,620	45,390	48,460

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.

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 as of December 31, 2014 based on information available to us:

Shareholders	Common Shares Owned	
	Number	%
ST Holding	250,704,754	27.5
Public	623,234,829	68.4 ⁽¹⁾
Treasury shares	36,857,722	4.1
Total	910,797,305	100

- (1) We understand from information publicly available from the Dutch Authority for the Financial Markets that as of October 22, 2014, Capital Research and Management Company was entitled to exercise 90,665,335 voting rights attached to our common shares (representing the voting rights of approximately 9.95% of our outstanding common shares).

Our major shareholders do not have different voting rights from those of our other shareholders.

As of December 31, 2014, ST Holding beneficially owned 27.5% of our issued common shares. ST Holding is indirectly controlled by the French and Italian governments through, respectively, FTICI (the French Shareholder) and the Italian Ministry of the Economy and Finance (the Italian Shareholder). There have been no changes in the number of shares held by ST Holding or its percentage ownership in the past 3 years.

As of December 31, 2014, the French Shareholder, which is controlled by Bpifrance Participations (Bpifrance) and Commissariat à l'Énergie Atomique et aux Énergies Alternatives (CEA), and the Italian Shareholder, each directly held 50% in ST Holding with each indirectly holding 125,352,377 of our common shares, representing approximately 13.7% of our issued share capital as of December 31, 2014. 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. As of December 31, 2014, Bpifrance and CEA are the sole shareholders of the French Shareholder, holding respectively 79.2% and 20.8% of the French Shareholder's share capital. Bpifrance is an investment fund 50% owned by Caisse des dépôts et consignations and 50% owned by the French State. CEA is a French government funded technological research organization.

We have been informed that ST Holding's shareholders are party to a shareholders agreement (the STH Shareholders Agreement), which governs relations between them. We are not a party to the STH Shareholders Agreement.

Table of Contents

The chart below illustrates ST Holding's shareholding structure as of December 31, 2014:

(1) In addition to the 27.5% held by ST Holding and the 68.4% held by the Public, 4.1% are held by us as Treasury Shares.

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 Bpifrance, 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.

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 the holding company. The parties agreed to continue to hold their stakes in us at all times through the current holding structure of the holding company, subject to certain limited exceptions.

Corporate Governance

The STH Shareholders Agreement provides for a balanced corporate governance between the French Shareholder and the Italian Shareholder (the French Shareholder and the Italian Shareholder 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.

Table of Contents

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 the French Shareholder, and one designated by the Italian Shareholder) and a supervisory board comprised of six members (three designated by the French Shareholder and three designated by the Italian Shareholder). 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 Italian Shareholder on the one hand and the French Shareholder on the other hand. The current Chairman of the Supervisory Board of ST Holding is Mr. Bruno Steve and the Vice-Chairman is Mr. Alain Dutheil.

As regards STMicroelectronics N.V., the STH Shareholders Agreement provides that during the Balance Period: (i) each of the STH Shareholders (the French Shareholder, on the one hand, and the Italian Shareholder, 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 holding company may therefore be in a position to effectively control actions that require shareholder approval, including, as discussed above, the proposal of six out of nine members for election to our Supervisory Board (three members by each STH Shareholder) and the appointment of our Managing Board, as well as corporate actions, and the issuance of new shares or other securities. 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 our managing board and supervisory board; (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 Italian Shareholder or STMicroelectronics N.V. and either or both FTICI 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; (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.

Table of Contents

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 or ST Holding 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 Italian Shareholder, 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 Italian State, on the one hand, and any of Bpifrance, 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 French Ministry of the Economy or the Ministry of the Industry (the Ministry of the Economy). 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 any 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 (in such case up to 30% minus one share of our issued and outstanding share capital) or an offer on 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 as well as to create a level-playing field in the event actions which are considered hostile by our Managing Board and Supervisory

Table of Contents

Board, as described above, occur and which the board of the Stichting determines to be contrary to our interests and our shareholders and other stakeholders. 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.

Related Party Transactions

One of the members of our Supervisory Board is a member of the board of directors of Technicolor and Thales and a family member of one of the members of our Supervisory Board is an officer at GlobalFoundries. A former member of our Supervisory Board, whose mandate ended in June 2014, is a member of the supervisory board of BESI and a former member of our Supervisory Board, whose mandate ended in June 2013, is a director of Oracle Corporation (Oracle) and Flextronics International. A former member of our senior management, who resigned effective March 2013, is a member of the board of directors of Soitec and Adecco. Adecco, GlobalFoundries, as well as Oracle's subsidiary PeopleSoft, supply certain services to our Company. We have also conducted transactions with Soitec, GlobalFoundries and BESI as well as with Technicolor and Flextronics. From time to time, we may enter into transactions with or invest in subsidiaries of certain of our significant shareholders, former shareholders or other companies in which they invest (including but not limited to: Adecco, Areva, Altis, MicroOLED and Orange). Each of the aforementioned arrangements and transactions is negotiated without the personal involvement of our Supervisory Board members or, where applicable, the senior managers concerned, and we believe that they are made in line with market practices and conditions.

See Note 24 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, 2014, provisions for estimated probable 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 were a party to legal proceedings with Tessera, Inc. (Tessera)

In 2006, Tessera initiated a patent infringement lawsuit against us in the U.S. District Court for the Northern District of California claiming that our ball grid array packages infringed certain patents owned by Tessera, and that we breached a 1997 license agreement by failing to pay royalties to Tessera on sales of products in certain ball grid array packages. On September 3, 2014, we and Tessera announced that we had reached a settlement of all outstanding claims and litigation between us. The terms and conditions of the agreement between us are confidential.

Table of Contents

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 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 probable material liability, singly or in the aggregate.

Risk Management and Insurance

We cover our industrial and business risks through insurance policies and programs with leading insurance carriers with at least investment grade ratings, 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 insurance policies and programs are negotiated when the risks are recurrent in several of our affiliated companies.

Currently we have four corporate insurance policies and programs covering the following risks:

Property damage and business interruption;

General liability and product liability;

Directors and officers liability; and

Transportation risks.

Our insurance 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 might not be covered because such risks are considered to occur in the ordinary course of business and might not 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.

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Risk and fire engineering site assessments are performed, on an annual basis, through our leading property insurer's professional fire and risk engineers in the field of property damage and business interruption in our

Table of Contents

production sites, to assess potential losses and actual risk exposures, including natural catastrophes. Then, such assessments are usually provided to insurers, co-insurers and re-insurers underwriters to subscribe our risks. We do not own or operate any insurance captive companies, which acts as insurer for our own risks, although we may consider such an option in the future.

The company, under the direction of our CEO and supervision of the Audit Committee of our Supervisory Board, has implemented a corporate ERM process, which is led by our Chief Audit and Risk Executive. The corporate top down risk map is updated on an annual basis and organizations risk owners are appointed to ensure the development of the bottom-up risk mapping, as well as the implementation and monitoring of risk mitigation action plans both at corporate and organizations levels.

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.

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.

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 formulated a revised dividend policy which was submitted for discussion at our Annual General Meeting of Shareholders held in Amsterdam on June 21, 2013. As a result, we distribute a dividend on a quarterly basis based on a semi-annual decision which is based on a proposal of our Managing Board and adopted by either our Supervisory Board or our meeting of shareholders proposed by our Supervisory Board.

Our dividend policy reads as follows: we seek to use our available cash in order to develop and enhance our position in a competitive 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 results, projected capital requirements as well as business conditions and prospects, our Managing Board proposes on a semi-annual basis to our Supervisory Board, whenever deemed possible and desirable in line with our objectives and financial situation, the distribution of a quarterly cash dividend, if any. Our Supervisory Board, upon the proposal of our Managing Board, decides or proposes to the meeting of shareholders on a semi-annual basis, in accordance with this dividend policy, which portion of the profits or distributable reserves shall not be retained in reserves to fund future growth or for other purposes and makes a proposal concerning the amount, if any, of the quarterly cash dividend.

Based on our annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes twice a 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.

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 December 4, 2014, the Supervisory Board approved a cash dividend of \$0.10 per share in the fourth quarter of 2014 and the first quarter of 2015, paid in December 2014 and to be paid in March 2015, respectively.

On June 13, 2014, our shareholders adopted the payment of a semi-annual cash dividend of \$0.10 per share in the second quarter of 2014 and the third quarter of 2014, paid in June and September of 2014, respectively.

On December 2, 2013, our shareholders adopted the payment of a semi-annual cash dividend of \$0.10 per share in the fourth quarter of 2013 and first quarter of 2014, paid in December 2013 and March 2014, respectively.

Table of Contents

On June 21, 2013, our shareholders adopted the payment of a semi-annual cash dividend of \$0.10 per share in the second quarter and third quarter of 2013, paid in June and September of 2013, respectively.

On May 30, 2012, our shareholders adopted the payment of an annual cash dividend with respect to the year ended December 31, 2011 of \$0.40 per share paid in four equal installments.

On May 3, 2011, our shareholders adopted the payment of an annual cash dividend with respect to the year ended December 31, 2010 of \$0.40 per share paid in four equal installments.

On May 25, 2010, our shareholders adopted the payment of an annual cash dividend with respect to the year ended December 31, 2009 of \$0.28 per share paid in four equal installments.

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
Market Information**

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 Euronext Paris (formerly Paris Bourse) under the ISIN Code NL0000226223. On June 5, 1998, our common shares began trading on the Borsa Italiana. Since July 3, 2014 our 2019 and 2021 Convertible Bonds have been traded on the Frankfurt Stock Exchange.

On December 5, 2013, the Conseil Scientifique, an independent group of experts responsible for setting the rules and the periodical selection of the CAC 40 Index, announced the results of the annual re-ranking of the CAC 40 Index. Effective December 23, 2013, we were removed from the CAC 40 and subsequently entered the CAC Next 20 Index. The CAC Next 20 contains the 20 highest ranking companies not included in the CAC 40, the main benchmark for Euronext Paris containing 40 stocks selected among the top 100 market capitalization and the most active stocks listed on Euronext Paris.

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.

Our common shares could be removed from the CAC Next 20 and the FTSE MIB Indices at any time, and the exclusion or the announcement thereof could cause the market price of our common shares to drop significantly.

Stock Price History

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.

New York Stock Exchange	Euronext Paris	Borsa Italiana (Milan)
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Calendar Period	Price Ranges		Price Ranges		Price Ranges	
	High (US\$)	Low (US\$)	High ()	Low ()	High ()	Low ()
Annual Information for the Past Five Years						
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
2013	10.05	7.11	7.69	5.24	7.69	5.26
2014	10.00	6.27	7.42	4.89	7.42	4.89

Table of Contents

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 (€)
Quarterly Information for the Past Two Years 2013						
First quarter	9.09	7.22	6.70	5.46	6.78	5.46
Second quarter	10.05	7.11	7.69	5.51	7.69	5.51
Third quarter	9.93	7.92	7.62	6.04	7.62	6.02
Fourth quarter	9.23	7.20	6.95	5.24	6.96	5.26
2014						
First quarter	9.49	7.35	6.93	5.44	6.94	5.45
Second quarter	10.00	8.53	7.42	6.18	7.42	6.18
Third quarter	9.41	7.46	6.99	5.76	6.99	5.75
Fourth quarter	7.79	6.27	6.31	4.89	6.31	4.89
Monthly Information for the Past Six Months 2014						
September	8.55	7.46	6.65	5.83	6.65	5.83
October	7.79	6.27	6.22	4.89	6.22	4.89
November	7.56	6.71	6.05	5.29	6.05	5.31
December	7.77	7.02	6.31	5.57	6.31	5.57
2015						
January	8.57	7.20	7.75	6.05	7.75	6.05
February (as of February 10, 2014)	8.80	8.24	7.76	7.29	7.76	7.30

Source: Bloomberg

Of the 873,939,583 common shares outstanding as of December 31, 2014, 40,006,958, or 4.6%, were registered in the common share registry maintained on our behalf in New York and 583,227,871, or 66.7%, of our common shares outstanding were listed on Euroclear France and traded on Euronext Paris and on the Borsa Italiana in Milan.

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 December 2, 2013.

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

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market manipulation, market abuse and insider trading) in repurchasing our shares. Also, we are required to notify the AFM of all our inside information press releases simultaneously with the publication of such press releases. 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

Table of Contents

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.

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.

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 . 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 and Supervisory Board. Where seats on a managing board and supervisory 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 are 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. Currently, our Supervisory Board comprises nine members of which 3 are female and 6 are male.

As of January 1, 2014, Dutch statutory provisions have been introduced to adjust and reclaim bonuses of members of a managing board of (among others) Dutch public limited liability companies, including us. Bonuses that have been granted (but not yet paid) to our sole member of the Managing Board can be adjusted in retrospect to an appropriate amount if such bonus under the circumstances would be inappropriate according to principles of reasonableness and fairness. Also, bonuses that have been granted (and paid) to the sole member of our Managing Board can be reclaimed in retrospect in whole or in part if the bonus was granted on the basis of

Table of Contents

incorrect information regarding the achievement of certain targets on which the bonus was based or regarding circumstances subject to which the bonus was granted. If and when any remuneration has been adjusted or reclaimed, we will be obliged to include a statement in the explanation to our statutory IFRS Annual Accounts regarding the amount of the adjustment or reclamation of such bonus.

Furthermore, these new statutory provisions prescribe that in the event of (a) a public offer on our common shares, (b) a proposal to approve a Managing Board resolution regarding a significant change in the identity or nature of us or our enterprise (as further described below under *Authority of our Shareholders Meeting (Articles 12, 16, 19, 25, 28, 32 and 41)*), and (c) a proposal for a legal merger or legal demerger, we are obliged to set off the amount of the increase in value of shares, depositary receipts or rights to claim or acquire shares that were granted by way of remuneration to the sole member of our Managing Board with his remuneration in any of the events described above.

Finally, these new statutory provisions prescribe that at the shareholders meeting in which the statutory IFRS Annual Accounts are adopted, the implementation of the compensation policy during the past financial year must be accounted for.

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 241-5 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), the Italian securities regulator. Because our common shares are listed on the MTA, we are required to publish certain information in order to comply with (i) the Legislative Decree No. 58 of February 24, 1998, as amended (the Italian Financial Act) and related regulations promulgated by the CONSOB and (ii) certain rules of the Borsa Italiana. These requirements include, among others: (i) disclosure of price-sensitive information (such as capital increases, 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.

Table of Contents

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, among others, 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 promptly notify the Italian stock market of any modification to the amount of our share capital.

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 senior management, 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 trade register (*handelsregister*) of the Dutch Chamber of Commerce (*Kamer van Koophandel*) 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 and Dutch law, 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. If our entire Supervisory Board would have a conflict of interest, our shareholders' meeting is the competent corporate body to adopt the relevant resolution. 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 has a requirement or policy that Supervisory Board members hold a minimum number of our common shares.

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.

Table of Contents

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(s).

Our Supervisory Board independently as well as our shareholders' meeting, upon the proposal of our Supervisory Board, may each 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.

Table of Contents

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 million. 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. As of July 1, 2013, a new Dutch statutory provision entered into force requiring a shareholder requesting discussion of an agenda item to disclose to us its entire beneficial interest (long and short position). We are required to mention this interest 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.

Attendance at Shareholders Meetings and Voting Rights (Articles 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

Table of Contents

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 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 would not be applicable. 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 2:13 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 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

Table of Contents

enterprise or practically our entire enterprise to a third party, (ii) entering into or canceling any long-term cooperation between us or a subsidiary 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 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 Sheets 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 3, 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent.

Furthermore, persons holding 3% 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).

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*)

Table of Contents

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.

As of July 1, 2013 a new Section 5.39 subsection 2 of the FMSA entered into force requiring the holder of a financial instrument representing a short position in our shares to notify the AFM if such short position, expressed in a capital percentage, reaches or crosses a threshold percentage 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 which the AFM has entered in its public register. The threshold percentages are the same as referred to above in this section. Short position refers to the gross short position (i.e., a long position held by the holder cannot be offset against the short position).

The aforementioned disclosure requirement on gross short positions exists in addition to the requirement for the holder of a financial instrument representing a short position in our shares under the Regulation (EU) No 236/2012 on short selling and certain aspects of credit default swaps (the EU Shortselling Regulation), effective as of November 2012, to notify AFM of the net short position (i.e., long positions are offset against short positions) if such short position, expressed in a capital percentage, reaches or crosses a threshold percentage; The threshold percentages are 0.2% each 0.1% above that. Notifications as of 0.5% and each 0.1% above that will be published by the AFM.

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).

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 (Articles 4, 5 and 6)

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.

Table of Contents

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 June 13, 2014, 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 per December 31, 2013, increased with another 15% of our issued common share capital as per December 31, 2013, in case of mergers and acquisitions, but never exceeding the limits of our authorized share capital. This authorization is valid for a period of three years as of June 13, 2014. 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 senior managers; (ii) the options giving the right to subscribe to our shares granted in the past to the members of our Supervisory Board, its secretaries and controllers, as described in Item 6. Directors, Senior Management and Employees; (iii) our Bonds; and (iv) the option giving the right to subscribe to our preference shares to Stichting Continuïteit ST.

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 June 13, 2014, 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, 2013, increased with another 15% of our issued common share capital, as per December 31, 2013, 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 period of 18 months as of June 13, 2014, 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.

Table of Contents

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.

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 General Meeting of Shareholders held on June 13, 2014, our Managing Board, subject to the approval of our Supervisory Board, is authorized for a period up to December 12, 2015 (inclusive) to acquire our 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,

Table of Contents

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.

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, 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;
- (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 or a supervisory board;
- (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, unless such interest forms part of the assets of 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.

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, if any, 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 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.

Table of Contents

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.

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 which is taxable in The Netherlands, and your common shares are attributable to such enterprise; or

2. you are an individual and you derive benefits, or are deemed to derive benefits, from common shares that are taxable as benefits from miscellaneous activities in The Netherlands as meant in article 7.2, paragraph 2, sub c, of the Dutch Income Tax Act 2001.

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, 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.

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 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 and the Tax Arrangement for the country of The Netherlands. 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, 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.

Table of Contents

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; or
 - (d) an entity connected with you within the meaning of Article 10a, paragraph 4, of the Dutch Corporation Tax Act 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 as meant by Article 6a or Article 28 of the Dutch Corporation Tax Act 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

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.

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See the section Dutch Taxation Taxes on income and capital gains above for a description of the term Non-resident holder of common shares.

Table of Contents

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 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 of common shares, (ii) the 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.