

STMICROELECTRONICS NV  
Form 6-K  
August 04, 2014

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated August 4, 2014

Commission File Number: 1-13546

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STMicroelectronics N.V.  
(Name of Registrant)

WTC Schiphol Airport  
Schiphol Boulevard 265  
1118 BH Schiphol Airport  
The Netherlands  
(Address of Principal Executive Offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F  Q

Form 40-F  £

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes  £

No  Q

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes  £

No  Q

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes  £

No  Q

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-  
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Enclosure: STMicroelectronics N.V.’s Second Quarter and First Half 2014:

- Operating and Financial Review and Prospects;
  - Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months and six months ended June 28, 2014; and
  - Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.
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## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flows and Statements of Equity for the three months and six months ended June 28, 2014 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2013 as filed with the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”) on March 5, 2014 (the “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 “Business Overview” and “Liquidity and Capital Resources—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” included in the Form 20-F. We assume no obligation to update the forward-looking statements or such risk factors.

Our Management’s Discussion and Analysis of Financial Position and Results of Operations (“MD&A”) is provided in addition to the accompanying unaudited interim consolidated financial statements (“Consolidated Financial Statements”) and notes to assist readers in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

- Critical Accounting Policies using Significant Estimates.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months and six months ended June 28, 2014 designed to provide context for the other sections of the MD&A, including our expectations for selected financial items for the third quarter of 2014.
- Other Developments in the Second Quarter 2014.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months and six months ended June 28, 2014, as well as segment information.
  - Legal Proceedings.
- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.
- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.
  - Impact of Recently Issued U.S. Accounting Standards.
- Backlog and Customers, discussing the level of backlog and sales to our key customers.
  - Disclosure Controls and Procedures.
- Cautionary Note Regarding Forward-Looking Statements.



### Critical Accounting Policies Using Significant Estimates

There were no material changes in the first half of 2014 to the information provided under the heading “Critical Accounting Policies Using Significant Estimates” included in our annual report on Form 20-F for the fiscal year ended December 31, 2013.

### Fiscal Year

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. The first quarter of 2014 ended on March 29, 2014. The second quarter ended on June 28. The third quarter and the fourth quarter of 2014 will end on September 27 and December 31, 2014, respectively. 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. There were 91 days in the second quarter of 2014 compared to 91 days in the second quarter of 2013 and 88 days in the first quarter of 2014.

### Business Overview

Our results of operations for each period were as follows:

|  | Three Months Ended                                 |                   |                  | % Variation |                |
|--|--|-------------------|------------------|-------------|----------------|
|  | June 28,<br>2014                                   | March 29,<br>2014 | June 29,<br>2013 | Sequential  | Year-Over-Year |
|  | (Unaudited, in millions, except per share amounts) |                   |                  |             |                |
| Net revenues                                     | \$1,864  | \$1,825           | \$2,045          | 2.1         | % (8.9)%       |
| Gross profit                                     | 634  | 599               | 672              | 6.0         | % (5.5)%       |
| Gross margin as percentage of net revenues       | 34.0   | % 32.8            | % 32.8           |             | %              |
| Operating income (loss)                          | 98   | (4 )              | (107 )           |             |                |
| Net income (loss) attributable to parent company | 38   | (24 )             | (152 )           |             |                |
| Earnings per share                               | 0.04   | (0.03 )           | (0.17 )          |             |                |

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

Based on the most recently published estimates by WSTS, semiconductor industry revenues increased in the second quarter of 2014 on a year-over-year basis by approximately 11% for both the TAM and the SAM to reach approximately \$83 billion and \$38 billion, respectively. Sequentially, both the TAM and the SAM increased by approximately 5%.

During the second quarter we made positive business and financial progress in key areas: from revenue to gross margin improvement as a result of our product, marketing and manufacturing initiatives. Our performance benefited from the combination of favorable macro-economic and market dynamics, especially in Industrial and Automotive, and from the traction of our innovative portfolio and mass-market initiatives.

The Nano2017 program was approved by the European Union in the second quarter of 2014 and we, in our role as Coordinator and Project Leader of Nano2017, 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.

To strengthen our capital structure and significantly enhance our financial flexibility, we took advantage of favorable terms and raised \$1 billion in July through a convertible bond offering. We intend to use the net proceeds of the offering for general corporate purposes.

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Second quarter 2014 revenues amounted to \$1,864 million, an 8.9% decrease on a year-over-year basis. Sense & Power and Automotive Products (SP&A) segment revenues decreased by about 1% primarily due to a decrease in Analog & MEMS, partially offset by growth in Automotive and Industrial & Power Discrete. Embedded Processing Solutions (EPS) segment revenues decreased by approximately 20% mainly due to the phasing-out of the legacy ST-Ericsson products and weak performance in Digital Convergence Group and Imaging, only partially offset by the growth in Microcontrollers. Excluding legacy ST-Ericsson products, our revenues decreased by 2.1%. Sequentially, we registered a 2.1% increase, which was slightly higher than the 2% increase at the mid-point of our guidance; the major contributors to this growth were Microcontrollers, Industrial & Power Discrete and Automotive. The Digital Convergence Group, excluding legacy ST-Ericsson products, increased revenues slightly on a sequential basis from the first quarter of 2014, which we believe was the low point of this product line's revenues. Compared to the served market, our performance was below the SAM both on a year-over-year and sequential basis. For a detailed description of our segments, see "Results of Operations—Segment Information" below.

Our effective average exchange rate for the second quarter of 2014 was \$1.36 for €1.00 compared to \$1.30 for €1.00 for the second quarter of 2013 and \$1.35 for €1.00 in the first quarter of 2014. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see "Impact of Changes in Exchange Rates" below.

Our second quarter 2014 gross margin was 34.0% of revenues, compared to the 33.6% mid-point of our guidance, and increasing sequentially by 120 basis points, mainly due to improved manufacturing efficiencies and a more favorable product mix, partially offset by the negative impact of lower selling prices. On a year-over-year comparison, our second quarter 2014 gross margin improved by 120 basis points.

Our combined selling, general and administrative (SG&A) and research and development (R&D) costs amounted to \$626 million, decreasing by about 15% compared to \$738 million in the prior-year quarter mainly due to the ST-Ericsson wind-down and the impact of our cost savings initiatives. On a sequential basis, operating expenses increased by about 3% compared to \$606 million in the prior quarter, mainly due to there being more calendar days in the second quarter compared to the first quarter.

Other income and expenses, net in the second quarter, significantly increased to \$110 million, compared to \$15 million and \$2 million in the first and year-ago quarter, respectively. The second quarter of 2014 included \$100 million related to the catch-up for 2013 and the first quarter of 2014 funding of the Nano2017 R&D program which started January 1, 2013, but was not recognized until the second quarter following the obtention of EU approval.

Our operating income was \$98 million in the second quarter of 2014 improving from a loss of \$107 million in the second quarter of 2013 and a loss of \$4 million in the first quarter of 2014. 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 R&D grants, including grants related to previous periods. Sequentially, the improvement in our operating results was mainly due to higher gross profit and increased other income following the recognition of Nano2017 grants. In our Sense & Power and Automotive segment, both of the Industrial & Power Discrete and Automotive product lines delivered sequential growth and strong operating margin improvements. In total, SP&A's operating margin reached double-digits. In our Embedded Processing Solutions segment, our leadership in microcontrollers continues to be a key driver of improvement as our general-purpose microcontrollers business had its fifth consecutive quarter of record revenues. Also, as anticipated, our digital consumer and ASIC business started to grow after reaching an inflection point in the first quarter.

In the third quarter, we expect to see sequential revenue growth in all areas of our product portfolio. In SP&A, IPD and APG are expected to perform better than seasonal, benefiting from both the favorable macro-environment conditions as well as from our market position, and we also expect to see growth in AMS. In EPS, MMS is expected to moderately grow in the third quarter, after posting a record second quarter; our activities in Digital, including DCG

and IBP, are also expected to grow. We expect third quarter 2014 revenues to increase about 3% on a sequential basis, plus or minus 3.5 percentage points.

Based upon our revenue growth outlook as well as product mix between analog and digital we anticipate that our third quarter gross margin will increase to about 34.4% at the midpoint of the range, plus or minus 2.0 percentage points, despite a higher level of unused capacity charges as our manufacturing capacity in digital technology is not yet fully utilized.



Excluding the second quarter one-time effect related to the recognition of the Nano2017 grants, we anticipate further improvement in our operating margin in the third quarter, as we continue to progress step-by-step towards reaching our target financial model.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.355 = €1.00 for the 2014 third quarter and includes the impact of existing hedging contracts. The third quarter will close on September 27, 2014.

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” in our Form 20-F as may be updated from time to time in our SEC filings.

#### Other Developments in the second quarter of 2014

On May 14, 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 ST’s FD-SOI technology.

On June 13, we announced that all the resolutions were approved at our Annual General Meeting of Shareholders (AGM). The main resolutions approved by the shareholders were:

- 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 AGM;
- The reappointment for a three-year term, expiring at the 2017 AGM, 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 AGM, of Ms. Heleen Kersten and Mr. Maurizio Tamagnini in replacement of Mr. Tom de Waard and Mr. Bruno Steve, whose terms expired;
- The adoption of the Company’s 2013 Statutory Annual Accounts prepared in accordance with International Financial Reporting Standards;
- The distribution of a cash dividend of US\$0.10 per common share for each of the second quarter of 2014, paid in June 2014, and third quarter of 2014, to be paid in September 2014 to shareholders of record in the month of each quarterly payment; and
- The appointment of PricewaterhouseCoopers Accountants N.V. as the Company’s external auditor for the 2014 and 2015 financial years.

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, 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, we announced the pricing of a \$1 billion dual-tranche offering of convertible bonds (the “Bonds”). The 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, currently intended to meet our obligations in relation to our employee stock award plans.

On June 27, we announced the publication of our 2013 Sustainability Report. This annual report 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.

## 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.

In 2014, our segments are as follows:

- Sense & Power and Automotive Products (SP&A), including the following product lines:
  - o Automotive (APG);
  - o Industrial & Power Discrete (IPD);
  - o Analog & MEMS (AMS); and
  - o Other SP&A;
- Embedded Processing Solutions (EPS), comprised of the following product lines:
  - o Digital Convergence Group (DCG);
  - o Imaging, BI-CMOS ASIC and Silicon Photonics (IBP);
  - o Microcontrollers, Memory & Secure MCU (MMS); and
  - o Other EPS.

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 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”.

The following tables present our consolidated net revenues and consolidated operating income (loss) by product segment. For the computation of the segments’ internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, 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. 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.

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |

(Unaudited, in millions) (Unaudited, in millions)

Net revenues by product line and product segment:

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Automotive (APG)                                  | \$463   | \$416   | \$907   | \$801   |
| Industrial & Power Discrete (IPD)                 | 475     | 466     | 917     | 896     |
| Analog & MEMS (AMS)                               | 264     | 327     | 568     | 640     |
| Sense & Power and Automotive Products (SP&A)      | 1,202   | 1,209   | 2,392   | 2,337   |
| Digital Convergence Group (DCG)                   | 184     | 375     | 389     | 870     |
| Imaging, BI-CMOS ASIC and Silicon Photonics (IBP) | 76      | 98      | 153     | 170     |
| Microcontrollers, Memory & Secure MCU (MMS)       | 396     | 351     | 742     | 651     |
| Other EPS   | 1       | -       | 1       | 1       |
| Embedded Processing Solutions (EPS)               | 657     | 824     | 1,285   | 1,692   |
| Others(1)   | 5       | 12      | 12      | 26      |
| Total consolidated net revenues                   | \$1,864 | \$2,045 | \$3,689 | \$4,055 |

(1) In the second quarter of 2014, "Others" includes revenues from the sales of Subsystems (\$2 million) and sales of materials and other products not allocated to product segments (\$3 million).

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |

(Unaudited, in millions) (Unaudited, in millions)

Operating income (loss) by product segment:

|  |       |         |       |         |
|--|-------|---------|-------|---------|
| Sense & Power and Automotive Products (SP&A) | \$126 | \$42    | \$230 | \$99    |
| Embedded Processing Solutions (EPS)          | 14    | (106)   | (66)  | (316)   |
| Others(1)                                    | (42)  | (43)    | (71)  | (171)   |
| Total consolidated operating income (loss)   | \$98  | \$(107) | \$93  | \$(388) |

(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.

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |

(Unaudited, as percentage of net revenues) (Unaudited, as percentage of net revenues)

Operating income (loss) by product segment:

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|   |      |   |       |    |      |   |       |    |
|---|------|---|-------|----|------|---|-------|----|
| Sense & Power and Automotive Products (SP&A)(1) | 10.5 | % | 3.5   | %  | 9.6  | % | 4.3   | %  |
| Embedded Processing Solutions (EPS) (1)         | 2.1  |   | (12.8 | )  | (5.1 | ) | (18.7 | )  |
| Others  | -    |   | -     |    | -    |   | -     |    |
| Total consolidated operating income (loss)(2)   | 5.3  | % | (5.2  | )% | 2.5  | % | (9.6  | )% |

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

(2) As a percentage of total net revenues.

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |

(Unaudited, in millions) (Unaudited, in millions)

Reconciliation to consolidated operating loss:

|   |       |         |       |         |
|---|-------|---------|-------|---------|
| Total operating income (loss) of product segments                 | \$140 | \$(64)  | \$164 | \$(217) |
| Unused capacity charges   | (5)   | (2)     | (10)  | (26)    |
| Impairment, restructuring charges and other related closure costs | (20)  | (43)    | (32)  | (144)   |
| Strategic and other research and development programs             | (2)   | (6)     | (3)   | (10)    |
| Phase-out and start-up costs                                      | (3)   | -       | (6)   | -       |
| Other non-allocated provisions(1)                                 | (12)  | 8       | (20)  | 9       |
| Total operating loss Others                                       | (42)  | (43)    | (71)  | (171)   |
| Total consolidated operating income (loss)                        | \$98  | \$(107) | \$93  | \$(388) |

(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.

Net revenues by location of shipment and by market channel

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

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |

(Unaudited, in millions) (Unaudited, in millions)

Net Revenues by Location of Shipment(1):

|                          |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| EMEA                     | \$508   | \$516   | \$976   | \$1,006 |
| Americas                 | 276     | 322     | 555     | 626     |
| Greater China-South Asia | 820     | 839     | 1,623   | 1,632   |
| Japan-Korea              | 260     | 368     | 535     | 791     |
| Total                    | \$1,864 | \$2,045 | \$3,689 | \$4,055 |

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

The table below shows the percentage of our net revenues by market channel:

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |

(Unaudited, in millions) (Unaudited, in millions)

## Net Revenues by Market Channel(1):

|              |     |   |     |   |     |   |     |   |
|--------------|-----|---|-----|---|-----|---|-----|---|
| OEM          | 69  | % | 74  | % | 69  | % | 75  | % |
| Distribution | 31  |   | 26  |   | 31  |   | 25  |   |
| Total        | 100 | % | 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.



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

|   | Three Months Ended (unaudited) |                   |                |                   |               |                   |
|---|--------------------------------|-------------------|----------------|-------------------|---------------|-------------------|
|   | June 28, 2014                  |                   | March 29, 2014 |                   | June 29, 2013 |                   |
|   | \$ million                     | % of net revenues | \$ million     | % of net revenues | \$ million    | % of net revenues |
| Net sales   | \$1,858                        | 99.7              | \$1,801        | 98.7              | \$2,034       | 99.4              |
| Other revenues  | 6                              | 0.3               | 24             | 1.3               | 11            | 0.6               |
| Net revenues  | 1,864                          | 100               | 1,825          | 100.0             | 2,045         | 100               |
| Cost of sales   | (1,230 )                       | (66.0 )           | (1,226 )       | (67.2 )           | (1,373 )      | (67.2 )           |
| Gross profit  | 634                            | 34.0              | 599            | 32.8              | 672           | 32.8              |
| Selling, general and administrative                               | (237 )                         | (12.7 )           | (228 )         | (12.4 )           | (285 )        | (13.9 )           |
| Research and development  | (389 )                         | (20.9 )           | (378 )         | (20.7 )           | (453 )        | (22.1 )           |
| Other income and expenses, net                                    | 110                            | 5.9               | 15             | 0.8               | 2             | 0.1               |
| Impairment, restructuring charges and other related closure costs | (20 )                          | (1.1 )            | (12 )          | (0.7 )            | (43 )         | (2.1 )            |
| Operating income (loss)   | 98                             | 5.2               | (4 )           | (0.2 )            | (107 )        | (5.2 )            |
| Interest income (expense), net                                    | (3 )                           | (0.1 )            | (2 )           | (0.1 )            | 7             | 0.4               |
| Loss on equity method investments                                 | (52 )                          | (2.8 )            | (8 )           | (0.4 )            | (89 )         | (4.4 )            |
| Gain on financial instruments, net                                | -                              | -                 | 1              | -                 | -             | -                 |
| Income (loss) before income taxes and noncontrolling interest     | 43                             | 2.3               | (13 )          | (0.7 )            | (189 )        | (9.2 )            |
| Income tax benefit (expense)                                      | (7 )                           | (0.4 )            | (9 )           | (0.5 )            | 16            | 0.8               |
| Net income (loss)   | 36                             | 1.9               | (22 )          | (1.2 )            | (173 )        | (8.4 )            |
| Net loss (income) attributable to noncontrolling interest         | 2                              | 0.1               | (2 )           | (0.1 )            | 21            | 1.0               |
| Net income (loss) attributable to parent company                  | \$38                           | 2.0               | %(24 )         | (1.3 )%           | \$(152 )      | (7.4 )%           |

#### Second Quarter 2014 vs. First Quarter 2014 and Second Quarter 2013

##### Net revenues

|                          | June 28, 2014 | Three Months Ended |               | % Variation |                |
|--------------------------|---------------|--------------------|---------------|-------------|----------------|
|                          |               | March 29, 2014     | June 29, 2013 | Sequential  | Year-Over-Year |
| (Unaudited, in millions) |               |                    |               |             |                |
| Net sales                | \$ 1,858      | \$ 1,801           | \$ 2,034      |             |                |
| Other revenues           | 6             | 24                 | 11            |             |                |
| Net revenues             | \$ 1,864      | \$ 1,825           | \$ 2,045      | 2.1%        | (8.9)%         |

##### Year-over-year comparison

Our second quarter 2014 net revenues decreased by 8.9% as a result of an approximate 4% decrease in average selling prices and 5% lower volume. The decrease in average selling prices resulted from a pure pricing effect with a neutral impact of the product mix. Excluding legacy ST-Ericsson products, our revenues decreased by 2.1%.

By product segment, our revenues were down by approximately 20% in EPS, while SP&A registered a decrease of approximately 1%. Excluding legacy ST-Ericsson products, EPS segment revenues decreased by approximately 5%. Within the SP&A segment, APG and IPD revenues increased by about 11% and 2% respectively while AMS registered a decline of approximately 19%. Within EPS, IBP and DCG including legacy ST-Ericsson products registered a decline of revenues of approximately 22% and 51% respectively while MMS increased by about 13%.

By market channel, our revenues registered a major increase in Distribution, whose share of total revenues was up by approximately 5%, reaching 31% of our total revenues.

By location of shipment, all regions dropped mostly due to the phase-out of legacy ST-Ericsson products.

In the second quarter of 2014 and 2013, no customer exceeded 10% of our total net revenues.

## Sequential comparison

On a sequential basis, our revenues increased by 2.1%, in line with our quarterly guidance. The sequential increase resulted from an approximate 8% increase in units sold partially offset by an approximate 6% decrease in average selling prices. Excluding legacy ST-Ericsson products and the first quarter one-time licensing revenues, our revenues increased by 4.7%.

By product segment, both SP&A and EPS increased their revenues by 0.9% and 4.6% respectively. In SP&A, the key drivers of our top-line growth were IPD and APG product lines, increasing by 7.4% and 4.2%, respectively, partially offset by a decline in AMS revenues of 13.3%. In EPS, the growth was driven by MMS whose revenues increased by 14.5%, while legacy ST-Ericsson products sales, within the DGC product line, decreased by about 45%.

By market channel, the second quarter of 2014 showed a sequential improvement for Distribution from the 30% share registered in the first quarter of 2014.

By location of shipment, sequential growth was led by EMEA with an increase of 8.3% driven by automotive and industrial customers, followed by Greater China & South Asia with an increase of 2.0%. Japan & Korea decreased by 5.3% reflecting lower sales of legacy ST-Ericsson products and the Americas decreased by 0.7%.

## Gross profit

|  | June 28, 2014 | Three Months Ended<br>March 29,<br>2014 |             | June 29, 2013 | % Variation |                |
|--|---------------|---|-------------|---------------|-------------|----------------|
|  |               | (Unaudited, in millions)                |             |               | Sequential  | Year-Over-Year |
| Cost of sales                                | \$ (1,230 )   | \$ (1,226 )                             | \$ (1,373 ) | (0.3 )%       | 10.5 %      |                |
| Gross profit                                 | 634           | 599                                     | 672         | 6.0           | (5.5 )      |                |
| Gross margin (as percentage of net revenues) | 34.0 %        | 32.8 %                                  | 32.8 %      |               |             |                |

In the second quarter, gross margin was 34.0%, increasing on a year-over-year basis by approximately 120 basis points.

On a sequential basis, gross margin in the second quarter increased by 120 basis points, mainly due to improved manufacturing efficiencies and a more favorable product mix, partially offset by the negative impact of lower selling prices.

## Selling, general and administrative expenses

|  | June 28,<br>2014 | Three Months Ended<br>March 29,<br>2014 |           | June 29,<br>2013 | % Variation |                |
|--|------------------|---|-----------|------------------|-------------|----------------|
|  |                  | (Unaudited, in millions)                |           |                  | Sequential  | Year-Over-Year |
| Selling, general and administrative expenses | \$ (237 )        | \$ (228 )                               | \$ (285 ) | (4.5 )%          | 16.7 %      |                |
| As percentage of net revenues                | (12.7 )%         | (12.4 )%                                | (13.9 )%  |                  |             |                |

The amount of our SG&A expenses decreased on a year-over-year basis, mainly due to the ST-Ericsson wind-down and our cost savings initiatives. Sequentially, our SG&A expenses mainly increased due to a longer calendar. As a percentage of revenues, our SG&A expenses amounted to 12.7%, decreasing year-over-year by 1.2 percentage points, and increasing sequentially by 0.3 percentage points.

#### Research and development expense

|                                   | June 28,<br>2014 | Three Months Ended |                  | % Variation |                |
|-----------------------------------|------------------|--------------------|------------------|-------------|----------------|
|                                   |                  | March 29,<br>2014  | June 29,<br>2013 | Sequential  | Year-Over-Year |
| (Unaudited, in millions)          |                  |                    |                  |             |                |
| Research and development expenses | \$ (389 )        | \$ (378 )          | \$ (453 )        | (3.0 )%     | 14.0 %         |
| As percentage of net revenues     | (20.9 )%         | (20.7 )%           | (22.1 )%         |             |                |

The second quarter of 2014 R&D expenses decreased on a year-over-year basis, mainly due to the ST-Ericsson wind-down and our cost savings initiatives. Sequentially, our R&D expenses mainly increased due to a longer calendar.

The second quarter 2014 R&D expenses were net of research tax credits, which amounted to \$33 million compared to \$38 million in the prior-year quarter and \$35 million in the prior quarter.

As a percentage of revenues, our R&D expenses amounted to 20.9%, decreasing year-over-year by 1.2 percentage points, and increasing sequentially by 0.2 percentage points.

Other income and expenses, net

|   | Three Months Ended       |                   |                  |
|---|--------------------------|-------------------|------------------|
|   | June 28,<br>2014         | March 29,<br>2014 | June 29,<br>2013 |
|   | (Unaudited, in millions) |                   |                  |
| Research and development funding                  | \$130                    | \$21              | \$10             |
| Phase-out and start-up costs                      | (3 )                     | (3 )              | -                |
| Exchange gain (loss), net                         | 2                        | (1 )              | 1                |
| Patent costs                                      | (16 )                    | (13 )             | (8 )             |
| Gain on sale of businesses and non-current assets | 1                        | 13                | 2                |
| Other, net  | (4 )                     | (2 )              | (3 )             |
| Other income and expenses, net                    | \$110                    | \$15              | \$2              |
| As percentage of net revenues                     | 5.9                      | % 0.8             | % 0.1            |

In the second quarter of 2014, we recognized an income, net of \$110 million, increasing compared to previous periods mainly due to income from R&D funding. Income from R&D funding is associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies. The second quarter of 2014 included \$100 million related to the catch-up of funding of the Nano2017 R&D program which started January 1, 2013, but was not recognized until the second quarter following the obtention of EU approval.

Impairment, restructuring charges and other related closure costs

|   | Three Months Ended       |                   |                  |
|---|--------------------------|-------------------|------------------|
|   | June 28,<br>2014         | March 29,<br>2014 | June 29,<br>2013 |
|   | (Unaudited, in millions) |                   |                  |
| Impairment, restructuring charges and other related closure costs | \$(20 )                  | \$(12 )           | \$(43 )          |

In the second quarter of 2014, we recorded \$20 million of impairment, restructuring charges and other related closure costs, mainly due to the following:

- \$15 million restructuring charges related to our headcount reduction initiative targeting quarterly net operating expenses in the range of \$600 to \$650 million by the beginning of 2014 (“plan 600”); and
- \$5 million restructuring charges related to the manufacturing consolidation plans.

In the first quarter of 2014, we recorded \$12 million of impairment, restructuring charges and other related closure costs, of which: (i) \$10 million restructuring charges related to our “plan 600”; and (ii) \$2 million restructuring charges

related to the manufacturing consolidation plans.

In the second quarter of 2013, we recorded \$43 million of impairment, restructuring charges and other related closure costs, of which: (i) \$33 million in restructuring charges related to our “plan 600”; (ii) \$5 million in restructuring charges related to the previously announced ST-Ericsson restructuring plans; (iii) \$1 million in restructuring charges in relation to our Digital restructuring plan announced in October 2012; (iv) \$8 million in impairment charges primarily related to certain assets considered as assets held for sale as part of the ST-Ericsson exit, offset by a \$9 million net reduction of the restructuring provision in relation to the ST-Ericsson exit; and (v) \$5 million in restructuring charges related to other restructuring initiatives.

## Operating income (loss)

|                               | June 28, 2014 | Three Months Ended<br>March 29, 2014<br>(Unaudited, in millions) | June 29, 2013 |
|-------------------------------|---------------|--|---------------|
| Operating income (loss)       | \$ 98         | \$ (4 )  | \$ (107 )     |
| In percentage of net revenues | 5.2 %         | (0.2 )%  | (5.2 )%       |

The second quarter of 2014 registered an operating income of \$98 million compared to an operating loss of \$107 million in the year-ago quarter and an operating loss of \$4 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. Sequentially, the improvement in our operating results was mainly due to higher other income.

Our SP&A segment reported an increase in its operating income compared to the year-ago and prior quarter periods. Our EPS segment registered an operating income, due entirely to the positive impact of the catch-up for 2013 and the first quarter of 2014 related to the Nano2017 grants, compared to an operating loss in the year-ago and prior quarter periods. In the second quarter of 2014, the operating result without the effect of the Nano2017 grants catch-up would have been a loss of approximately \$80 million. The segment "Others" registered an operating loss of \$42 million, from \$43 million in the year-ago period and \$28 million in the prior quarter period.

## Interest income (expense), net

|                                | June 28, 2014 | Three Months Ended<br>March 29, 2014<br>(Unaudited, in millions) | June 29, 2013 |
|--------------------------------|---------------|--|---------------|
| Interest income (expense), net | \$ (3 )       | \$ (2 )  | \$ 7          |

We recorded a net interest expense of \$3 million, compared to a net income of \$7 million in the prior year quarter and a net expense of \$2 million in the prior quarter. The prior year quarter income was mainly the result of a one-time interest payment received with respect to a U.S. tax refund.

## Loss on equity-method investments

|                                   | June 28, 2014 | Three Months Ended<br>March 29, 2014<br>(Unaudited, in millions) | June 29, 2013 |
|-----------------------------------|---------------|--|---------------|
| Loss on equity-method investments | \$ (52 )      | \$ (8 )  | \$ (89 )      |

In the second quarter of 2014, we recorded a charge of \$52 million, of which \$1 million related to our share in ST-Ericsson JVS losses and \$51 million related to 3Sun, including impairment and other charges associated with our decision to exit the joint venture. On July 22, 2014, we signed an agreement to transfer all 3Sun ownership and obligations to Enel Green Power.

In the second quarter of 2013, we recorded a charge of \$89 million, of which \$91 million related to our share in 3Sun results, which consisted of \$22 million operating losses and \$69 million as non-cash item following the impairment of 3Sun's assets.

## Income tax (expense) benefit

|                              | June 28, 2014 | Three Months Ended<br>March 29, 2014<br>(Unaudited, in millions) | June 29, 2013 |
|------------------------------|---------------|--|---------------|
| Income tax (expense) benefit | \$ (7 )       | \$ (9 )  | \$ 16         |

During the second quarter of 2014, we registered an income tax expense of \$7 million, reflecting the discrete effective tax rate estimated in each of our jurisdictions, applied to the second quarter consolidated result before taxes, as opposed to an estimated effective tax rate due to significant uncertainty in estimating the effective tax rate. In addition, our income tax included the estimated impact of provisions related to potential tax positions which have been considered uncertain.



## Net loss (income) attributable to noncontrolling interest

|   | June 28, 2014 | Three Months Ended<br>March 29, 2014<br>(Unaudited, in millions) | June 29, 2013 |
|---|---------------|--|---------------|
| Net loss (income) attributable to noncontrolling interest | \$ 2          | \$ (2 )  | \$ 21         |

In the second quarter of 2014, we recorded \$2 million representing the loss attributable to noncontrolling interest mainly related to our joint venture in Shenzhen, China for assembly operating activities. In the second quarter of 2013, the corresponding amount was a loss of \$21 million which mainly reflected Ericsson's share in the ST-Ericsson JVS joint venture's result, prior to the deconsolidation as of September 1, 2013.

## Net income (loss) attributable to parent company

|  | June 28, 2014 | Three Months Ended<br>March 29, 2014<br>(Unaudited, in millions) | June 29, 2013 |
|--|---------------|--|---------------|
| Net income (loss) attributable to parent company | \$ 38         | \$ (24 )   | \$ (152 )     |
| As percentage of net revenues                    | 2 %           | (1.3 )%  | (7.4 )%       |

For the second quarter of 2014, we reported a net income of \$38 million compared to a \$152 million loss in the year-ago quarter and a \$24 million loss in the prior quarter.

Earnings per share for the second quarter of 2014 was \$0.04 compared to \$(0.17) in the year-ago quarter and \$(0.03) in the prior quarter.

In the second quarter of 2014, the impact per share after tax of impairment, restructuring charges and one-time charges, a non U.S. GAAP measure, was estimated to be approximately \$(0.07) per share, while in the first quarter of 2014, it was estimated to be approximately \$(0.02) per share. In the year-ago quarter, the impact of impairment, restructuring charges and one-time charges was estimated to be approximately \$(0.11) per share.

## First Half of 2014 vs. First Half of 2013

The following table sets forth consolidated statements of operations data for the periods indicated:

|                                     | Six Months Ended<br>(Unaudited) |                      | Six Months Ended<br>(Unaudited) |                      |
|-------------------------------------|---------------------------------|----------------------|---------------------------------|----------------------|
|                                     | June 28,<br>2014                | June 28,<br>2014     | June 29,<br>2013                | June 29,<br>2013     |
|                                     | \$ million                      | % of net<br>revenues | \$ million                      | % of net<br>revenues |
| Net sales                           | \$3,658                         | 99.2 %               | \$4,037                         | 99.6 %               |
| Other revenues                      | 31                              | 0.8                  | 18                              | 0.4                  |
| Net revenues                        | 3,689                           | 100                  | 4,055                           | 100                  |
| Cost of sales                       | (2,456 )                        | (66.6 )              | (2,755 )                        | (67.9 )              |
| Gross profit                        | 1,233                           | 33.4                 | 1,300                           | 32.1                 |
| Selling, general and administrative | (465 )                          | (12.6 )              | (564 )                          | (13.9 )              |

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|   |      |   |       |   |          |   |       |    |
|---|------|---|-------|---|----------|---|-------|----|
| Research and development  | (768 | ) | (20.8 | ) | (986     | ) | (24.3 | )  |
| Other income and expenses, net                                    | 125  |   | 3.4   |   | 6        |   | 0.1   |    |
| Impairment, restructuring charges and other related closure costs | (32  | ) | (0.9  | ) | (144     | ) | (3.6  | )  |
| Operating income (loss)   | 93   |   | 2.5   |   | (388     | ) | (9.6  | )  |
| Interest expense, net   | (4   | ) | (0.1  | ) | -        |   | -     |    |
| Loss on equity-method investments                                 | (60  | ) | (1.6  | ) | (102     | ) | (2.5  | )  |
| Gain on financial instruments, net                                | 1    |   | 0.0   |   | -        |   | -     |    |
| Income (loss) before income taxes and noncontrolling interest     | 30   |   | 0.8   |   | (490     | ) | (12.1 | )  |
| Income tax benefit  | (16  | ) | (0.4  | ) | 21       |   | 0.5   |    |
| Net income (loss)   | 14   |   | 0.4   |   | (469     | ) | (11.6 | )  |
| Net loss (income) attributable to noncontrolling interest         | -    |   | -     |   | 147      |   | 3.7   |    |
| Net income (loss) attributable to parent company                  | \$14 |   | 0.4   |   | % \$(322 | ) | (7.9  | )% |

## Net revenues

|                | Six Months Ended         |                  | %         |
|----------------|--------------------------|------------------|-----------|
|                | June 28,<br>2014         | June 29,<br>2013 | Variation |
|                | (Unaudited, in millions) |                  |           |
| Net sales      | \$3,658                  | \$4,037          |           |
| Other revenues | 31                       | 18               |           |
| Net revenues   | \$3,689                  | \$4,055          | (9.0 )%   |

Our first half 2014 net revenues decreased compared to the year-ago period, mainly due to the significant reduction of legacy ST-Ericsson products revenues following our decision to exit the ST-Ericsson joint venture. Excluding legacy ST-Ericsson products, our revenues decreased by approximately 1% compared to the year-ago period. Net revenues decreased by 9.0% as a result of a decline in average selling prices of approximately 5% and a decline in volume of approximately 4%.

By product segment, our revenues were down by approximately 24% for EPS, mainly due to DCG including legacy ST-Ericsson products and IBP partially balanced by MMS. SP&A registered an increase of approximately 2% mainly driven by APG and IPD.

By market channel, the major increase was in Distribution, which reached a 31% share of total revenues compared to approximately 25% in the first half of 2013.

By location of shipment, revenues declined in all regions.

In the first half of 2014, no customer exceeded 10% of our total net revenues, while Samsung Group represented approximately 11% of our total net revenues in the first half of 2013.

## Gross profit

|  | Six Months Ended         |                  | %         |
|--|--------------------------|------------------|-----------|
|  | June 28,<br>2014         | June 29,<br>2013 | Variation |
|  | (Unaudited, in millions) |                  |           |
| Cost of sales                                | \$(2,456 )               | \$(2,755 )       | 10.9 %    |
| Gross profit                                 | 1,233                    | 1,300            | (5.1 )    |
| Gross margin (as percentage of net revenues) | 33.4 %                   | 32.1 %           |           |

Gross margin was 33.4% in the first half of 2014, increasing by 130 basis points compared to the year-ago period. We experienced an improvement in manufacturing efficiencies as well as lower unused capacity charges, which were partially offset by declining selling prices and volumes.

## Selling, general and administrative expenses

|  | Six Months Ended | %         |
|--|------------------|-----------|
|  |                  | Variation |

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|  | June 28,<br>2014         | June 29,<br>2013 |      |   |
|--|--------------------------|------------------|------|---|
|  | (Unaudited, in millions) |                  |      |   |
| Selling, general and administrative expenses | \$(465 )                 | \$(564 )         | 17.6 | % |
| As percentage of net revenues                | (12.6 )%                 | (13.9 )%         |      |   |

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The amount of our SG&A expenses decreased mainly due to the ST-Ericsson wind-down and our cost savings initiatives. As a percentage of revenues, our SG&A expenses amounted to 12.6% in the first half of 2014, improving compared to 13.9% in the prior year's half.

#### Research and development expenses

|                                   | Six Months Ended         |                  | % Variation |   |
|-----------------------------------|--------------------------|------------------|-------------|---|
|                                   | June 28,<br>2014         | June 29,<br>2013 |             |   |
|                                   | (Unaudited, in millions) |                  |             |   |
| Research and development expenses | \$(768 )                 | \$(986 )         | 22.1        | % |
| As percentage of net revenues     | (20.8 )%                 | (24.3 )%         | -           |   |

R&D expenses decreased in the first half of 2014 compared to the prior year's first half, mainly due to the ST-Ericsson wind-down and our cost savings initiatives.

Total R&D expenses were net of research tax credits, which amounted to \$68 million in the first half of 2014, compared to \$69 million in the year-ago period.

#### Other income and expenses, net

|   | Six Months Ended         |                  |     |   |
|---|--------------------------|------------------|-----|---|
|   | June 28,<br>2014         | June 29,<br>2013 |     |   |
|   | (Unaudited, in millions) |                  |     |   |
| Research and development funding                  | \$152                    | \$20             |     |   |
| Phase-out and star-up costs                       | (6 )                     | -                |     |   |
| Exchange gain, net                                | 1                        | 4                |     |   |
| Patent costs                                      | (29 )                    | (15 )            |     |   |
| Gain on sale of businesses and non current assets | 13                       | 2                |     |   |
| Other, net  | (6 )                     | (5 )             |     |   |
| Other income and expenses, net                    | \$125                    | \$6              |     |   |
| As percentage of net revenues                     | 3.4                      | %                | 0.1 | % |

In the first half of 2014, we recognized an income net of \$125 million, improving compared to \$6 million in the first half of 2013, mainly due to the higher level of R&D funding following the European Union approval of the Nano2017 program.

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

|   | Six Months Ended         |                  |  |  |
|---|--------------------------|------------------|--|--|
|   | June 28,<br>2014         | June 29,<br>2013 |  |  |
|   | (Unaudited, in millions) |                  |  |  |
| Impairment, restructuring charges and other related closure costs | \$(32 )                  | \$(144 )         |  |  |

In the first half of 2014, we recorded \$32 million of impairment, restructuring charges and other related closure costs, mainly due to the following:

- \$25 million restructuring charges related to our “plan 600”; and
- \$7 million restructuring charges related to the manufacturing consolidation plans.

In the first half of 2013, we recorded \$144 million of impairment, restructuring charges and other related closure costs, of which: (i) \$81 million in impairment and restructuring charges related to the ST-Ericsson exit; (ii) \$47 million in restructuring charges related to our “plan 600”; (iii) \$10 million in restructuring charges related to the previously announced ST-Ericsson restructuring plans and iv) \$6 million in restructuring charges related to other restructuring initiatives.

## Operating income (loss)

|                               | Six Months Ended         |                  |
|-------------------------------|--------------------------|------------------|
|                               | June 28,<br>2014         | June 29,<br>2013 |
|                               | (Unaudited, in millions) |                  |
| Operating income (loss)       | \$93                     | \$(388)          |
| As percentage of net revenues | 2.5                      | % (9.6)%         |

Our operating results improved in the first half of 2014 compared to the first half of 2013 mainly due to improved manufacturing efficiencies, savings in operating expenses, lower amounts of impairment and restructuring charges and higher other income, which were partially offset by declining selling prices and volumes. This resulted in a first half 2014 operating income of \$93 million compared to an operating loss of \$388 million in the year-ago period.

SP&A registered an operating income of \$230 million or approximately 10% of revenues, improving from \$99 million or about 4% of revenues, due to higher revenues level, improved product mix and manufacturing efficiencies and higher other income. Mainly due to the catch-up related to the Nano2017 grants and the reduced level of operating expenses, EPS registered a significant improvement in its operating loss, from \$316 million or about 19% of revenues in the first half of 2013 to \$66 million or approximately 5% of revenues in the first half of 2014. The segment "Others" decreased its losses to \$71 million, from \$171 million in the year-ago period, mainly due to lower impairment and restructuring charges.

## Interest expense, net

|                       | Six Months Ended         |                  |
|-----------------------|--------------------------|------------------|
|                       | June 28,<br>2014         | June 29,<br>2013 |
|                       | (Unaudited, in millions) |                  |
| Interest expense, net | \$(4)                    | \$-              |

In the first half of 2014, interest expense on our borrowings was \$8 million, partially balanced by \$4 million in interest income. In the first half of 2013, interest expense was nil, comprised of \$14 million interest expense on our borrowings almost entirely offset by the one-time interest payment received with respect to a U.S tax refund in the second quarter of 2013.

## Loss on equity-method investments

|                                   | Six Months Ended         |                  |
|-----------------------------------|--------------------------|------------------|
|                                   | June 28,<br>2014         | June 29,<br>2013 |
|                                   | (Unaudited, in millions) |                  |
| Loss on equity-method investments | \$(60)                   | \$(102)          |

In the first half of 2014, we recorded a charge of \$60 million, out of which \$9 million related to our share in ST-Ericsson JVS as a loss pick-up and \$51 million related to 3Sun, including impairment and other charges associated with our decision to exit the joint venture. In the first half of 2013, we recorded a charge of \$102 million, out of which \$96 million related to our share in 3Sun results which consisted of \$27 million operating losses and \$69 million as non-cash item following 3Sun's assets impairment. The remaining \$6 million loss related to other investments.

Income tax (expense) benefit

|                              | Six Months Ended |                  |
|------------------------------|------------------|------------------|
|                              | June 28,<br>2014 | June 29,<br>2013 |
| Income tax (expense) benefit | \$(16            | ) \$21           |

During the first half of 2014, we registered an income tax expense of \$16 million, reflecting the discrete effective tax rate estimated in each of our jurisdictions, applied to the consolidated result before taxes, as opposed to an estimated effective tax rate due to significant uncertainty in estimating the effective tax rate. In addition, our income tax included the estimated impact of provisions related to potential tax positions which have been considered uncertain.

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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 estimated tax rate could be different in future quarters and may increase in the coming years. In addition, our yearly income tax charges include the estimated impact of provisions related to potential tax positions which have been considered uncertain.

Net loss (income) attributable to noncontrolling interest

|   | Six Months Ended         |                  |
|---|--------------------------|------------------|
|   | June 28,<br>2014         | June 29,<br>2013 |
|   | (Unaudited, in millions) |                  |
| Net loss (income) attributable to noncontrolling interest | \$-                      | \$147            |

In the first half of 2014, the loss attributable to noncontrolling interest was nil. In the first half of 2013, the corresponding amount was a loss of \$147 million which mainly reflected Ericsson's share in the ST-Ericsson JVS joint venture's result, prior to the deconsolidation as of September 1, 2013.

Net income (loss) attributable to parent company

|  | Six Months Ended         |                  |
|--|--------------------------|------------------|
|  | June 28,<br>2014         | June 29,<br>2013 |
|  | (Unaudited, in millions) |                  |
| Net income (loss) attributable to parent company | \$14                     | \$(322)          |
| As percentage of net revenues                    | 0.4                      | (7.9)%           |

For the first half of 2014, we reported a net income of \$14 million compared to a \$322 million loss in the year-ago first half.

#### Legal Proceedings

For a discussion of legal proceedings, see Note 23 Contingencies, Claims and Legal proceedings to our Consolidated Financial Statements.

#### Impact of Changes in Exchange Rates

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

As a market rule, the reference currency for the semiconductor industry is the U.S. dollar and the market prices of semiconductor products are mainly denominated in U.S. dollars. However, revenues for some of our products (primarily our dedicated products sold in Europe) are quoted in currencies other than the U.S. dollar and as such are directly affected by fluctuations in the value of the U.S. dollar. As a result of currency variations, the appreciation of the Euro compared to the U.S. dollar could increase, in the short-term, our level of revenues when reported in U.S. dollars. Revenues for all other products, which are either quoted in U.S. dollars and billed in U.S. dollars or in local

currencies for payment, tend not to be affected significantly by fluctuations in exchange rates, except to the extent that there is a lag between the changes in currency rates and the adjustments in the local currency equivalent of the price paid for such products. Furthermore, certain significant costs incurred by us, such as manufacturing costs, SG&A expenses, and R&D expenses, are largely incurred in the currency of the jurisdictions in which our operations are located. Given that most of our operations are located in the Euro zone and other non-U.S. dollar currency areas, including Singapore, our costs tend to increase when translated into U.S. dollars when the dollar weakens or to decrease when the U.S. dollar strengthens.

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

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

Our Consolidated Statements of Income for the three months and six months ended June 28, 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 exchange rate was \$1.36 for the second quarter of 2014 compared to \$1.35 for €1.00 in the first quarter of 2014 and \$1.30 for €1.00 in the second quarter of 2013. Our effective average exchange rate was \$1.36 for €1.00 for the first half of 2014 compared to \$1.30 for €1.00 in the first half 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 June 28, 2014, the outstanding hedged amounts were €463 million to cover manufacturing costs and €334 million to cover operating expenses, at an average exchange rate of about \$1.3990 for €1.00 and \$1.3915 for €1.00 respectively (considering the options and the collars at strike), maturing over the period from July 1, 2014 to May 5, 2015. As of June 28, 2014, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory resulted in a deferred profit of approximately \$4 million before tax, recorded in “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Equity, compared to a deferred profit of approximately \$39 million before tax at December 31, 2013.

We also hedge certain manufacturing costs denominated in Singapore dollars (SGD); as of June 28, 2014, the outstanding hedged amounts were SGD 124 million at an average exchange rate of about SGD 1.2587 to \$1.00 maturing over the period from July 3, 2014 to June 4, 2015. As of June 28, 2014, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory resulted in a deferred profit of approximately \$1 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 the second quarter of 2014, as a result of our cash flow hedging, we recorded a net profit of \$11 million, consisting of a profit of about \$2 million to R&D expenses, a profit of about \$9 million to costs of goods sold and a profit of less than \$1 million to SG&A expenses, while in the second quarter of 2013, we recorded a net profit of \$1 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” in our Form 20-F, which may be updated from time to time in our public filings. 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 \$2 million recorded in “Other income and expenses, net” in our Consolidated Statements of Income for the second quarter of 2014.

The assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. Income and expenses, as well as cash flows, are translated at the average exchange rate for the period. The balance sheet impact, as well as the income statement and cash flow impact, of such translations have been, and may be expected to be, significant from period to period since a large part of our assets and liabilities and activities are accounted for in Euros as they are located in jurisdictions where the Euro is the functional currency. Adjustments resulting from the translation are recorded directly in equity, and are shown as “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Equity. At June 28, 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” in our Form 20-F, which may be updated from time to time in our public filings.

#### 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) 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 mainly consist of European Investment Bank Floating Rate Loans at Libor and Euribor plus variable spreads.

At June 28, 2014, our total financial resources, including cash and cash equivalents and marketable securities, generated an average interest income rate of 0.26%. At the same date, the average interest rate on our outstanding debt was 0.97%.

#### Impact of Changes in Equity Prices

As of June 28, 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 17 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 Investor 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” in our Form 20-F, which may be updated from time to time in our public filings.

Cash flow

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 the first half of 2014, our net cash decreased by \$333 million, due to the net cash used in investing and financing activities exceeding the net cash from operating activities.

The components of our cash flow for the comparable periods are set forth below:

|                                       | Six Months Ended |                  |
|---------------------------------------|------------------|------------------|
|                                       | June 28,<br>2014 | June 29,<br>2013 |
|                                       | (In millions)    |                  |
| Net cash from operating activities    | \$ 123           | \$ 81            |
| Net cash used in investing activities | (258 )           | (227 )           |
| Net cash used in financing activities | (196 )           | (493 )           |
| Effect of changes in exchange rates   | (3 )             | (28 )            |
| Net cash decrease                     | \$(334 )         | \$(667 )         |

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 the first half of 2014 was \$123 million, increasing compared to \$81 million in the prior year period. Net cash from operating activities in the first half of 2014 compared to the year-ago period benefited from an increased net income adjusted for non-cash items, which was partially offset by the unfavorable changes in net working capital, mainly due to the negative impact of other assets and liabilities driven by the recognition of the Nano2017 grants not collected as of the end of the second quarter.

Net cash used in investing activities. Investing activities used \$258 million of cash in the first half of 2014, mainly due to payments for the purchase of tangible, intangible, financial assets and investment in short term deposits, 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 prior-year period (\$227 million) was primarily due to the investment in short term deposits for \$50 million and the higher amount of payments for the purchase of tangible assets, partially offset by the proceeds from the sale of businesses for \$19 million. Payments for purchase of tangible assets, net of proceeds, totaled \$251 million compared to \$232 million registered in the prior year period.

Net cash used in financing activities. Net cash used in financing activities was \$196 million in the first half of 2014 decreasing compared to the \$493 million used in the first half of 2013. The decrease in the net cash used in financing activities was primarily due to the \$455 million repayment of the residual outstanding 2013 Senior Bonds in the first half of 2013, partially offset by the proceeds from short-term borrowings for \$145 million in the same period. The first half of 2014 amount included \$175 million in dividends paid to stockholders compared to \$164 million in the prior year period.

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 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:



|   | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 28, 2014      | June 28, 2014 | June 29, 2013    | June 29, 2013 |
|   | (In millions)      |               | (In millions)    |               |
| Net cash from operating activities  | \$ 71              | \$ 123        | \$ 81            |               |
| Net cash used in investing activities   | (219 )             | (258 )        | (227 )           |               |
| Excluding:  |                    |               |                  |               |
| Proceeds from sale of marketable securities, change in short term deposits, restricted cash, net and net variation for JV deconsolidation | 49                 | (16 )         | (53 )            |               |
| Payment for purchase and proceeds from sale of tangible and intangible assets (1)   | (170 )             | (274 )        | (280 )           |               |
| Free Cash Flow (non U.S. GAAP measure)  | \$ (99 )           | \$ (151 )     | \$ (199 )        |               |

(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 financial assets, Proceeds received in sale of businesses.

Free Cash Flow was negative \$151 million in the first half of 2014, improving compared to negative \$199 million in the first half of 2013.

Net Financial Position (non U.S. GAAP measure).

Our Net Financial Position represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, 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:

|                           | June 28, 2014 | As at          |               |
|---------------------------|---------------|----------------|---------------|
|                           |               | March 29, 2014 | June 29, 2013 |
|                           | (In millions) |                |               |
| Cash and cash equivalents | \$ 1,502      | \$ 1,744       | \$ 1,583      |
| Marketable securities     | -             | -              | 189           |
| Short-term deposits       | 51            | 1              | 1             |
| Total financial resources | 1,553         | 1,745          | 1,773         |
| Short-term debt           | (225 )        | (225 )         | (313 )        |
| Long-term debt            | (905 )        | (908 )         | (651 )        |
| Total financial debt      | (1,130 )      | (1,133 )       | (964 )        |
| Net Financial Position    | \$ 423        | \$ 612         | \$ 809        |

Our Net Financial Position as of June 28, 2014 was a net cash position of \$423 million, decreasing compared to the net cash position of \$612 million at March 29, 2014, as a result of our negative Free Cash Flow and dividends payment.

Cash and cash equivalents amounted to \$1,502 million as at June 28, 2014, as a result of our cash flow evolution as presented above.

Financial debt was \$1,130 million as at June 28, 2014, composed of (i) \$225 million of current portion of long-term debt and (ii) \$905 million long-term debt. The breakdown of our total financial debt included: (i) \$1,111 million in European Investment Bank loans (the "EIB Loans"), (ii) \$17 million in loans from other funding programs, and (iii) \$2 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 \$78 million remained outstanding as of June 28, 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 \$163 million remained outstanding as of June 28, 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 the equivalent of \$399 million remained outstanding as of June 28, 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, all of which is outstanding as of June 28, 2014. At June 28, 2014, the amounts available under our short-term lines of credit were unutilized.

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

On July 3, 2014, we issued \$1,000 million principal amount of dual tranche senior unsecured convertible bonds (Tranche A for \$600 million and Tranche B for \$400 million), due 2019 and 2021, respectively, for net proceeds of approximately \$995 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 is approximately \$12, equivalent to a 30% and a 31% premium, respectively, on each tranche. The 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 bonds prior to their maturity in certain circumstances. We intend to use the net proceeds of the offering for general corporate purposes.

Upon initial recognition, the proceeds will be allocated between debt and equity by determining the liability component using either an income approach or a market approach or a combination of the two. The liability component will accrete to par value until maturity based on the effective interest rate. In the computation of diluted EPS, the convertible bonds will be dilutive only for the portion of net-share settlement underlying the conversion premium when the conversion option is in the money.

On June 26, 2014 we also 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 will be made on the Borsa Italiana exclusively. The purchased shares will not be retired but are currently intended to meet our obligations in relation to the employee stock award plans.

On December 19, 2013, Moody's lowered our senior debt rating from "Baa2" to "Baa3" with stable outlook.

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

We are also rated "BBB-" from Fitch on an unsolicited basis.

As of June 28, 2014, debt payments due by period were as follows:

|  | Total    | Payments Due by Period |        |               |        |        | Thereafter |
|--|----------|------------------------|--------|---------------|--------|--------|------------|
|  |          | 2014                   | 2015   | 2016          | 2017   | 2018   |            |
|  |          |                        |        | (In millions) |        |        |            |
| Long-term debt<br>(including current<br>portion) | \$ 1,130 | \$ 203                 | \$ 205 | \$ 195        | \$ 119 | \$ 117 | \$ 291     |

#### 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 \$510-550 million in 2014, to be adjusted based on demand thereafter. The most important of our 2014 capital expenditure projects are expected to be: (a) for our front-end facilities: (i) in our 300-mm fab in Crolles, technology evolution to consolidate the capability for 20-nm processes and mix evolution to support the production ramp up of new technologies for microcontrollers and automotive advanced products; (ii) a few selective programs of mix evolution, mainly in the area of analog processes; (iii) qualification of technologies in 200-mm in Singapore and 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; (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.

In support of our R&D activities, we signed the Nano2017 program with the French government, 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.

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 negligible, 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.

#### Contractual Obligations, Commercial Commitments and Contingencies

Our contractual obligations, commercial commitments and contingencies are mainly comprised of: operating leases for land, buildings, plants and equipment; purchase commitments for equipment, outsourced foundry wafers and for software licenses; long-term debt obligations; pension obligations and other long-term liabilities.

#### Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at June 28, 2014.

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

See Note 5 Recent Accounting Announcements to our Consolidated Financial Statements.

#### Backlog and Customers

During the second quarter of 2014, our bookings plus frames orders increased compared to the first quarter of 2014, reflecting an improved demand in several product lines. We entered the third quarter 2014 with a backlog higher than the level we had when entering the second quarter 2014. Backlog (including frame orders) is subject to possible cancellation, push back and a lower ratio of frame orders being translated into firm orders and, thus, it is not necessarily indicative of the amount of billings or growth to be registered in subsequent periods.

In the first half of 2014, no customer accounted for more than 10% of our total net revenues while Samsung group represented approximately 11% of our total net revenues in the first half of 2013. There is no guarantee that any

customer will continue to generate revenues for us at the same levels as in prior periods. If we were to lose one or more of our key customers, or if they were to significantly reduce their bookings, not confirm planned delivery dates on frame orders in a significant manner or fail to meet their payment obligations, our operating results and financial condition could be adversely affected.

## Disclosure Controls and Procedures

### Evaluation

Our management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (“Disclosure Controls”) as of the end of the period covered by this report. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this periodic report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis.

The evaluation of our Disclosure Controls included a review of the controls’ objectives and design, our implementation of the controls and their effect on the information generated for use in this periodic report. In the course of the controls evaluation, we reviewed identified data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed at least on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 6-K and Form 20-F. The components of our Disclosure Controls are also evaluated on an ongoing basis by our Internal Audit Department, which reports directly to our Audit Committee. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this periodic report, our Disclosure Controls were effective.

### Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Limitations on Effectiveness of Controls

No system of internal control over financial reporting, including one determined to be effective, may prevent or detect all misstatements. It can provide only reasonable assurance regarding financial statement preparation and presentation. Also, projections of the results of any evaluation of the effectiveness of internal control over financial reporting into future periods are subject to inherent risk that the relevant controls may become inadequate due to changes in circumstances or that the degree of compliance with the underlying policies or procedures may deteriorate.

### Other Reviews

We have sent this report to our Audit Committee, which had an opportunity to raise questions with our management and independent auditors before we submitted it to the Securities and Exchange Commission.

### Cautionary Note Regarding Forward-Looking Statements

Some of the statements contained in this Form 6-K that are not historical facts, particularly in “ Business Overview” and in “Liquidity and Capital Resources—Financial Outlook: Capital Investment”, 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;
- 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;
- 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 raw 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 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” in our Form 20-F. 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 our 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 6-K 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 SEC filings, could have a material adverse effect on our business and/or financial condition.



STMICROELECTRONICS N.V.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

|  | Pages |
|--|-------|
| Consolidated Statements of Income for the Three and Six Months Ended June 28, 2014 and June 29, 2013 (unaudited)               | F-1   |
| Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 28, 2014 and June 29, 2013 (unaudited) | F-3   |
| Consolidated Balance Sheets as of June 28, 2014 (unaudited) and December 31, 2013 (audited)                                    | F-5   |
| Consolidated Statements of Cash Flows for the Six Months Ended June 28, 2014 and June 29, 2013 (unaudited)                     | F-6   |
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STMicroelectronics N.V.  
CONSOLIDATED STATEMENTS OF INCOME

| In million of U.S. dollars except per share amounts                      | Three months ended<br>(Unaudited) |                  |
|--|-----------------------------------|------------------|
|  | June 28,<br>2014                  | June 29,<br>2013 |
| Net sales  | 1,858                             | 2,034            |
| Other revenues   | 6                                 | 11               |
| Net revenues   | 1,864                             | 2,045            |
| Cost of sales  | (1,230 )                          | (1,373 )         |
| Gross profit   | 634                               | 672              |
| Selling, general and administrative                                      | (237 )                            | (285 )           |
| Research and development   | (389 )                            | (453 )           |
| Other income and expenses, net   | 110                               | 2                |
| Impairment, restructuring charges and other related closure costs        | (20 )                             | (43 )            |
| Operating income (loss)  | 98                                | (107 )           |
| Interest income (expense), net   | (3 )                              | 7                |
| Loss on equity-method investments  | (52 )                             | (89 )            |
| Gain on financial instruments, net                                       | -                                 | -                |
| Income (loss) before income taxes and noncontrolling interest            | 43                                | (189 )           |
| Income tax benefit (expense)   | (7 )                              | 16               |
| Net income (loss)  | 36                                | (173 )           |
| Net loss (income) attributable to noncontrolling interest                | 2                                 | 21               |
| Net income (loss) attributable to parent company                         | 38                                | (152 )           |
| Earnings per share (Basic) attributable to parent company stockholders   | 0.04                              | (0.17 )          |
| Earnings per share (Diluted) attributable to parent company stockholders | 0.04                              | (0.17 )          |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

STMicroelectronics N.V.  
CONSOLIDATED STATEMENTS OF INCOME

| In million of U.S. dollars except per share amounts                      | Six months ended<br>(Unaudited) |                  |
|--|---------------------------------|------------------|
|  | June 28,<br>2014                | June 29,<br>2013 |
| Net sales  | 3,658                           | 4,037            |
| Other revenues   | 31                              | 18               |
| Net revenues   | 3,689                           | 4,055            |
| Cost of sales  | (2,456 )                        | (2,755 )         |
| Gross profit   | 1,233                           | 1,300            |
| Selling, general and administrative                                      | (465 )                          | (564 )           |
| Research and development   | (768 )                          | (986 )           |
| Other income and expenses, net   | 125                             | 6                |
| Impairment, restructuring charges and other related closure costs        | (32 )                           | (144 )           |
| Operating income (loss)  | 93                              | (388 )           |
| Interest expense, net  | (4 )                            | -                |
| Loss on equity-method investments  | (60 )                           | (102 )           |
| Gain on financial instruments, net                                       | 1                               | -                |
| Income (loss) before income taxes and noncontrolling interest            | 30                              | (490 )           |
| Income tax benefit (expense)   | (16 )                           | 21               |
| Net income (loss)  | 14                              | (469 )           |
| Net loss (income) attributable to noncontrolling interest                | -                               | 147              |
| Net income (loss) attributable to parent company                         | 14                              | (322 )           |
| Earnings per share (Basic) attributable to parent company stockholders   | 0.02                            | (0.36 )          |
| Earnings per share (Diluted) attributable to parent company stockholders | 0.02                            | (0.36 )          |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

STMicroelectronics N.V.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| In million of U.S. dollars   | Three months ended<br>(Unaudited) |                  |
|--|-----------------------------------|------------------|
|  | June 28,<br>2014                  | June 29,<br>2013 |
| Net income (loss)  | 36                                | (173 )           |
| Other comprehensive income (loss), net of tax :                                      |                                   |                  |
| Currency translation adjustments arising during the period                           | (33 )                             | 55               |
| Foreign currency translation adjustments   | (33 )                             | 55               |
| Unrealized gains (losses) arising during the period                                  | -                                 | -                |
| Unrealized gains (losses) on securities  | -                                 | -                |
| Unrealized gains (losses) arising during the period                                  | (3 )                              | 19               |
| Less : reclassification adjustment for (income) losses included in net income (loss) | (10 )                             | -                |
| Unrealized gains (losses) on derivatives   | (13 )                             | 19               |
| Net gains (losses) arising during the period   | -                                 | -                |
| Defined benefit pension plans  | -                                 | -                |
| Other comprehensive income (loss), net of tax  | (46 )                             | 74               |
| Comprehensive income (loss)  | (10 )                             | (99 )            |
| Less : comprehensive income (loss) attributable to noncontrolling interest           | (1 )                              | (23 )            |
| Comprehensive income (loss) attributable to the company's stockholders               | (9 )                              | (76 )            |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

STMicroelectronics N.V.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| In million of U.S. dollars   | Six months ended<br>(Unaudited) |                  |
|--|---------------------------------|------------------|
|  | June 28,<br>2014                | June 29,<br>2013 |
| Net income (loss)  | 14                              | (469 )           |
| Other comprehensive income (loss), net of tax :                                      |                                 |                  |
| Currency translation adjustments arising during the period                           | (36 )                           | (30 )            |
| Foreign currency translation adjustments   | (36 )                           | (30 )            |
| Unrealized gains (losses) arising during the period                                  | -                               | 1                |
| Unrealized gains (losses) on securities  | -                               | 1                |
| Unrealized gains (losses) arising during the period                                  | (8 )                            | (6 )             |
| Less : reclassification adjustment for (income) losses included in net income (loss) | (21 )                           | (15 )            |
| Unrealized gains (losses) on derivatives   | (29 )                           | (21 )            |
| Net gains (losses) arising during the period   | 1                               | 1                |
| Defined benefit pension plans  | 1                               | 1                |
| Other comprehensive income (loss), net of tax  | (64 )                           | (49 )            |
| Comprehensive income (loss)  | (50 )                           | (518 )           |
| Less : comprehensive income (loss) attributable to noncontrolling interest           | 1                               | (151 )           |
| Comprehensive income (loss) attributable to the company's stockholders               | (51 )                           | (367 )           |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

STMicroelectronics N.V.

## CONSOLIDATED BALANCE SHEETS

| In million of U.S. dollars             | As at                           |                                   |
|--|---------------------------------|-----------------------------------|
|  | June 28,<br>2014<br>(Unaudited) | December 31,<br>2013<br>(Audited) |
| <b>Assets</b>                          |                                 |                                   |
| Current assets :                       |                                 |                                   |
| Cash and cash equivalents              | 1,502                           | 1,836                             |
| Short-term deposits                    | 51                              | 1                                 |
| Marketable securities                  | -                               | 57                                |
| Trade accounts receivable, net         | 1,098                           | 1,049                             |
| Inventories                            | 1,323                           | 1,336                             |
| Deferred tax assets                    | 145                             | 123                               |
| Assets held for sale                   | 30                              | 16                                |
| Other current assets                   | 618                             | 389                               |
| <b>Total current assets</b>            | <b>4,767</b>                    | <b>4,807</b>                      |
| Goodwill                               | 89                              | 90                                |
| Other intangible assets, net           | 225                             | 217                               |
| Property, plant and equipment, net     | 2,966                           | 3,156                             |
| Non-current deferred tax assets        | 212                             | 227                               |
| Long-term investments                  | 57                              | 76                                |
| Other non-current assets               | 561                             | 600                               |
|  | 4,110                           | 4,366                             |
| <b>Total assets</b>                    | <b>8,877</b>                    | <b>9,173</b>                      |
| <b>Liabilities and equity</b>          |                                 |                                   |
| Current liabilities:                   |                                 |                                   |
| Short-term debt                        | 225                             | 225                               |
| Trade accounts payable                 | 739                             | 694                               |
| Other payables and accrued liabilities | 854                             | 937                               |
| Dividends payable to stockholders      | 93                              | 89                                |
| Accrued income tax                     | 47                              | 48                                |
| <b>Total current liabilities</b>       | <b>1,958</b>                    | <b>1,993</b>                      |
| Long-term debt                         | 905                             | 928                               |
| Post-employment benefit obligations    | 363                             | 366                               |
| Long-term deferred tax liabilities     | 10                              | 11                                |
| Other long-term liabilities            | 146                             | 158                               |
|  | 1,424                           | 1,463                             |
| <b>Total liabilities</b>               | <b>3,382</b>                    | <b>3,456</b>                      |
| <b>Commitment and contingencies</b>    |                                 |                                   |
| <b>Equity</b>                          |                                 |                                   |
| Parent company stockholders' equity    | 1,157                           | 1,156                             |



Common stock (preferred stock: 540,000,000 shares authorized, not issued; common stock: Euro 1.04 par value, 1,200,000,000 shares authorized, 910,741,805 shares issued, 893,082,995 shares outstanding)

|   |        |        |
|---|--------|--------|
| Capital surplus                           | 2,595  | 2,581  |
| Retained earnings                         | 886    | 1,076  |
| Accumulated other comprehensive income    | 977    | 1,042  |
| Treasury stock                            | (187 ) | (212 ) |
| Total parent company stockholders' equity | 5,428  | 5,643  |
| Noncontrolling interest                   | 67     | 74     |
| Total equity                              | 5,495  | 5,717  |
| Total liabilities and equity              | 8,877  | 9,173  |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

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STMicroelectronics N.V.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

| In million of U.S. dollars  | Six Months Ended                |                                 |
|---|---------------------------------|---------------------------------|
|   | (Unaudited)<br>June 28,<br>2014 | (Unaudited)<br>June 29,<br>2013 |
| Cash flows from operating activities:   |                                 |                                 |
| Net income (loss)   | 14                              | (469 )                          |
| Items to reconcile net income (loss) and cash flows from operating activities:          |                                 |                                 |
| Depreciation and amortization   | 413                             | 461                             |
| Gain on financial instruments, net  | (1 )                            | -                               |
| Gain on sale of businesses  | (12 )                           | -                               |
| Non-cash stock-based compensation   | 14                              | 9                               |
| Other non-cash items  | (73 )                           | (46 )                           |
| Deferred income tax   | (12 )                           | (84 )                           |
| Loss on equity-method investments   | 60                              | 102                             |
| Impairment, restructuring charges and other related closure costs, net of cash payments | (25 )                           | 74                              |
| Changes in assets and liabilities:  |                                 |                                 |
| Trade receivables, net  | (49 )                           | (123 )                          |
| Inventories   | 8                               | 12                              |
| Trade payables  | 47                              | 103                             |
| Other assets and liabilities, net   | (261 )                          | 42                              |
| Net cash from operating activities  | 123                             | 81                              |
| Cash flows from investing activities:   |                                 |                                 |
| Payment for purchase of tangible assets   | (253 )                          | (233 )                          |
| Proceeds from sale of tangible assets   | 2                               | 1                               |
| Proceeds from sale of marketable securities   | 57                              | 50                              |
| Investment in short-term deposits   | (50 )                           | -                               |
| Release of restricted cash  | -                               | 3                               |
| Net cash variation for joint ventures deconsolidation                                   | 9                               | -                               |
| Payment for purchase of intangible assets   | (34 )                           | (35 )                           |
| Payment for purchase of financial assets  | (9 )                            | (13 )                           |
| Proceeds from sale of financial assets  | 1                               | -                               |
| Proceeds received in sale of businesses   | 19                              | -                               |
| Net cash used in investing activities   | (258 )                          | (227 )                          |
| Cash flows from financing activities:   |                                 |                                 |
| Proceeds from long-term debt  | -                               | 5                               |
| Proceeds from short-term borrowings   | -                               | 145                             |
| Repayment of issued debt  | -                               | (455 )                          |
| Repayment of long-term debt   | (22 )                           | (23 )                           |
| Capital increase  | 1                               | -                               |
| Dividends paid to stockholders  | (175 )                          | (164 )                          |
| Other financing activities  | -                               | (1 )                            |
| Net cash used in financing activities   | (196 )                          | (493 )                          |
| Effect of changes in exchange rates   | (3 )                            | (28 )                           |

|  |        |        |
|--|--------|--------|
| Net cash decrease                                    | (334 ) | (667 ) |
| Cash and cash equivalents at beginning of the period | 1,836  | 2,250  |
| Cash and cash equivalents at end of the period       | 1,502  | 1,583  |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

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STMicroelectronics N.V.  
CONSOLIDATED STATEMENTS OF EQUITY

In million of U.S. dollars except per share amounts

|  | Common<br>Stock | Capital<br>Surplus | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Noncontrolling<br>Interest | Total<br>Equity |
|--|-----------------|--------------------|-------------------|----------------------|--|----------------------------|-----------------|
| Balance as of<br>December 31,<br>2012 (Audited)          | 1,156           | 2,555              | (239 )            | 1,959                | 794  | 139                        | 6,364           |
| Stock-based<br>compensation<br>expense                   |                 | 26                 | 27                | (27 )                |  |                            | 26              |
| Joint ventures<br>deconsolidation                        |                 |                    |                   |                      | 58   | 73                         | 131             |
| Comprehensive<br>income (loss):                          |                 |                    |                   |                      |  |                            |                 |
| Net loss   |                 |                    |                   | (500 )               |  | (129 )                     | (629 )          |
| Other comprehensive income<br>(loss), net of tax         |                 |                    |                   |                      | 190  | (5 )                       | 185             |
| Comprehensive<br>income (loss)                           |                 |                    |                   |                      |  |                            | (444 )          |
| Dividends to<br>noncontrolling<br>interest               |                 |                    |                   |                      |  | (4 )                       | (4 )            |
| Dividends, \$0.40<br>per share                           |                 |                    |                   | (356 )               |  |                            | (356 )          |
| Balance as of<br>December 31,<br>2013 (Audited)          | 1,156           | 2,581              | (212 )            | 1,076                | 1,042  | 74                         | 5,717           |
| Capital increase   | 1               |                    |                   |                      |  |                            | 1               |
| Stock-based<br>compensation<br>expense                   |                 | 14                 | 25                | (25 )                |  |                            | 14              |
| Joint ventures and other<br>subsidiaries deconsolidation |                 |                    |                   |                      |  | (8 )                       | (8 )            |
| Comprehensive<br>income (loss):                          |                 |                    |                   |                      |  |                            |                 |
| Net income   |                 |                    |                   | 14                   |  |                            | 14              |
| Other comprehensive income<br>(loss), net of tax         |                 |                    |                   |                      | (65 )  | 1                          | (64 )           |
| Comprehensive<br>income (loss)                           |                 |                    |                   |                      |  |                            | (50 )           |
| Dividends, \$0.20<br>per share                           |                 |                    |                   | (179 )               |  |                            | (179 )          |

|   |       |       |        |     |     |    |       |
|---|-------|-------|--------|-----|-----|----|-------|
| Balance as of<br>June 28, 2014<br>(Unaudited) | 1,157 | 2,595 | (187 ) | 886 | 977 | 67 | 5,495 |
|---|-------|-------|--------|-----|-----|----|-------|

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

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STMicroelectronics N.V.

Notes to Interim Consolidated Financial Statements (Unaudited)

1. The Company

STMicroelectronics N.V. (the “Company”) is registered in The Netherlands with its corporate legal seat in Amsterdam, the Netherlands, and its corporate headquarters located in Geneva, Switzerland.

The Company is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits (“ICs”) and discrete devices. The Company offers a diversified product portfolio and develops products for a wide range of market applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Within its diversified portfolio, the Company is focused on developing products that leverage its technological strengths in creating customized, system-level solutions with digital and mixed-signal content.

2. Fiscal Year

The Company’s fiscal year ends on December 31. Interim periods are established for accounting purposes on a thirteen-week basis.

The Company’s first quarter ended on March 29, 2014, its second quarter ended on June 28 and its third quarter will end on September 27. Its fourth quarter will end on December 31.

3. Basis of Presentation

The accompanying Unaudited Interim Consolidated Financial Statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), consistent in all material respects with those applied for the year ended December 31, 2013. The interim financial information is unaudited but reflects all normal adjustments which are, in the opinion of management, necessary to provide a fair statement of results for the periods presented. The results of operations for the interim period are not necessarily indicative of the results to be expected for the entire year.

All balances and values in the current and prior periods are in millions of U.S. dollars, except shares and per-share amounts.

The accompanying Unaudited Interim Consolidated Financial Statements do not include certain footnotes and financial presentation normally required on an annual basis under U.S. GAAP. Therefore, these interim financial statements should be read in conjunction with the Consolidated Financial Statements in the Company’s Annual Report on Form 20-F for the year ended December 31, 2013, as filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 5, 2014.

4.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions. The primary areas that require significant estimates and judgments by management include, but are not limited to:

- sales returns and allowances,
- inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory,
  - provisions for litigation and claims and recognition and measurement of loss contingencies,
- valuation at fair value of assets acquired or sold, including intangibles, goodwill, investments and tangible assets,
- annual and trigger-based impairment review of goodwill and intangible assets, as well as an assessment, in each reporting period, of events, which could trigger interim impairment testing 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,
  - 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
- determination of the income tax expenses estimated on the basis of the projected tax amount for the full year, including deferred income tax assets, valuation allowance and provisions for uncertain tax positions and claims.

The Company bases the estimates and assumptions on historical experience and on various other factors such as market trends, market information used by market participants and the latest available business plans that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. While the Company regularly evaluates its estimates and assumptions, the actual results experienced by the Company could differ materially and adversely from those estimates. To the extent there are material differences between the estimates and the actual results, future results of operations, cash flows and financial position could be significantly affected.

## 5. Recent Accounting Pronouncements

## Accounting pronouncements effective in 2014

In March 2013, the FASB issued new guidance on obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. An entity should recognize the respective portion of the obligation it agrees to pay among its co-obligors and assess any additional amounts it expects to pay related to amounts borrowed by its co-obligors applying the measurement principles of the contingencies model under ASC 450. Enhanced disclosures similar to those required for financial guarantees will be required for those obligations. The Company adopted the new guidance in 2014, which did not have a significant impact on its financial position and results of operations.

In March 2013, the FASB issued clarified guidance on whether, when and how to release cumulative translation adjustment (“CTA”) into earnings in various deconsolidation and consolidation transactions. Complete or substantially complete liquidation of a foreign entity is required to release CTA for transactions occurring within a foreign entity. Transactions impacting investments in the foreign entity may result in a full or partial release of CTA even though complete or substantially complete liquidation of the foreign entity has not occurred. For transactions involving step acquisitions, the CTA associated with the previous equity-method investment will be fully released when control is obtained and consolidation occurs. The Company adopted the guidance in 2014 and the guidance did not have any material impact on its financial position and results of operations.

## Accounting pronouncements that are not yet effective and have not been adopted early by the Company

In April 2014, the FASB issued new guidance which redefines discontinued operations by changing the criteria for determining which disposals can be presented as discontinued operations. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and “represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results”. A strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an entity. The guidance also enhances disclosure requirements and adds new disclosures for individually material dispositions that do not qualify as discontinued operations. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale in annual periods beginning on or after December 15, 2014 and interim periods within those annual periods. Early adoption is permitted for new disposals or new classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. The new guidance significantly changes current practice for assessing discontinued operations and affects income and earnings per share from continuing operations. The Company will adopt the guidance when effective.

In May 2014, the FASB issued the converged guidance on revenue from contracts with customers. The new guidance sets forth a single revenue accounting model, which calls for more professional judgment and includes expanded disclosures. Revenue recognition depicts the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled for these goods and services. Revenue is recognized when (or as) control of the goods and services is transferred to the customer. Even the revenue recognition guidance is not a five-step model, the following steps can be identified in order to apply the new revenue accounting model: (i) identification of the contracts with customers; (ii) identification of the purchase obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to purchase obligations and; (v) revenue recognition for each purchase obligation. The new guidance will be effective for the Company’s first interim period within the annual reporting period beginning on January 1, 2017. Early adoption is not permitted. The areas in which the new revenue recognition may create significant changes are: (i) changes in the timing of revenue



recognition; (ii) inclusion of variable consideration in the transaction price; (iii) allocation of the transaction price based on standalone selling prices. The Company will adopt the new guidance when effective and is currently assessing its impact on existing contracts, transactions and business practices.

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In June 2014, the FASB clarified the guidance relating to stock-based compensation by requiring that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition on revenue from contracts with customers. The amended guidance will be effective for annual and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company will adopt the amended guidance when effective and does not expect any significant impact on its financial position and results of operations.

#### 6. Other Income and Expenses, Net

Other income and expenses, net consisted of the following:

| In millions of U.S. dollars                       | Three months ended |                  | Six months ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |
| Research and development funding                  | 130                | 10               | 152              | 20               |
| Phase-out and start-up costs                      | (3)                | -                | (6)              | -                |
| Exchange gain, net                                | 2                  | 1                | 1                | 4                |
| Patent costs                                      | (16)               | (8)              | (29)             | (15)             |
| Gain on sale of businesses and non-current assets | 1                  | 2                | 13               | 2                |
| Other, net  | (4)                | (3)              | (6)              | (5)              |
| Total Other income and expenses, net              | 110                | 2                | 125              | 6                |

The Company receives significant public funding from governmental agencies in several jurisdictions. Public funding for research and development is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions have been met.

Phase-out costs are costs incurred during the closing stage of a Company's manufacturing facility. They are treated in the same manner as start-up costs. Start-up costs represent costs incurred in the start-up and testing of the Company's new manufacturing facilities, before reaching the earlier of a minimum level of production or six months after the fabrication line's quality certification.

Exchange gains and losses included in “Other income and expenses, net” represent the portion of exchange rate changes on transactions denominated in currencies other than an entity’s functional currency and the changes in fair value of trading derivative instruments which are not designated as hedge and which have a cash flow effect related to operating transactions, as described in Note 24.

Patent costs include legal and attorney fees and payment for claims, patent pre-litigation consultancy and legal fees. They are reported net of settlements, if any, which primarily include reimbursements of prior patent litigation costs.

Gain on sale of businesses and non-current assets is mostly related to the sale of businesses associated with the Smart Connectivity Business (Display Port products), realized in the first quarter of 2014.

#### 7. Impairment, Restructuring Charges and Other Related Closure Costs

Impairment, restructuring charges and other related closure costs incurred in the second quarter and first half of 2014 are summarized as follows:

| In millions of U.S. dollars     | Three months ended on June 28, 2014 |                       |                             | Total impairment, restructuring charges and other related closure costs |
|---------------------------------|-------------------------------------|-----------------------|-----------------------------|---|
|                                 | Impairment                          | Restructuring charges | Other related closure costs |   |
| \$600-650 million net opex plan | -                                   | (9)                   | (7)                         | (16)  |
| Manufacturing consolidation     | -                                   | (3)                   | (1)                         | (4)   |
| Total                           | -                                   | (12)                  | (8)                         | (20)  |

| In millions of U.S. dollars     | Six months ended on June 28, 2014 |                       |                             | Total impairment, restructuring charges and other related closure costs |
|---------------------------------|-----------------------------------|-----------------------|-----------------------------|---|
|                                 | Impairment                        | Restructuring charges | Other related closure costs |   |
| \$600-650 million net opex plan | -                                 | (18)                  | (7)                         | (25)  |
| Manufacturing consolidation     | -                                 | (6)                   | (1)                         | (7)   |
| Total                           | -                                 | (24)                  | (8)                         | (32)  |

Impairment, restructuring charges and other related closure costs incurred in the second quarter and first half of 2013 are summarized as follows:

| In millions of U.S. dollars     | Three months ended on June 29, 2013 |                       |                             | Total impairment, restructuring charges and other related closure costs |
|---------------------------------|-------------------------------------|-----------------------|-----------------------------|---|
|                                 | Impairment                          | Restructuring charges | Other related closure costs |   |
| ST-Ericsson restructuring plans | -                                   | (2)                   | (3)                         | (5)   |
| ST-Ericsson exit                | (8)                                 | 11                    | (2)                         | 1   |
| Digital restructuring plan      | -                                   | (1)                   | -                           | (1)   |
| \$600-650 million net opex plan | -                                   | (33)                  | -                           | (33)  |
| Other restructuring initiatives | -                                   | (5)                   | -                           | (5)   |
| Total                           | (8)                                 | (30)                  | (5)                         | (43)  |

| In millions of U.S. dollars     | Six months ended on June 29, 2013 |                       |                             | Total impairment, restructuring charges and other related closure costs |
|---------------------------------|-----------------------------------|-----------------------|-----------------------------|---|
|                                 | Impairment                        | Restructuring charges | Other related closure costs |   |
| ST-Ericsson restructuring plans | -                                 | (7)                   | (3)                         | (10)  |
| ST-Ericsson exit                | (13)                              | (66)                  | (2)                         | (81)  |
| Digital restructuring plan      | -                                 | (1)                   | -                           | (1)   |
| \$600-650 million net opex plan | -                                 | (47)                  | -                           | (47)  |
| Other restructuring initiatives | -                                 | (5)                   | -                           | (5)   |
| Total                           | (13)                              | (126)                 | (5)                         | (144)   |

#### Impairment charges

No impairment charges were incurred in the first half of 2014.

The Company recorded in the first half of 2013 impairment charges amounting to \$13 million, primarily related to long-lived assets classified as "Assets held for sale" in the consolidated balance sheet as part of the exit of ST-Ericsson.

#### Restructuring charges and other related closure costs

Provisions for restructuring charges and other related closure costs as at June 28, 2014 are summarized as follows in millions of U.S. dollars:

| \$600-650 million net opex plan | Digital restructuring plan | Manufacturing restructuring plan | Manufacturing consolidation | Other restructuring initiatives | Total |
|---------------------------------|----------------------------|----------------------------------|-----------------------------|---------------------------------|-------|
|                                 |                            |                                  |                             |                                 |       |

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|                                   |      |     |   |     |     |      |
|-----------------------------------|------|-----|---|-----|-----|------|
| Provision as at December 31, 2013 | 46   | 6   | 2 | 8   | 14  | 76   |
| Charges incurred in 2014          | 27   | -   | - | 7   | -   | 34   |
| Adjustments for unused provisions | (2)  | -   | - | -   | -   | (2)  |
| Amounts paid                      | (45) | (6) | - | (4) | (2) | (57) |
| Provision as at June 28, 2014     | 26   | -   | 2 | 11  | 12  | 51   |

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- \$600-650 million net opex plan

The Company committed restructuring actions in 2013 to reduce the Company's net operating expenses as announced on December 10, 2012. The Company recorded in the first half of 2014 \$25 million in restructuring charges, mainly corresponding to employee termination benefits.

- Manufacturing consolidation

In July 2013, the Company announced that it will wind down certain 6-inch manufacturing lines and consolidate back-end activities in China to Shenzhen. As part of this restructuring plan, the Company recorded in the first half of 2014 \$7 million in restructuring charges corresponding to employee termination benefits.

Total impairment, restructuring charges and other related closure costs

The Digital restructuring plan was expected to result in a total pre-tax charge of \$25 million to \$30 million including impairment charges totalling \$9 million. Restructuring charges amounting to \$16 million have been incurred as of June 28, 2014. The plan was substantially completed in 2013.

The \$600-650 million net opex plan resulted in a \$113 million charge incurred as of June 28, 2014. The plan is expected to be completed in 2014.

The Manufacturing consolidation plan resulted in a \$15 million charge incurred as of June 28, 2014. The plan is expected to be completed in 2015.

Upon the ST-Ericsson deconsolidation as of September 1, 2013, all the ST-Ericsson restructuring plans have been deconsolidated by the Company.

The total actual costs that the Company will incur may differ from these estimates based on the timing required to complete the restructuring plan, the number of people involved, the final agreed termination benefits and the costs associated with the transfer of equipment, products and processes.

## 8. Interest income (expense), Net

Interest income (expense), net consisted of the following:

| In millions of U.S. dollars          | Three months ended |                  | Six months ended |                  |
|--------------------------------------|--------------------|------------------|------------------|------------------|
|                                      | June 28,<br>2014   | June 29,<br>2013 | June 28,<br>2014 | June 29,<br>2013 |
| Income                               | 2                  | 12               | 5                | 14               |
| Expense                              | (5)                | (5)              | (9)              | (14)             |
| Total interest income (expense), net | (3)                | 7                | (4)              | -                |

Net interest included charges related to the sale of trade and other receivables. In 2013, it also included a one-time interest payment received with respect to a U.S. tax refund in the second quarter of 2013.

## 9. Income Tax Benefit (Expense)

Income tax benefit (expense) is as follow:

| In millions of U.S. dollars  | Three months ended |               | Six months ended |               |
|------------------------------|--------------------|---------------|------------------|---------------|
|                              | June 28, 2014      | June 29, 2013 | June 28, 2014    | June 29, 2013 |
| Income tax benefit (expense) | (7)                | 16            | (16)             | 21            |

In the first half of 2014, income tax has been estimated adopting a discrete effective tax method as opposed to an estimated effective tax rate due to significant uncertainty in estimating the effective tax rate.

## 10. Earnings per share

Basic net earnings per share (“EPS”) is computed based on net income (loss) attributable to parent company stockholders using the weighted-average number of common shares outstanding during the reported period; the number of outstanding shares does not include treasury shares. Diluted EPS is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period, such as stock issuable pursuant to the exercise of stock options outstanding, unvested shares granted and the conversion of convertible debt.

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In millions of U.S. dollars, except share and per share amounts

|  |                    |               |                  |               |
|--|--------------------|---------------|------------------|---------------|
|  | Three months ended |               | Six months ended |               |
|  | June 28, 2014      | June 29, 2013 | June 28, 2014    | June 29, 2013 |

Basic earnings per share:

|  |    |       |    |       |
|--|----|-------|----|-------|
| Net income (loss) attributable to parent company | 38 | (152) | 14 | (322) |
|--|----|-------|----|-------|

|                                     |             |             |             |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Weighted average shares outstanding | 891,236,827 | 888,998,405 | 890,949,311 | 888,486,189 |
|-------------------------------------|-------------|-------------|-------------|-------------|

|                            |      |        |      |        |
|----------------------------|------|--------|------|--------|
| Earnings per share (basic) | 0.04 | (0.17) | 0.02 | (0.36) |
|----------------------------|------|--------|------|--------|

Diluted earnings per share:

|  |    |       |    |       |
|--|----|-------|----|-------|
| Net income (loss) attributable to parent company | 38 | (152) | 14 | (322) |
|--|----|-------|----|-------|

|                                     |             |             |             |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Weighted average shares outstanding | 891,236,827 | 888,998,405 | 890,949,311 | 888,486,189 |
|-------------------------------------|-------------|-------------|-------------|-------------|

|                                    |           |   |           |   |
|------------------------------------|-----------|---|-----------|---|
| Dilutive effect of unvested shares | 4,144,386 | - | 3,913,718 | - |
|------------------------------------|-----------|---|-----------|---|

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Number of shares used in calculating diluted earnings per share | 895,381,213 | 888,998,405 | 894,863,029 | 888,486,189 |
|---|-------------|-------------|-------------|-------------|

|                              |      |        |      |        |
|------------------------------|------|--------|------|--------|
| Earnings per share (diluted) | 0.04 | (0.17) | 0.02 | (0.36) |
|------------------------------|------|--------|------|--------|

As of June 28, 2014, there were outstanding stock options exercisable into the equivalent of 88,936 common shares.

11. Accumulated Other Comprehensive Income (“AOCI”)

The table below details the changes in AOCI attributable to the company’s stockholders by component, net of tax, for the period ended June 28, 2014:

|                                | Gains (Losses)<br>on Cash Flow<br>Hedges | Gains (Losses) on<br>Available-For-Sale<br>Securities | Defined Benefit<br>Pension Plan<br>Items | Foreign<br>Currency<br>Translation<br>Adjustments<br>(“CTA”) | Total |
|--------------------------------|--|---|--|--|-------|
| December 31, 2013              | 38                                       | 1   | (100)                                    | 1,085  | 1,024 |
| Cumulative tax impact          | (5)                                      | -   | 23                                       | -  | 18    |
| December 31, 2013, net of tax  | 33                                       | 1   | (77)                                     | 1,085  | 1,042 |
| OCI before reclassifications   | (10)                                     | -   | -  | (37)   | (47)  |
| Amounts reclassified from AOCI | (23)                                     | -   | 1  | -  | (22)  |



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|  |      |   |      |       |      |
|--|------|---|------|-------|------|
| OCI for the six months ended June 28, 2014             | (33) | - | 1    | (37)  | (69) |
| Cumulative tax impact                                  | 4    | - | -    | -     | 4    |
| OCI for the six months ended June 28, 2014, net of tax | (29) | - | 1    | (37)  | (65) |
| June 28, 2014  | 5    | 1 | (99) | 1,048 | 955  |
| Cumulative tax impact                                  | (1)  | - | 23   | -     | 22   |
| June 28, 2014, net of tax                              | 4    | 1 | (76) | 1,048 | 977  |

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Items reclassified out of Accumulated Other Comprehensive Income for the period ended June 28, 2014 are listed in the table below:

| Details about AOCI components  | Amounts reclassified from AOCI | Affected line item in the statement where net income (loss) is presented      |
|--|--------------------------------|---|
| <b>Gains (losses) on cash flow hedges</b>  |                                |   |
| Foreign exchange derivative contracts  | 14                             | Cost of sales   |
| Foreign exchange derivative contracts  | 2                              | Selling, general and administrative   |
| Foreign exchange derivative contracts  | 7                              | Research and development  |
|  | (2)                            | Income tax expense  |
|  | 21                             | Net of tax  |
| <b>Gains (Losses) on available-for-sale securities</b>                                   |                                |   |
| Realized gain on sale of securities  | -                              | Other income and expenses, net  |
| Other-than-temporary impairment charge   | -                              | Other-than-temporary impairment charge and realized gains on financial assets |
|  | -                              | Income tax benefit (expense)  |
|  | -                              | Net of tax  |
| <b>Defined benefit pension plan items</b>  |                                |   |
| Amortization of prior service costs  | -                              | (1)   |
| Amortization of actuarial gains (losses)   | -                              | (1)   |
|  | -                              | Income tax benefit (expense)  |
|  | -                              | Net of tax  |
| <b>Total reclassifications for the period attributable to the Company's stockholders</b> | <b>21</b>                      | <b>Net of tax</b>   |

(1) These items are included in the computation of net periodic pension cost, as described in Note 20.

## 12. Marketable Securities

Changes in the value of marketable securities, as reported in current assets on the consolidated balance sheets as at June 28, 2014 and December 31, 2013 are detailed in the table below:

| In millions of U.S. dollars | December 31, 2013 | Purchase | Sale / Settlement | Change in fair value included in OCI* for available-for-sale marketable securities | Change in fair value recognized in earnings | Foreign exchange result through OCI* | June 28, 2014 |
|-----------------------------|-------------------|----------|-------------------|--|---|--------------------------------------|---------------|
|                             | 57                | -        | (57)              | -  | -   | -                                    | -             |

|  |    |   |      |   |   |   |   |   |
|--|----|---|------|---|---|---|---|---|
| Senior debt<br>Floating Rate<br>Notes issued by<br>financial<br>institutions |    |   |      |   |   |   |   |   |
| Total  | 57 | - | (57) | - | - | - | - | - |
| *Other Comprehensive Income  |    |   |      |   |   |   |   |   |

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The marketable securities amounting to \$57 million matured in the first quarter of 2014. They were classified as available-for-sale and recorded at fair value as at December 31, 2013, with changes in fair value recognized as a separate component of “Accumulated other comprehensive income (loss)” in the consolidated statement of equity, except for those changes deemed to be other-than-temporary impairment. No credit loss was identified on these instruments and due to the short duration before maturity, the fair value as at December 31, 2013 corresponded to par value.

The debt securities were reported as current assets on the line “Marketable Securities” on the consolidated balance sheet as at December 31, 2013, since they represented investments of funds available for current operations.

13. Trade Accounts Receivable, Net

Trade accounts receivable, net consisted of the following:

| In millions of U.S. dollars          | As at June 28, 2014 | As at December 31, 2013 |
|--------------------------------------|---------------------|-------------------------|
| Trade accounts receivable            | 1,106               | 1,058                   |
| Allowance for doubtful accounts      | (8)                 | (9)                     |
| Total trade accounts receivable, net | 1,098               | 1,049                   |

The Company enters into factoring transactions to accelerate the realization in cash of some trade accounts receivable. As at June 28, 2014, \$49 million of trade accounts receivable were sold without recourse (\$56 million as at December 31, 2013). Such factoring transactions totaled \$106 million for the first half of 2014 (\$398 million for the first half of 2013).

14. Inventories

Inventories are stated at the lower of cost or market. Cost is based on the weighted average cost by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on the Company’s manufacturing performance. In the case of underutilization of manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales.

Reserve for obsolescence is estimated for excess uncommitted inventories based on the previous quarter's sales, backlog of orders and production plans.

Inventories, net of reserve consisted of the following:

| In millions of U.S. dollars | As at June 28, 2014 | As at December 31, 2013 |
|-----------------------------|---------------------|-------------------------|
| Raw materials               | 77                  | 84                      |
| Work-in-process             | 847                 | 885                     |
| Finished products           | 399                 | 367                     |
| <b>Total Inventories</b>    | <b>1,323</b>        | <b>1,336</b>            |

### 15. Goodwill

Changes in the carrying amount of goodwill were as follows:

| In millions of U.S. dollars  | Sense & Power and<br>Automotive (SP&A) | Embedded Processing<br>Solutions (EPS) | Total |
|------------------------------|--|--|-------|
| December 31, 2013            | 2                                      | 88                                     | 90    |
| Foreign currency translation | -                                      | (1)                                    | (1)   |
| June 28, 2014                | 2                                      | 87                                     | 89    |

### 16. Other intangible assets

Other intangible assets consisted of the following:

| June 28, 2014                      | Gross Cost   | Accumulated<br>Amortization | Net Cost   |
|------------------------------------|--------------|-----------------------------|------------|
| Technologies & licences            | 646          | (509)                       | 137        |
| Contractual customer relationships | 5            | (5)                         | -          |
| Purchased software                 | 360          | (299)                       | 61         |
| Construction in progress           | 27           | -                           | 27         |
| Other intangible assets            | 66           | (66)                        | -          |
| <b>Total</b>                       | <b>1,104</b> | <b>(879)</b>                | <b>225</b> |

| December 31, 2013                  | Gross Cost | Accumulated Amortization | Net Cost |
|------------------------------------|------------|--------------------------|----------|
| Technologies & licences            | 621        | (489)                    | 132      |
| Contractual customer relationships | 5          | (5)                      | -        |
| Purchased software                 | 338        | (290)                    | 48       |
| Construction in progress           | 37         | -                        | 37       |
| Other intangible assets            | 66         | (66)                     | -        |
| Total                              | 1,067      | (850)                    | 217      |

The line “Construction in progress” in the table above includes internally developed software under construction and software not ready for use.

The line “Other intangible assets” consists primarily of internally developed software.

Amortization expense was \$30 million and \$37 million for the six-month periods ended June 28, 2014 and June 29, 2013, respectively.

The estimated amortization expense of the existing intangible assets for each period is expected to be as follows:

| Year              |     |
|-------------------|-----|
| Remainder of 2014 | 35  |
| 2015              | 64  |
| 2016              | 53  |
| 2017              | 34  |
| 2018              | 19  |
| Thereafter        | 20  |
| Total             | 225 |

## 17. Long-Term Investments

Long-Term Investments consisted of the following:

| In millions of U.S. dollars | June 28, 2014 | December 31, 2013 |
|-----------------------------|---------------|-------------------|
| Equity-method investments   | 41            | 63                |
| Cost-method investments     | 16            | 13                |
| Total                       | 57            | 76                |

## Equity-method investments

Equity-method investments as at June 28, 2014 and December 31, 2013 were as follows:

| In millions of U.S. dollars, except percentages | June 28, 2014  |                      | December 31, 2013 |                      |
|---|----------------|----------------------|-------------------|----------------------|
|   | Carrying value | Ownership percentage | Carrying value    | Ownership percentage |
| ST-Ericsson SA                                  | 41             | 50.0%                | 50                | 50.0%                |
| 3Sun S.r.l.                                     | -              | 33.3%                | 13                | 33.3%                |
| Total   | 41             |                      | 63                |                      |

## ST-Ericsson SA (“JVS”)

On February 3, 2009, the Company announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Company received an interest in ST-Ericsson Holding AG (parent of “JVS” group of companies) in which the Company owned 50% plus a controlling share. In 2010, ST-Ericsson Holding AG was merged in ST-Ericsson SA.

The Company evaluated that JVS was a variable interest entity. The Company determined that it controlled JVS and therefore consolidated JVS.

On September 9, 2013, the Company sold 1 JVS share to Ericsson for its nominal value changing the ownership structure of JVS to bring both partners to an equal ownership proportion. As a result and in combination with the new shareholder agreement, the Company lost the control of JVS and as such JVS was deconsolidated from the Company’s financial statements. The deconsolidation of JVS did not result in a gain or loss for the Company. The fair value of the Company’s retained noncontrolling interest was evaluated at \$55 million. Due to the loss pick-up recognized since the deconsolidation, the value of the investment amounted to \$41 million as of June 28, 2014. In addition, the Company and its partner signed funding commitment letters, capped at \$149 million for each partner, to the residual joint wind-down operations to ensure solvency. These were not drawn as of June 28, 2014.

Before the deconsolidation of JVS, certain assets and companies of the JVS group of companies were transferred to both partners for their net book value which was representative of their fair value. The transactions did not result in cash exchange between the partners.

ST-Ericsson SA entered into liquidation on April 15, 2014.

In the first six months of 2014, the line “Loss on equity-method investments” in the Company’s consolidated statement of income included a charge of \$9 million related to JVS.

## 3Sun S.r.l. (“3Sun”)

3Sun is a joint initiative between Enel Green Power, Sharp and the Company for the manufacture of thin film photovoltaic panels in Catania, Italy. Each partner owns a third of the common shares of the entity. The Company has determined that 3Sun is not a VIE. However the Company exercises a significant influence over 3Sun and consequently accounts for its investment in 3Sun under the equity-method. The line “Loss on equity-method investments” in the Company’s consolidated statement of income for the first six months of 2014 included a charge of \$51 million related to 3Sun.

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

## Cost-method investments

Cost-method investments as at June 28, 2014 are equity securities with no readily determinable fair value. It mainly includes the Company’s investment in DNP Photomask Europe S.p.A (“DNP”). The Company has identified the joint venture as a VIE, but has determined that it is not the primary beneficiary. The significant activities of DNP revolve around the creation of masks and development of high level mask technology. The Company does not have the power to direct such activities. The Company’s current maximum exposure to loss as a result of its involvement with the joint venture is limited to its investment. The Company has not provided additional financial support in the second quarter of 2014 and currently has no requirement or intent to provide further financial support to the joint venture.

## 18. Other Non-current Assets

Other non-current assets consisted of the following:

| In millions of U.S. dollars              | As at June 28, 2014 | As at December 31, 2013 |
|--|---------------------|-------------------------|
| Available-for-sale equity securities     | 11                  | 11                      |
| Trading equity securities                | 8                   | 8                       |
| Long-term State receivables              | 489                 | 513                     |
| Long-term receivables from third parties | 7                   | 7                       |
| Long-term loans to affiliates            | -                   | 17                      |
| Prepaid for pension                      | 12                  | 10                      |
| Deposits and other non-current assets    | 34                  | 34                      |
| <b>Total</b>                             | <b>561</b>          | <b>600</b>              |

Long-term State receivables include receivables related to funding and receivables related to tax refund. Funding are mainly public grants to be received from governmental agencies in Italy and France as part of long-term research and development, industrialization and capital investment projects. Long-term receivables related to tax refund correspond to tax benefits claimed by the Company in certain of its local tax jurisdictions, for which collection is expected beyond one year.





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## Long-term debt

Long-term debt consisted of the following:

| In millions of U.S. dollars                                  | June 28, 2014 | December 31, 2013 |
|--|---------------|-------------------|
| Funding program loans from European Investment Bank:         |               |                   |
| 0.25% due 2014, floating interest rate at Libor + 0.017%     | 20            | 20                |
| 0.25% due 2015, floating interest rate at Libor + 0.026%     | 19            | 19                |
| 0.28% due 2016, floating interest rate at Libor + 0.052%     | 39            | 58                |
| 0.71% due 2016, floating interest rate at Libor + 0.317%     | 77            | 77                |
| 0.60% due 2016, floating interest rate at Libor + 0.213%     | 86            | 86                |
| 1.43% due 2020, floating interest rate at Libor + 1.099%     | 87            | 87                |
| 1.29% due 2020, floating interest rate at Libor + 0.956%     | 193           | 193               |
| 1.24% due 2020, floating interest rate at Euribor + 0.817%   | 119           | 121               |
| 0.85% due 2021, floating interest rate at Libor + 0.525%     | 240           | 240               |
| 0.89% due 2021, floating interest rate at Libor + 0.572%     | 231           | 231               |
| Other funding program loans:                                 |               |                   |
| 0.55% (weighted average), due 2014-2018, fixed interest rate | 4             | 5                 |
| Other long-term loans:                                       |               |                   |
| 1.95% (weighted average), due 2017, fixed interest rate      | 8             | 10                |
| 0.67% (weighted average), due 2018, fixed interest rate      | 2             | 2                 |
| 0.87% (weighted average), due 2020, fixed interest rate      | 3             | 3                 |
| Capital leases:  |               |                   |
| 7.79% (weighted average), due 2015-2017, fixed interest rate | 2             | 1                 |
| Total long-term debt   | 1,130         | 1,153             |
| Less current portion   | (225)         | (225)             |
| Total long-term debt, less current portion                   | 905           | 928               |

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## 20. Post Employment and Other Long-term Employee Benefits

The Company and its subsidiaries have a number of defined benefit pension plans, mainly unfunded, and other long-term employees' benefits covering employees in various countries. The defined benefit plans provide pension benefits based on years of service and employee compensation levels. The other long-term employees' plans provide benefits due during the employees' period of service after certain seniority levels. The Company uses a December 31 measurement date for its plans. Eligibility is generally determined in accordance with local statutory requirements. For Italian termination indemnity plan ("TFR") generated before July 1, 2007, the Company continues to measure the vested benefits to which Italian employees are entitled as if they left the company immediately as of June 28, 2014, in compliance with U.S. GAAP guidance on determining vested benefit obligations for defined benefit pension plans.

The components of the net periodic benefit cost included the following:

| In millions of U.S. dollars               | Pension Benefits<br>Three months ended |               | Pension Benefits<br>Six months ended |               |
|---|--|---------------|--------------------------------------|---------------|
|   | June 28, 2014                          | June 29, 2013 | June 28, 2014                        | June 29, 2013 |
| Service cost                              | (7)                                    | (10)          | (14)                                 | (21)          |
| Interest cost                             | (8)                                    | (7)           | (15)                                 | (15)          |
| Expected return on plan assets            | 6                                      | 4             | 12                                   | 9             |
| Recognition of prior service cost         | -                                      | -             | (1)                                  | -             |
| Amortization of actuarial net (loss) gain | -                                      | (3)           | (1)                                  | (7)           |
| Settlement                                | -                                      | -             | 1                                    | -             |
| Net periodic benefit cost                 | (9)                                    | (16)          | (18)                                 | (34)          |

| In millions of U.S. dollars | Other long-term benefits<br>Three months ended |               | Other long-term benefits<br>Six months ended |               |
|-----------------------------|--|---------------|--|---------------|
|                             | June 28, 2014                                  | June 29, 2013 | June 28, 2014                                | June 29, 2013 |
| Service cost                | (2)  | (1)           | (3)  | (2)           |
| Interest cost               | (1)  | (1)           | (2)  | (1)           |
| Net periodic benefit cost   | (3)  | (2)           | (5)  | (3)           |

Employer contributions paid and expected to be paid in 2014 are consistent with the amounts disclosed in the consolidated financial statements for the year ended December 31, 2013.

## 21. Dividends

The Annual General Meeting of Shareholders held on June 13, 2014 authorized the distribution of a semi-annual cash dividend per common share of \$0.10 in the second quarter of 2014 and \$0.10 in the third quarter of 2014, to be paid in June 2014 and September 2014, respectively. The first payment date was June 26, 2014 for Euronext Paris and Borsa Italiana and July 1, 2014 for the New York Stock Exchange. The latter, together with the remaining \$0.10 per share cash dividend to be paid in September, totaled \$93 million and is presented in the line "Dividends payable to stockholders" in the consolidated balance sheet as of June 28, 2014.



The Extraordinary General Meeting of Shareholders held on December 2, 2013 authorized the distribution of a semi-annual cash dividend per common share of \$0.10 in the fourth quarter of 2013 and \$0.10 in the first quarter of 2014, to be paid in December 2013 and March 2014, respectively. The first payment, totaling \$89 million, was executed in December 2013. The remaining \$0.10 per share cash dividend totaled \$89 million, out of which \$85 million was paid in the first quarter of 2014 and the remaining \$4 million at the beginning of the second quarter of 2014.

22. Treasury Stock

The treasury shares have been designated for allocation under the Company's share based remuneration programs of unvested shares. As of June 28, 2014, 25,261,410 of these treasury shares were transferred to employees under the Company's share based remuneration programs of which 2,437,732 in the first half of 2014.

As of June 28, 2014, the Company owned a number of treasury shares equivalent to 17,658,810.

23. Contingencies, Claims and Legal proceedings

The Company is subject to possible loss contingencies arising in the ordinary course of business. These include but are not limited to: warranty cost on the products of the Company, breach of contract claims, claims for unauthorized use of third-party intellectual property, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. In determining loss contingencies, the Company considers the likelihood of impairing an asset or the incurrence of a liability at the date of the financial statements as well as the ability to reasonably estimate the amount of such loss. The Company records a provision for a loss contingency when information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and when the amount of loss can be reasonably estimated. The Company regularly reevaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Company. Changes in these evaluations could result in an adverse material impact on the Company's results of operations, cash flows or its financial position for the period in which they occur.

At each reporting date, the Company assesses all material open income tax positions in all tax jurisdictions to determine any uncertain tax position. The Company uses a two-step process for the evaluation of uncertain tax positions. The first step consists in determining whether a benefit may be recognized; the assessment is based on a sustainability threshold. If the sustainability is lower than 50%, a full provision should be accounted for. In case of a sustainability threshold in step one higher than 50 percent, the Company must perform a second step in order to measure the amount of recognizable tax benefit, net of any liability for tax uncertainties. The measurement methodology in step two is based on a “cumulative probability” approach, resulting in the recognition of the largest amount that is greater than 50 percent likely of being realized upon settlement with the taxing authority. There was no major change in the amount of unrecognized tax benefits during the first six months of 2014 with respect to uncertainties about a certain tax treatment not yet validated with the relevant fiscal authorities. All unrecognized tax benefits would affect the effective tax rate, if recognized. Interest and penalties recognized in the consolidated balance sheets as at June 28, 2014 and December 31, 2013 and in the consolidated statements of income for the first half of 2014 and 2013 are not material.

The Company is subject from time to time to tax audits in various jurisdictions; unfavorable outcomes of any ongoing tax audits could have a material impact on the Company’s future tax provisions in the periods in which these changes could occur.

The Company has received and may in the future receive communications alleging possible infringements of third party patents or other third party intellectual property rights. Furthermore, the Company from time to time enters into discussions regarding a broad patent cross license arrangement with other industry participants. There is no assurance that such discussions may be brought to a successful conclusion and result in the intended agreement. The Company may become involved in costly litigation brought against the Company regarding patents, mask works, copyrights, trademarks or trade secrets. In the event that the outcome of any litigation would be unfavorable to the Company, the Company may be required to take a license to third party patents and/or other intellectual property rights at economically unfavorable terms and conditions, and possibly pay damages for prior use and/or face an injunction, all of which individually or in the aggregate could have a material adverse effect on the Company’s results of operations, cash flows, financial position and/or ability to compete.

The Company is otherwise also involved in various lawsuits, claims, investigations and proceedings incidental to its business and operations.

#### Litigation with Tessera

In 2006, Tessera initiated a patent infringement lawsuit against the Company and numerous other semiconductor manufacturers in the U.S. District Court for the Northern District of California. Tessera claims that the Company’s ball grid array packages infringe certain patents owned by Tessera, and that the Company breached a 1997 license agreement by failing to pay royalties to Tessera on sales of products in certain ball grid array packages. Tessera then filed a complaint in 2007 with the U.S. International Trade Commission in Washington, D.C. (“ITC”) against the Company and numerous other parties. During the ITC proceedings, the District Court action was stayed. On May 20, 2009, the ITC issued a limited exclusion order as well as a cease and desist order, both of which were terminated when the Tessera patents expired in September 2010. The U.S. Court of Appeals for the Federal Circuit subsequently affirmed the ITC’s decision and on November 28, 2011 the U.S. Supreme Court denied the defendants’ petition for review, and the ITC decision became final. In January 2012, the District Court proceedings were revived in California. In May 2013, Tessera served its opening expert’s report on damages which opines that Tessera is entitled to \$181 million in damages (including interest) based on the Company’s sales of allegedly infringing products from 2000 through 2010. The Company’s opening expert’s report on damages opines that the Company’s damages should be more in the range of \$5 million to \$8 million if an adverse judgment were to be entered against the Company. On March 14, 2014, the Court appointed independent technical expert, Dr. Reinhold Dauskardt, issued a report opining that the

patents-in-suit were invalid and that Tessera had failed to meet its burden of proof regarding infringement of the patents-in suit by the Company's accused ball grid array packages. Trial is scheduled for November 10, 2014.

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The resolution of litigation proceedings which the Company faces, including the matters referred to above, involve complex questions of fact and law. The results of legal proceedings are uncertain. Adverse determination in any of these types of disputes may have a material adverse impact on the Company's financial results and operations. The Company currently estimates that possible losses for known claims are in the range of \$10 million to \$30 million.

#### Other Contingencies

The Company regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they need to be adjusted based on the current information available to the Company. There can be no assurance that its recorded reserves will be sufficient to cover the extent of its potential liabilities. Legal costs associated with claims are expensed as incurred. In the event of litigation which is adversely determined with respect to the Company's interests, or in the event the Company needs to change its evaluation of a potential third-party claim, based on new evidence or communications, a material adverse effect could impact its operations or financial condition at the time it were to materialize. As of June 28, 2014, provisions for estimated probable losses with respect to claims and legal proceedings were not considered material.

#### 24. Derivative Instruments and Hedging Activities

The Company is exposed to changes in financial market conditions in the normal course of business due to its operations in different foreign currencies and its ongoing investing and financing activities. The Company's activities expose it to a variety of financial risks, such as market risk, credit risk and liquidity risk. The Company uses derivative financial instruments to hedge certain risk exposures. The primary risk managed by using derivative instruments is foreign currency exchange risk.

##### Foreign currency exchange risk

Currency forward contracts and currency options are entered into to reduce exposure to changes in exchange rates on the denomination of certain assets and liabilities in foreign currencies at the Company's subsidiaries and to manage the foreign exchange risk associated with certain forecasted transactions.



### Derivative Instruments Not Designated as a Hedge

The Company conducts its business on a global basis in various major international currencies. As a result, the Company is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities in the Company's subsidiaries. Management has set up a policy to require the Company's subsidiaries to hedge their entire foreign exchange risk exposure with the Company through financial instruments transacted or overseen by Corporate Treasury. To manage their foreign exchange risk arising from foreign-currency-denominated assets and liabilities, the Company's subsidiaries use forward contracts and purchased currency options. Foreign exchange risk arises from exchange rate fluctuations on assets and liabilities denominated in a currency that is not the entity's functional currency. These instruments do not qualify as hedging instruments for accounting purposes and are marked-to-market at each period-end with the associated changes in fair value recognized in "Other income and expenses, net" in the consolidated statements of income.

### Cash Flow Hedge

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Company hedges through the use of currency forward contracts and currency options, including collars, certain Euro-denominated forecasted intercompany transactions that cover at reporting date a large part of its research and development, selling, general and administrative expenses as well as a portion of its front-end manufacturing costs of semi-finished goods. The Company also hedges through the use of currency forward contracts certain forecasted manufacturing transactions denominated in Singapore dollars.

These derivative instruments are designated as and qualify for cash flow hedge. They are reflected at fair value in the consolidated balance sheets. The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction and, in most cases, a one-to-one matching of the derivative instrument to its underlying transaction, which enables the Company to conclude, based on the fact that the critical terms of the hedging instruments match the terms of the hedged transactions, that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivatives. Currency forward contracts and currency options, including collars, used as hedges are effective at reducing the Euro/U.S. dollar and the Singapore dollar/U.S. dollar currency fluctuation risk and are designated as a hedge at the inception of the contract and on an ongoing basis over the duration of the hedge relationship. Effectiveness on transactions hedged through purchased currency options and collars is measured on the full fair value of the instrument, including the time value of the options. Ineffectiveness appears if the hedge relationship is not perfectly effective or if the cumulative gain or loss on the derivative hedging instrument exceeds the cumulative change on the expected cash flows on the hedged transactions. The gain or loss from the effective portion of the hedge is reported as a component of "Accumulated other comprehensive income (loss)" in the consolidated statements of equity and is reclassified into earnings in the same period in which the hedged transaction affects earnings, and within the same consolidated statement of income line item as the impact of the hedged transaction. When a designated hedging instrument is either terminated early or an improbable or ineffective portion of the hedge is identified, or when it is probable that the forecasted transaction will not occur by the end of the originally specified time period, the cumulative gain or loss that was reported in "Accumulated other comprehensive income (loss)" is recognized immediately in earnings.

The principles regulating the hedging strategy for derivatives designated as cash flow hedge are established as follows: (i) for R&D and Corporate costs, up to 80% of the total forecasted transactions; (ii) for manufacturing costs, up to 70% of the total forecasted transactions. The maximum length of time over which the Company could hedge its exposure to the variability of cash flows for forecasted transactions is 24 months.

As at June 28, 2014, the Company had the following outstanding derivative instruments that were entered into to hedge Euro-denominated and Singapore dollar-denominated forecasted transactions:

| In millions of Euros | Notional amount for hedge on forecasted R&D and other operating expenses | Notional amount for hedge on forecasted manufacturing costs |
|----------------------|--|---|
| Forward contracts    | 96   | 101   |
| Currency options     | -  | -   |
| Currency collars     | 238  | 362   |

| In millions of Singapore dollars | Notional amount for hedge on forecasted R&D and other operating expenses | Notional amount for hedge on forecasted manufacturing costs |
|----------------------------------|--|---|
| Forward contracts                | -  | 124   |

#### Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Since almost all the liquidity of the Company is invested in floating rate instruments, the Company's interest rate risk arises from the mismatch of fixed rate liabilities (which are currently not material) and floating rate liquid assets.

#### Other market risk

As part of its ongoing investing activities, the Company may be exposed to equity security price risk. In order to hedge the exposure to this market risk, the Company may enter into certain hedging transactions.

Information on fair value of derivative instruments and their location in the consolidated balance sheets as at June 28, 2014 and December 31, 2013 is presented in the table below:

| In millions of U.S. dollars                  | As at June 28, 2014    |            | As at December 31, 2013 |            |
|--|------------------------|------------|-------------------------|------------|
|  | Balance sheet location | Fair value | Balance sheet location  | Fair value |
| Asset Derivatives                            |                        |            |                         |            |
| Derivatives designated as a hedge:           |                        |            |                         |            |
| Foreign exchange forward contracts           | Other current assets   | 5          | Other current assets    | 26         |
| Currency collars                             | Other current assets   | 1          | Other current assets    | 10         |
| Currency options                             | Other current assets   | -          | Other current assets    | 5          |
| Total derivatives designated as a hedge      |                        | 6          |                         | 41         |
| Derivatives not designated as a hedge:       |                        |            |                         |            |
| Foreign exchange forward contracts           | Other current assets   | 2          | Other current assets    | 2          |
| Total derivatives not designated as a hedge: |                        | 2          |                         | 2          |
| Total Derivatives                            |                        | 8          |                         | 43         |

| In millions of U.S. dollars                  | As at June 28, 2014                    |            | As at December 31, 2013                |            |
|--|--|------------|--|------------|
|  | Balance sheet location                 | Fair value | Balance sheet location                 | Fair value |
| Liability Derivatives                        |  |            |  |            |
| Derivatives designated as a hedge:           |  |            |  |            |
| Foreign exchange forward contracts           | Other payables and accrued liabilities | -          | Other payables and accrued liabilities | (1)        |
| Currency collars                             | Other payables and accrued liabilities | (1)        | Other payables and accrued liabilities | (2)        |
| Total derivatives designated as a hedge      |  | (1)        |  | (3)        |
| Derivatives not designated as a hedge:       |  |            |  |            |
| Foreign exchange forward contracts           | Other payables and accrued liabilities | -          | Other payables and accrued liabilities | (1)        |
| Total derivatives not designated as a hedge: |  | -          |  | (1)        |
| Total Derivatives                            |  | (1)        |  | (4)        |

The effect on the consolidated statements of income for the three and six months ended June 28, 2014 and June 29, 2013, respectively, and on the "Accumulated Other comprehensive income (loss)" ("AOCI") as reported in the statements of equity as at June 28, 2014 and December 31, 2013 of derivative instruments designated as cash flow hedge is presented in the table below:



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| In millions of U.S. dollars        | Gain (loss) deferred in OCI on derivative |                   | Location of gain (loss) reclassified from OCI into earnings | Gain (loss) reclassified from OCI into earnings |               |                  |               |
|------------------------------------|---|-------------------|---|---|---------------|------------------|---------------|
|                                    | June 28, 2014                             | December 31, 2013 |   | Three months ended                              |               | Six months ended |               |
|                                    |   |                   |   | June 28, 2014                                   | June 29, 2013 | June 28, 2014    | June 29, 2013 |
| Foreign exchange forward contracts | 2   | 14                | Cost of sales   | 7   | (1)           | 14               | 6             |
| Foreign exchange forward contracts | 3   | 2                 | Selling, general and administrative                         | -   | -             | 1                | 1             |
| Foreign exchange forward contracts | -   | 10                | Research and development                                    | 1   | 2             | 7                | 8             |
| Currency options                   | -   | 1                 | Cost of sales   | (1)   | -             | (1)              | -             |
| Currency options                   | -   | 1                 | Research and development                                    | -   | -             | -                | -             |
| Currency collars                   | -   | 6                 | Cost of sales   | 2   | -             | 4                | 2             |
| Currency collars                   | (1)                                       | 1                 | Selling, general and administrative                         | 1   | -             | 1                | -             |
| Currency collars                   | -   | 3                 | Research and development                                    | 1   | -             | 2                | 1             |
| <b>Total</b>                       | <b>4</b>                                  | <b>38</b>         |   | <b>11</b>                                       | <b>1</b>      | <b>28</b>        | <b>18</b>     |

A total \$4 million gain deferred as at June 28, 2014 in AOCI is expected to be reclassified to earnings within the next twelve months.

No ineffective portion of the cash flow hedge relationships was recorded in earnings in the first half of 2014 and 2013. No amount was excluded from effectiveness measurement on foreign exchange forward contracts and currency collars.

The effect on the consolidated statements of income for the three and six months ended June 28, 2014 and June 29, 2013 of derivative instruments not designated as a hedge is presented in the table below:

| In millions of U.S. dollars        | Location of gain (loss) recognized in earnings | Gain (loss) recognized in earnings |               |                  |               |
|------------------------------------|--|------------------------------------|---------------|------------------|---------------|
|                                    |  | Three months ended                 |               | Six months ended |               |
|                                    |  | June 28, 2014                      | June 29, 2013 | June 28, 2014    | June 29, 2013 |
| Foreign exchange forward contracts | Other income and expenses, net                 | 3                                  | -             | 5                | 3             |
| <b>Total</b>                       |  | <b>3</b>                           | <b>-</b>      | <b>5</b>         | <b>3</b>      |

The Company did not enter into any derivative instrument containing significant credit-risk-related contingent features.

The Company entered into currency collars as combinations of two options, which are reported, for accounting purposes, on a net basis. The fair value of these collars represented as at June 28, 2014 assets totaling \$1 million and

liabilities totaling \$1 million. In addition, the Company entered into other derivative instruments, primarily forward contracts, which are governed by standard International Swaps and Derivatives Association (“ISDA”) agreements, which are not offset in the statement of financial position, and representing total assets of \$7 million as at June 28, 2014.

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## 25. Fair Value Measurements

The table below details financial assets (liabilities) measured at fair value on a recurring basis as at June 28, 2014:

| Description  | June 28, 2014 | Fair Value Measurements using   |   |  |
|--|---------------|---|---|--|
|  |               | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets (Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| In millions of U.S. dollars                          |               |   |   |  |
| Equity securities classified as available-for-sale   | 11            | 11  | -   | -  |
| Equity securities classified as held-for-trading     | 8             | 8   | -   | -  |
| Derivative instruments designated as cash flow hedge | 5             | -   | 5   | -  |
| Derivative instruments not designated as a hedge     | 2             | -   | 2   | -  |
| <b>Total</b>   | <b>26</b>     | <b>19</b>   | <b>7</b>  | <b>-</b>   |

The table below details financial assets (liabilities) measured at fair value on a recurring basis as at December 31, 2013:

| Description  | December 31, 2013 | Fair Value Measurements using   |   |  |
|--|-------------------|---|---|--|
|  |                   | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets (Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| In millions of U.S. dollars  |                   |   |   |  |
| Euro-denominated Senior debt Floating Rate Notes issued by financial institutions        | 27                | 27  | -   | -  |
| U.S. dollar-denominated Senior debt Floating Rate Notes issued by financial institutions | 30                | 30  | -   | -  |
| Equity securities classified as available-for-sale                                       | 11                | 11  | -   | -  |
| Equity securities held-for-trading   | 8                 | 8   | -   | -  |
| Derivative instruments designated as cash flow hedge                                     | 38                | -   | 38  | -  |
| Derivative instruments not designated as a hedge   | 1                 | -   | 1   | -  |
| <b>Total</b>   | <b>115</b>        | <b>76</b>   | <b>39</b>   | <b>-</b>   |

No asset was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as at June 28, 2014 and December 31, 2013.

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The table below details assets (liabilities) measured at fair value on a non-recurring basis as at June 28, 2014:

| Description                 | June 28, 2014 | Fair Value Measurements using   |   |  |
|-----------------------------|---------------|---|---|--|
|                             |               | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets (Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| In millions of U.S. dollars |               |   |   |  |
| Assets held for sale        | 30            | -   | -   | 30   |

The table below details assets (liabilities) measured at fair value on a non-recurring basis as at December 31, 2013:

| Description                 | December 31,<br>2013 | Fair Value Measurements using   |   |  |
|-----------------------------|----------------------|---|---|--|
|                             |                      | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets (Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| In millions of U.S. dollars |                      |   |   |  |
| Assets held for sale        | 16                   | -   | -   | 16   |

The assets held for sale are reported at the lower of net book value and fair value less costs to sell. For fair value measurements using significant unobservable inputs (Level 3), fair value is estimated based on the estimated price that a market participant would pay on a sale transaction for these assets.

No significant portion of the aggregate carrying amount of cost-method investments was evaluated for impairment in the first half of 2014 since there were no identified events or changes in circumstances that may have had a significant adverse effect on the fair value of the related investments.

For assets (liabilities) measured at fair value on a non-recurring basis using significant unobservable inputs (Level 3), the reconciliation between January 1, 2014 and June 28, 2014 is presented as follows:

|   | Fair Value Measurements using Significant Unobservable<br>Inputs (Level 3) |
|---|--|
| In millions of U.S. dollars   |  |
| January 1, 2014   | 16   |
| Sale of Veredus asset group   | (16)   |
| Sale of LongGang asset group  | 30   |
| June 28, 2014   | 30   |
| Amount of total losses for the period included in earnings<br>attributable to assets still held at the reporting date | -  |

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For assets (liabilities) measured at fair value on a non-recurring basis using significant unobservable inputs (Level 3), the reconciliation between January 1, 2013 and June 29, 2013 is presented as follows:

|   | Fair Value Measurements using Significant Unobservable<br>Inputs (Level 3) |
|---|--|
| In millions of U.S. dollars   |  |
| January 1, 2013   | -  |
| Assets held for sale  | 11   |
| June 29, 2013   | 11   |
| Amount of total losses for the period included in earnings<br>attributable to assets still held at the reporting date | (8)  |

The following table includes additional fair value information on other financial assets and liabilities as at June 28, 2014 and as at December 31, 2013:

| Description                                 | Level | As at June 28, 2014 |                         | As at December 31, 2013 |                         |
|---|-------|---------------------|-------------------------|-------------------------|-------------------------|
|   |       | Carrying<br>Amount  | Estimated<br>Fair Value | Carrying<br>Amount      | Estimated<br>Fair Value |
| In millions of U.S. dollars                 |       |                     |                         |                         |                         |
| Cash and cash equivalents                   | 1     | 1,502               | 1,502                   | 1,836                   | 1,836                   |
| Short-term deposits                         | 1     | 51                  | 51                      | -                       | -                       |
| Long-term debt                              |       |                     |                         |                         |                         |
| - Bank loans (including current<br>portion) | 2     | 1,130               | 1,130                   | 1,153                   | 1,153                   |

No securities were in an unrealized loss position as at June 28, 2014 and June 29, 2013.

The methodologies used to estimate fair value are as follows:

Foreign exchange forward contracts, currency options and collars

The fair value of these instruments is estimated based upon quoted market prices for similar instruments.

Equity securities classified as available-for-sale

The fair values of these instruments are estimated based upon market prices for the same instruments.

Trading equity securities

The fair value of these instruments is estimated based upon quoted market prices for the same instruments.

Equity securities carried at cost

The non-recurring fair value measurement is based on the valuation of the underlying investments on a new round of third party financing or upon liquidation.

Long-term debt and current portion of long-term debt

The fair value of bank loans was determined by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the Company's incremental borrowing rates for similar types of borrowing arrangements.

Cash and cash equivalents, accounts receivable, bank overdrafts, short-term borrowings, and accounts payable

The carrying amounts reflected in the consolidated financial statements are reasonable estimates of fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

26.

Segment Reporting

The Company operates in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, the Company designs, develops, manufactures and markets a broad range of products, including discrete and standard commodity components, application-specific integrated circuits ("ASICs"), full custom devices and semi-custom devices and application-specific standard products ("ASSPs") for analog, digital, and mixed-signal applications. In addition, the Company further participates in the manufacturing value chain of Smartcard products, which includes the production and sale of both silicon chips and Smartcards.

In the Subsystems business area, the Company designs, develops, manufactures and markets subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to its business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the U.S. GAAP guidance. All the financial values related to Subsystems including net revenues and related costs, are reported in the segment "Others".

The Company's segments in 2014 are as follows:

- Sense & Power and Automotive Products (SP&A), including:
  - o Automotive (APG),
  - o Industrial & Power Discrete (IPD),

- o Analog & MEMS (AMS), and
- o Other SP&A;
- Embedded Processing Solutions (EPS), comprised of:
  - o Digital Convergence Group (DCG),
  - o Imaging, BI-CMOS ASIC and Silicon Photonics (IBP),
  - o Microcontrollers, Memory & Secure MCU (MMS), and
  - o Other EPS.

In 2014, the Company revised the 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. The Company believes that the revised 2013 revenues presentation is consistent with that of 2014 and uses these comparatives when managing the company.

The following tables present the Company's consolidated net revenues and consolidated operating income (loss) by product segment. For the computation of the segments' internal financial measurements, the Company uses certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a part of research and development expenses. In compliance with the Company's internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold.

Net revenues by product segment:

| In millions of U.S. dollars                  | Three months ended |               | Six months ended |               |
|--|--------------------|---------------|------------------|---------------|
|  | June 28, 2014      | June 29, 2013 | June 28, 2014    | June 29, 2013 |
| Net revenues by product segment:             |                    |               |                  |               |
| Sense & Power and Automotive Products (SP&A) | 1,202              | 1,209         | 2,392            | 2,337         |
| Embedded Processing Solutions (EPS)          | 657                | 824           | 1,285            | 1,692         |
| Others(1)                                    | 5                  | 12            | 12               | 26            |
| Total consolidated net revenues              | 1,864              | 2,045         | 3,689            | 4,055         |

(1) Includes revenues from the sales of Subsystems, sales of materials and other products not allocated to product segments.

Net revenues by product segment and by product line:

| In millions of U.S dollars                        | Three months ended |               | Six months ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 28, 2014      | June 29, 2013 | June 28, 2014    | June 29, 2013 |
| Net revenues by product lines:                    |                    |               |                  |               |
| Automotive (APG)                                  | 463                | 416           | 907              | 801           |
| Industrial & Power Discrete (IPD)                 | 475                | 466           | 917              | 896           |
| Analog & MEMS (AMS)                               | 264                | 327           | 568              | 640           |
| Sense & Power and Automotive Products (SP&A)      | 1,202              | 1,209         | 2,392            | 2,337         |
| Digital Convergence Group (DCG)*                  | 184                | 375           | 389              | 870           |
| Imaging, BI-CMOS ASIC and Silicon Photonics (IBP) | 76                 | 98            | 153              | 170           |
| Microcontrollers, Memory & Secure MCU (MMS)       | 396                | 351           | 742              | 651           |
| Other EPS   | 1                  | -             | 1                | 1             |
| Embedded Processing Solutions (EPS)               | 657                | 824           | 1,285            | 1,692         |
| Others  | 5                  | 12            | 12               | 26            |
| Total consolidated net revenues                   | 1,864              | 2,045         | 3,689            | 4,055         |

\* Includes Wireless products. Reflecting the transfer of Wireless (legacy ST-Ericsson products) and the Image Signal Processor business unit from IBP to DCG as of January 1, 2014, the Company has reclassified prior period revenues.

Operating income (loss) by product segment:

| In millions of U.S. dollars                       | Three months ended |               | Six months ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 28, 2014      | June 29, 2013 | June 28, 2014    | June 29, 2013 |
| Operating income (loss) by product segment:       |                    |               |                  |               |
| Sense & Power and Automotive Products (SP&A)      | 126                | 42            | 230              | 99            |
| Embedded Processing Solutions (EPS)               | 14                 | (106)         | (66)             | (316)         |
| Total operating income (loss) of product segments | 140                | (64)          | 164              | (217)         |
| Others(1)   | (42)               | (43)          | (71)             | (171)         |
| Total consolidated operating income (loss)        | 98                 | (107)         | 93               | (388)         |

(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 research and development programs, certain corporate-level operating expenses and other costs that are not allocated to the product segments, as well as operating earnings of the Subsystems and Other Products Group.

Reconciliation of operating income (loss) of segments to the total operating income (loss):

| In millions of U.S. dollars                                       | Three months ended |               | Six months ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 28, 2014      | June 29, 2013 | June 28, 2014    | June 29, 2013 |
| Reconciliation to consolidated operating income (loss):           |                    |               |                  |               |
| Total operating income (loss) of product segments                 | 140                | (64)          | 164              | (217)         |
| Strategic and other research and development programs             | (2)                | (6)           | (3)              | (10)          |
| Phase-out and start-up costs                                      | (3)                | -             | (6)              | -             |
| Impairment, restructuring charges and other related closure costs | (20)               | (43)          | (32)             | (144)         |
| Unused capacity charges   | (5)                | (2)           | (10)             | (26)          |
| Other non-allocated provisions(1)                                 | (12)               | 8             | (20)             | 9             |
| Total operating loss Others                                       | (42)               | (43)          | (71)             | (171)         |
| Total consolidated operating income (loss)                        | 98                 | (107)         | 93               | (388)         |

(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.

## 27.

## Subsequent Events

On July 3, 2014, the Company issued \$1,000 million principal amount of dual tranche senior unsecured convertible bonds (Tranche A for \$600 million and Tranche B for \$400 million), due 2019 and 2021, respectively, for net proceeds of approximately \$995 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 is approximately \$12, equivalent to a 30% and a 31% premium, respectively, on each tranche. The 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 the Company. The Company can also redeem the bonds prior to their maturity in certain circumstances.

On July 22, 2014, the Company signed an agreement with Enel Green Power to transfer its equity stake in 3Sun joint venture. Pursuant to this agreement, the Company will be fully released from any obligation concerning the joint venture or Enel Green Power.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STMicroelectronics N.V.

Date: August 4, 2014

By: /s/ Carlo Bozotti

Name: Carlo Bozotti

Title: President and Chief Executive  
Officer and Sole Member of our  
Managing Board

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