STMICROELECTRONICS NV
Form 6-K
August 04, 2014

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

STMicroelectronics N.V.
(Name of Registrant)

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

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.

## 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.

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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, 2014 | March 29, 2014 | June 29, 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.

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

In 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, 2014 | June 29, 2013 | June 28, 2014 | June 29, 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, 2014 | June 29, 2013 | June 28, 2014 | June 29, 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, 2014 | June 29, 2013 | June 28, 2014 | June 29, 2013 |
| | (Unaudited, as percentage of net revenues) | | (Unaudited, as percentage of net revenues) | |
| Operating income (loss) by product segment: | | | | |

| | | | | |
|---|---|---|---|---|
| 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.

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

| | Three Months Ended | | | % Variation | |
|---|---|---|---|---|---|
| | June 28, 2014 | 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.

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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

| | Three Months Ended | | | % Variation | |
|---|---|---|---|---|---|
| | June 28, 2014 | March 29, 2014 | June 29, 2013 | Sequential | Year-Over-Year |
| | (Unaudited, in millions) | | | | |
| 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

| | Three Months Ended | | | % Variation | |
|---|---|---|---|---|---|
| | June 28, 2014 | March 29, 2014 | June 29, 2013 | Sequential | Year-Over-Year |
| | (Unaudited, in millions) | | | | |
| 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

| | Three Months Ended | | | % Variation | |
|---|---|---|---|---|---|
| | June 28, 2014 | March 29, 2014 | June 29, 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)% | | |

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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, 2014 | March 29, 2014 | June 29, 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, 2014 | March 29, 2014 | June 29, 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)

| | Three Months Ended | | |
|---|---|---|---|
| | June 28, 2014 | March 29, 2014 | June 29, 2013 |
| | (Unaudited, in millions) | | |
| 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

| | Three Months Ended | | |
|---|---|---|---|
| | June 28, 2014 | March 29, 2014 | June 29, 2013 |
| | (Unaudited, in millions) | | |
| 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

| | Three Months Ended | | |
|---|---|---|---|
| | June 28, 2014 | March 29, 2014 | June 29, 2013 |
| | (Unaudited, in millions) | | |
| 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

| | Three Months Ended | | |
|---|---|---|---|
| | June 28, 2014 | March 29, 2014 | June 29, 2013 |
| | (Unaudited, in millions) | | |
| 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 March 29, 2014 | June 29, 2013 |
|---|---|---|---|
| | | (Unaudited, in millions) | |
| 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 March 29, 2014 | June 29, 2013 |
|---|---|---|---|
| | | (Unaudited, in millions) | |
| 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 (Unaudited) | | Six Months Ended (Unaudited) | |
|---|---|---|---|---|
| | June 28, 2014 | June 28, 2014 | June 29, 2013 | June 29, 2013 |
| | $ million | % of net revenues | $ million | % of net 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) |

| | | | | |
|---|---|---|---|---|
| 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 | | % Variation |
|---|---|---|---|
| | June 28, 2014 | June 29, 2013 | |
| | (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 | | % Variation |
|---|---|---|---|
| | June 28, 2014 | June 29, 2013 | |
| | (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 |
|---|---|---|

| | June 28, 2014 | June 29, 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, 2014 | June 29, 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, 2014 | June 29, 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% | |