STMICROELECTRONICS NV
Form 20-F
March 10, 2010

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As filed with the Securities and Exchange Commission on March 10, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number: 1-13546
STMicroelectronics N.V.
(Exact name of registrant as specified in its charter)

Not Applicable	**The Netherlands**
(Translation of registrant s name into English)	*(Jurisdiction of incorporation or organization)*

39, Chemin du Champ des Filles
1228 Plan-Les-Ouates
Geneva
Switzerland
(Address of principal executive offices)

Carlo Bozotti
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1228 Plan-Les-Ouates
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Tel: +41 22 929 29 29
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class:	**Name of Each Exchange on Which Registered:**

Common shares, nominal value 1.04 per share		New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

878,333,566 common shares at December 31, 2009

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

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

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

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

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

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

U.S. GAAP þ	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

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

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Form 20-F that are not historical facts, particularly in Item 3. Key Information Risk Factors , Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects and Business Outlook , are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended) that are based on management s current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in such statements due to, among other factors:

- significant changes in demand in the key application markets and from key customers served by our products make it extremely difficult to accurately forecast and plan our future business activities. In particular, following a period of significant order cancellations, we recently experienced a strong surge in customer demand, which has led to capacity constraints in certain applications;

- significant differences in the gross margins we achieve compared to expectations, based on changes in revenue levels, product mix and pricing, capacity utilization and unused capacity charges, excess or obsolete inventory, manufacturing yields, changes in unit costs, impairments of long-lived assets (including manufacturing, assembly/test and intangible assets), and the timing, execution and associated costs for the announced transfer

of manufacturing from facilities designated for closure, including phase-out and start-up costs;

our ability to utilize and operate our manufacturing facilities at sufficient levels to cover fixed operating costs in periods of reduced customer demand, as well as our ability to ramp up production efficiently and rapidly to respond to increased customer demand, and the financial impact of obsolete or excess inventories if actual demand differs from our expectations;

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;

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

volatility in the financial markets and overall economic uncertainty increases the risk that the actual amounts potentially realized upon a future sale of our debt and equity investments could differ significantly from the fair values currently assigned to them;

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our ability to successfully integrate the acquisitions we pursue, in particular the successful integration and operation of the ST-Ericsson joint venture;

ST-Ericsson is a new wireless joint venture, representing a significant investment and risk for our business. The joint venture is currently engaged in restructuring initiatives and further declines in the wireless market, as well as the inability of ST-Ericsson to complete its ongoing restructuring plans or to successfully compete, could result in additional significant impairment and restructuring charges;

we currently also hold a significant non-marketable equity investment in Numonyx and are a guarantor of $225 million of its debts. On February 10, 2010, we announced that, together with our partners Intel Corporation and Francisco Partners, we have entered into a definitive agreement with Micron Technology Inc. (Micron), pursuant to which Micron will acquire Numonyx in an all-stock transaction. Upon the closing of the transaction, which is subject to regulatory review and other customary closing conditions, and based on Micron s closing stock price on February 9, 2010 of $9.08 per share, we will receive in exchange for our 48.6% stake in Numonyx and the cancellation of the 30-year note due to us by Numonyx approximately 66.6 million shares of Micron common stock (taking into account a payable of $77.8 million due by us to Francisco Partners). There is no guaranty as to when, or if, the transaction will close, or whether the transaction will close pursuant to the terms currently planned. Furthermore, our shares in Micron are subject to certain resale restrictions and, consequently, there is no guaranty as to when we will be able to sell them and at what price;

our ability to compete in our industry since a high percentage of our costs are fixed and are incurred in currencies other than U.S. dollars, especially in light of the volatility in the foreign exchange markets and, more particularly, in the U.S. dollar exchange rate as compared to the other major currencies we use for our operations;

the effects of hedging, which we practice in order to minimize the impact of variations between the U.S. dollar and the currencies of the other major countries in which we have our operating infrastructure, especially the Euro, in the currently very volatile currency environment;

our ability to execute our restructuring initiatives in accordance with our plans if unforeseen events require adjustments or delays in implementation or require new plans;

our ability in an intensively competitive environment to secure customer acceptance and to achieve our pricing expectations for high-volume supplies of new products in whose development we have been, or are currently, investing;

the ability to maintain solid, viable relationships with our suppliers and customers in the event they are unable to maintain a competitive market presence due, in particular, to the effects of the current economic environment;

changes in the political, social or economic environment, including as a result of military conflict, social unrest and/or terrorist activities, economic turmoil, as well as natural events such as severe weather, health risks, epidemics or earthquakes in the countries in which we, our key customers or our suppliers, operate; and

changes in our overall tax position as a result of changes in tax laws or the outcome of tax audits, and our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets.

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. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Form 20-F as anticipated, believed or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this Form 20-F to reflect subsequent events or circumstances.

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The table below sets forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2009. Such data have been derived from our audited Consolidated Financial Statements. Consolidated audited financial statements for each of the years in the three-year period ended December 31, 2009, including the Notes thereto (collectively, the Consolidated Financial Statements), are included elsewhere in this Form 20-F, while data for prior periods have been derived from our audited Consolidated Financial Statements used in such periods.

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

	Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(In millions except per share and ratio data)				
Consolidated Statements of Income Data:					
Net sales	**$ 8,465**	$ 9,792	$ 9,966	$ 9,838	$ 8,876
Other revenues	**45**	50	35	16	6
Net revenues	**8,510**	9,842	10,001	9,854	8,882
Cost of sales	**(5,884)**	(6,282)	(6,465)	(6,331)	(5,845)
Gross profit	**2,626**	3,560	3,536	3,523	3,037
Operating expenses:					
Selling, general and administrative	**(1,159)**	(1,187)	(1,099)	(1,067)	(1,026)
Research and development(1)	**(2,365)**	(2,152)	(1,802)	(1,667)	(1,630)
Other income and expenses, net(2)	**166**	62	48	(35)	(9)
Impairment, restructuring charges and other related closure costs	**(291)**	(481)	(1,228)	(77)	(128)
Total operating expenses	**(3,649)**	(3,758)	(4,081)	(2,846)	(2,793)
Operating income (loss)	**(1,023)**	(198)	(545)	677	244

Other-than-temporary impairment charge and realized losses on financial assets	**(140)**	(138)	(46)		
Interest income, net	**9**	51	83	93	34
Earnings (loss) on equity investments	**(337)**	(553)	14	(6)	(3)
Gain (loss) on financial assets	**(8)**	15			
Gain on convertible debt buyback	**3**				
Income (loss) before income taxes and noncontrolling interest	**(1,496)**	(823)	(494)	764	275
Income tax benefit (expense)	**95**	43	23	20	(8)
Income (loss) before noncontrolling interest	**(1,401)**	(780)	(471)	784	267
Net loss (income) attributable to noncontrolling interest	**270**	(6)	(6)	(2)	(1)
Net income (loss) attributable to parent company	**$ (1,131)**	$ (786)	$ (477)	$ 782	$ 266

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	Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(In millions except per share and ratio data)				
Earnings (loss) per share (basic) attributable to parent company shareholders	**$ (1.29)**	$ (0.88)	$ (0.53)	$ 0.87	$ 0.30
Earnings (loss) per share (diluted) attributable to parent company shareholders	**$ (1.29)**	$ (0.88)	$ (0.53)	$ 0.83	$ 0.29
Number of shares used in calculating earnings per share (basic)	**876.9**	892.0	898.7	896.1	892.8
Number of shares used in calculating earnings per share (diluted)	**876.9**	892.0	898.7	958.5	935.6
Consolidated Balance Sheet Data (end of period):					
Cash and cash equivalents	**$ 1,588**	$ 1,009	$ 1,855	$ 1,659	$ 2,027
Marketable securities	**1,032**	651	1,014	764	
Short-term deposits				250	
Restricted cash	**250**	250	250	218	
Non-current marketable securities	**42**	242	369		
Total assets	**13,655**	13,913	14,272	14,198	12,439
Short-term debt (including current portion of long-term debt)	**176**	143	103	136	1,533
Long-term debt (excluding current portion)	**2,316**	2,554	2,117	1,994	269
Total parent company shareholders equity(3)	**7,147**	8,156	9,573	9,747	8,480
Common stock and capital surplus	**3,637**	3,480	3,253	3,177	3,120
Other Data:					
Dividends per share(4)	**$ 0.12**	$ 0.36	$ 0.30	$ 0.12	$ 0.12
Capital expenditures(5)	**451**	983	1,140	1,533	1,441
Net cash provided by operating activities	**816**	1,722	2,188	2,491	1,798
Depreciation and amortization	**1,367**	1,366	1,413	1,766	1,944
Debt-to-equity ratio(6)	**0.35**	0.33	0.23	0.22	0.21
Net financial position: resources (debt)(6)	**$ 420**	$ (545)	$ 1,268	$ 761	$ 225
Net financial position to total shareholders equity ratio(6)	**0.06**	(0.07)	0.13	0.08	0.03

(1) Our reported research and development expenses (R&D) are mainly in the areas of product design and technology development. They do not include marketing design center costs, which are accounted for as selling expenses, or process engineering, pre-production and process-transfer costs, which are accounted for as cost of sales. As of 2009 and 2008, our R&D expenses are net of certain tax credits.

(2) Other income and expenses, net includes, among other things: funds received through government agencies for research and development programs; costs incurred for new start-up and phase-out activities not involving saleable production; foreign currency gains and losses; gains on sales of tangible assets and non-current assets; and the costs of certain activities relating to IP.

(3) In 2008, we repurchased 29,520,220 of our shares, for a total cost of $313 million. We reflected this purchase at cost as a reduction of shareholders equity. The repurchased shares have been designated for allocation under our

share-based compensation programs as nonvested shares, including the plans as approved by the 2005, 2006, 2007, 2008 and 2009 annual general shareholders meetings, and those which may be attributed in the future. As of December 31, 2009, 10,934,481 shares had been transferred to employees upon the vesting of such stock awards. As of December 31, 2009, we owned 31,985,739 treasury shares.

(4) Dividend per share represents the yearly dividend as approved by our annual general meeting of shareholders, which relates to the prior year s accounts.

(5) Capital expenditures are net of certain funds received through government agencies, the effect of which is to reduce our cash used in investing activities and to decrease depreciation.

(6) Net financial position: resources (debt) represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, current and non-current marketable securities, short-term deposits and restricted cash, and our total financial debt include bank

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overdrafts, current portion of long-term debt and long-term debt, as represented in our consolidated balance sheet. Our net financial position to total shareholders equity ratio is a non-U.S. GAAP financial measure. The most directly comparable U.S. GAAP financial measure is considered to be Debt-to-Equity Ratio . However, the Debt-to-Equity Ratio measures gross debt relative to equity, and does not reflect our current cash position. We believe that our net financial position to total shareholders equity ratio is useful to investors as a measure of our financial position and leverage. The ratio is computed on the basis of our net financial position divided by total parent company shareholders equity. For more information on our net financial position, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Resources Net financial position . Our computation of net debt (cash) to total shareholders equity ratio may not be consistent with that of other companies, which could make comparability difficult.

Risk Factors

Risks Related to the Semiconductor Industry which Impact Us

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

The semiconductor industry is cyclical and has been subject to significant economic downturns at various times. Downturns are typically characterized by diminished demand giving rise to production overcapacity, accelerated erosion of average selling prices, high inventory levels and reduced revenues. Downturns may be the result of industry-specific factors, such as excess capacity, product obsolescence, price erosion, evolving standards, changes in end-customer demand, and/or macroeconomic trends impacting global economies. Such macroeconomic trends relate to the semiconductor industry as a whole and not necessarily to the individual semiconductor markets to which we sell our products. The negative effects on our business from industry downturns may also be increased to the extent that such downturns are concurrent with the timing of new increases in production capacity in our industry. We have experienced revenue volatility and market downturns in the past and expect to experience them in the future, which could have a material adverse impact on our results of operations and financial condition.

The recent financial market crisis spread into a global economic recession impacting business and consumer confidence, which resulted in a precipitous decline in the demand for semiconductor products. As a result, our business, financial conditions and results of operations have been affected. To the extent that the current economic environment worsens, our business, financial condition and results of operations could be more significantly and adversely affected.

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

- significant declines in sales;
- significant reductions in selling prices;
- the resulting significant impact on our gross margins, profitability and net cash flow;
- increased volatility and/or declines in our share price;
- increased volatility or adverse movements in foreign currency exchange rates;

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

closure or underloading of wafer fabrication plants (fabs);

decreased valuations of our equity investments;

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

impairment of goodwill or other assets.

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

As a result of the cyclicality and volatility of the semiconductor industry, it is difficult to predict future developments in the markets we serve, making it hard to estimate requirements for production capacity. If markets do not grow as we have anticipated, or shrink faster than we have anticipated, we risk under-utilization of our facilities or having insufficient capacity to meet customer demand.

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The net increase of manufacturing capacity, defined as the difference between capacity additions and capacity reductions, may exceed demand requirements, leading to overcapacity and price erosion. If the semiconductor market does not grow as we anticipated when making investments in production capacity, we risk overcapacity. In addition, if demand for our products is lower than expected, this may result in write-offs of inventories and losses on products, and could require us to undertake restructuring measures that may involve significant charges to our earnings. In recent years, overcapacity and cost optimization have led us to close manufacturing facilities that used more mature process technologies and, as a result, to incur significant impairment and restructuring charges and related closure costs. See Item 5. Operating and Financial Review and Prospects Impairment, Restructuring Charges and Other Related Closure Costs.

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

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

price;

technical performance;

product features;

product system compatibility;

product design and technology;

timely introduction of new products;

product availability;

manufacturing yields; and

sales and technical support.

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

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

As we are a supplier of a broad range of products, we are required to make significant investments in R&D across our product portfolio in order to remain competitive. Many of the resulting products that we market, in turn, have short life cycles, with some being approximately one year. Current economic conditions may impair our ability to maintain our current level of R&D investments and, therefore, we may need to become more focused in our R&D investments across our broad range of product lines. This could significantly impair our ability to remain a viable competitor in the

product areas where our competitors R&D investments are higher than ours.

We regularly devote substantial resources to winning competitive bid selection processes, known as product design wins , to develop products for use in our customers equipment and products. These selection processes can be lengthy and can require us to incur significant design and development expenditures, with no guarantee of winning or generating revenue. Delays in developing new products with anticipated technological advances and failure to win new design projects for customers or in commencing volume shipments of new products may have an adverse effect on our business. In addition, there can be no assurance that new products, if introduced, will gain market acceptance or will not be adversely affected by new technological changes or new product announcements from other competitors that may have greater resources or are more focused than we are. Because we typically focus on only a few customers in a product area, the loss of a design win can sometimes result in our failure to offer a generation of a product. This can result in lost sales and could hurt our position in future competitive selection processes because we may be perceived as not being a technology or industry leader.

Even after obtaining a product design win from one of our customers, we may still experience delays in generating revenue from our products as a result of our customers or our lengthy development and design cycle. In addition, a delay or cancellation of a customer s plans could significantly adversely affect our financial results, as

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

We also regularly incur costs to develop IP internally or acquire it from third parties without any guarantee of realizing the anticipated value of such expenditures if our competitors develop technologies that are more accepted than ours, or if market demand does not materialize as anticipated. In addition to amortization expenses relating to purchased IP, the value of these assets may be subject to impairment with associated charges being made to our Consolidated Financial Statements. See Item 5. Operating and Financial Review and Prospects . There is no assurance that our IP purchases will be successful and will not lead to impairments and associated charges.

The competitive environment of the semiconductor industry may lead to erosion of our market share, impacting our capacity to compete.

We are continuously considering various measures to improve our competitive position and cost structure in the semiconductor industry.

In the past, our sales have, at times, increased at a slower pace than the semiconductor industry as a whole and our market share has declined, even in relation to the markets we served. There is no assurance that we will be able to maintain or grow our market share if we are unable to accelerate product innovation, identify new applications for our products, extend our customer base, realize manufacturing improvements and/or otherwise control our costs. In addition, in recent years the semiconductor industry has continued to increase manufacturing capacity in Asia in order to access lower-cost production and to benefit from higher overall efficiency, which has led to a more competitive environment. We may also in the future, if market conditions so require, consider additional measures to improve our cost structure and competitiveness in the semiconductor market, such as seeking more competitive sources of production, discontinuing certain product families or performing additional restructurings, which in turn may result in loss of revenues, asset impairments and/or capital losses.

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

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

- negative economic developments in foreign economies and instability of foreign governments, including the threat of war, terrorist attacks or civil unrest;
- epidemics such as disease outbreaks, pandemics and other health related issues;
- changes in laws and policies affecting trade and investment, including through the imposition of new constraints on investment and trade; and
- varying practices of the regulatory, tax, judicial and administrative bodies.

Risks Related to Our Operations

Market dynamics are driving us to a strategic repositioning, which has led us to enter into significant joint ventures.

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

In 2008, we divested our Flash Memory activities by combining our business with that of Intel and creating Numonyx, an independent semiconductor company in the area of Flash memories. On February 10, 2010, we announced that, together with our partners Intel Corporation and Francisco Partners, we have entered into a definitive agreement with Micron, pursuant to which it will acquire Numonyx in an all-stock transaction. See Note

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28 to our Consolidated Financial Statements and Item 5. Operating and Financial Review and Prospects Other Developments . There is no assurance when, or if, this transaction will close. Furthermore, there is no guaranty that the transaction will close pursuant to the terms currently planned.

In addition, in 2008, we completed the acquisition of Genesis Microchip Inc. (Genesis Microchip) and the acquisition of NXP s wireless business, creating the joint venture ST-NXP Wireless, with us having an 80% ownership stake. Furthermore, in 2009, we purchased the outstanding 20% held by NXP in ST-NXP Wireless and simultaneously merged ST-NXP Wireless with Ericsson Mobile Platforms (EMP), thereby forming ST-Ericsson. The wireless activities run through ST-Ericsson represent a significant portion of our business. The integration process may be long and complex due to the fact that we are merging three different companies, and may trigger a significant amount of costs. See Note 7 to our Consolidated Financial Statements. We may not be able to exercise the same control over management as we did when the business was operated by us. There is no assurance that we will be successful or that the joint venture will produce the planned operational and strategic benefits.

We also may consider from time to time entering into joint ventures that may operate in our existing facilities but whose businesses may not be specific to the semiconductor industry. We have announced plans to establish, at an existing M6 facility located in Catania, Italy to be contributed by us, a joint venture with Enel Green Power (Enel) and Sharp to manufacture Photovoltaic panels, which will be sold to Enel and Sharp as well as on the open market.

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

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

Other risks associated with acquisitions and the activities of our joint ventures include:

- diversion of management s attention;
- insufficient IP rights or potential inaccuracies in the ownership of key IP;
- assumption of potential liabilities, disclosed or undisclosed, associated with the business acquired, which liabilities may exceed the amount of indemnification available from the seller;
- potential inaccuracies in the financials of the business acquired;
- that the businesses acquired will not maintain the quality of products and services that we have historically provided;

whether we are able to attract and retain qualified management for the acquired business;

whether we are able to retain customers of the acquired entity; and

management, reporting and forecasting related to a 50-50 joint venture that is fully consolidated in our results.

Other risks associated with our divestiture activities include:

diversion of management s attention;

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

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

social issues or restructuring costs linked to divestitures and closures.

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

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

In less favorable industry environments, we are driven to reduce prices in response to competitive pressures and we are also faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. Reduced average selling prices and demand for our products adversely affect our results of operations. Since the semiconductor industry is characterized by high fixed costs, we are not always able to cut our total costs in line with revenue declines. Furthermore, in periods of lower customer demand for our products, our fabs do not operate at full capacity and the costs associated with the excess capacity are charged directly to cost of sales as unused capacity charges. Additionally, a significant number of our manufacturing facilities are located in France and Italy and their cost of operation have been significantly affected by the rise of the Euro against the U.S. dollar, our reporting currency over the last few years. See Item 5. Operating and Financial Review and Prospects. The difficult market conditions experienced in 2008 and 2009 have had a significant affect on the capacity utilization and related manufacturing efficiencies of our fabs and, consequently, our gross margins. We cannot guarantee that such market conditions, and increased competition in our core product markets, will not lead to further price erosion, lower revenue growth rates and lower margins.

The competitive environment of the semiconductor industry has led to industry consolidation and we may face even more intense competition from newly merged competitors or we may seek to acquire a competitor in order to improve our market share.

The intensely competitive environment of the semiconductor industry and the high costs associated with developing marketable products and manufacturing technologies as well as investing in production capabilities may lead to further consolidation in the industry. Such consolidation can allow a company to further benefit from economies of scale, provide improved or more diverse product portfolios and increase the size of its serviceable market. Consequently, we may seek to acquire a competitor to improve our market position and the applications and products we can market. Some of our competitors, however, may also try to take advantage of such a consolidation process and may have greater financial resources to do so.

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

A significant variation of the value of the U.S. dollar against the principal currencies that have a material impact on us (primarily the Euro, but also certain other currencies of countries where we have operations) could result in a favorable impact on our net income in the case of an appreciation of the U.S. dollar, or a negative impact on our net income if the U.S. dollar depreciates relative to these currencies. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major part of our revenues, while, more importantly, we incur a significant portion of our costs in currencies other than the U.S. dollar. Certain significant costs incurred by us, such as manufacturing labor costs and depreciation charges, selling, general and administrative expenses, and R&D expenses, are incurred in the currencies of the jurisdictions in which our operations are located, which mainly includes the euro zone. Our effective average exchange rate, which reflects actual exchange rate levels combined with the impact of cash flow hedging programs, was $1.37 to 1.00 in 2009, compared to $1.49 to 1.00 in 2008.

A decline of the U.S. dollar compared to the other major currencies that affect our operations negatively impacts our expenses, margins and profitability.

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

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

As a result of our choice to maintain control of a certain portion of our advanced proprietary manufacturing technologies to better serve our customer base and to develop our strategic alliances, significant amounts of capital to maintain or upgrade our facilities could be required in the future. We monitor our capital expenditures taking into consideration factors such as trends in the semiconductor market and capacity utilization. In the last three years our overall capital expenditures, as expressed in terms of percentage to sales, have significantly decreased, and we are planning for them to be in the range of 5% to about 7% of our revenues, what we consider to be a sustainable ratio for the foreseeable future. However, there is no assurance that we will not over-invest in terms of capital expenditures if future market demand does not meet our expectations when making the decision to invest, or under-invest in capital expenditures to address future increases and /or changes in the products required by our customers. Failure to invest appropriately or in a timely manner could have a material adverse effect on our business, and results of operations See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

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

In an increasingly complex and competitive environment, we may need to invest in other companies and/or in technology developed either by us or by third parties to maintain or improve our position in the market. We may also consider acquisitions to complement or expand our existing business. In addition, we may be required to refinance maturing indebtedness. Any of the foregoing may also require us to issue additional debt, equity, or both; the timing and the size of any new share or bond offering would depend upon market conditions as well as a variety of factors, and any such transaction or any announcement concerning such a transaction could materially impact the market price of our common shares. If we are unable to access such capital on acceptable terms, this may adversely affect our business and results of operations.

Our R&D efforts are increasingly expensive and dependent on alliances, and our business, results of operations and prospects could be materially adversely affected by the failure or termination of such alliances, or failure to find new partners in such alliance and/or in developing new process technologies in line with market requirements.

We are dependent on alliances to develop or access new technologies, particularly in light of the increasing levels of investment required for R&D activities, and there can be no assurance that these alliances will be successful. We are a member of the International Semiconductor Development Alliance (ISDA), a technology alliance led by IBM with GlobalFoundries, Freescale, Infineon, NEC, Samsung and Toshiba to develop complementary metal-on silicon oxide semiconductor (CMOS) process technology used in semiconductor development and manufacturing for 32/28-nm and 22/20-nm nodes. This alliance also includes collaboration on IP development and platforms to speed the design of System-on-Chip (SoC) devices in CMOS process technologies. In 2009, we also entered into an agreement with IBM to develop value-added derivative SoC technologies in Crolles France.

In February 2009, we completed the merger of ST-NXP Wireless and EMP into ST-Ericsson, a joint venture with Ericsson. We plan to deliver the benefits of our innovation to our customers and we also expect ST-Ericsson to execute on its plan to transition to the new portfolio strategy they have devised for their next generation offering.

We continue to believe that we can maintain proprietary R&D for derivative technology investments and share R&D business models, which are based on cooperation and alliances, for core R&D process technology if we receive adequate support from state funding, as in the case of the Crolles Nano 2012 frame agreement signed by us with the French government in 2009, which includes certain conditions of employment and manufacturing capacity to be met

by 2012. This, coupled with manufacturing and foundry partnerships, provides us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. In addition, it contributes to the fast acceleration of semiconductor process technology development while allowing us to lower our development and manufacturing costs. However, there can be no assurance that alliances will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. Certain companies develop their own process technologies, which may be more advanced than the technologies we develop through our cooperative alliances. Furthermore, if these alliances terminate before our intended goals are accomplished we may lose our investment, or incur additional unforeseen costs, and our business, results of operations and prospects could be materially adversely affected. In addition, if we are unable to develop or otherwise access new technologies independently, we may fail to keep pace with the rapid technology advances in

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the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share in the market addressed by our products.

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

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

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

- performance of our key customers in the markets they serve;
- order cancellations or reschedulings by customers;
- excess inventory held by customers leading to reduced bookings or product returns by key customers;
- manufacturing capacity and utilization rates;
- restructuring and impairment charges;
- losses on equity investments;
- fluctuations in currency exchange rates, particularly between the U.S. dollar and other currencies in jurisdictions where we have activities;
- IP developments;
- changes in distribution and sales arrangements;
- failure to win new design projects;
- manufacturing performance and yields;
- product liability or warranty claims;
- litigation;
- acquisitions or divestitures;
- problems in obtaining adequate raw materials or production equipment on a timely basis;

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

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

a substantial part of our business is run through joint ventures whose management acts independently pursuant to the joint ventures rule of governance.

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

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

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

spending levels of the market segment participants;

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

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

evolving industry standards; and

the rate of adoption of new or alternative technologies.

We cannot predict the rate, or the extent to which, the telecommunications, consumer, computer and communication infrastructure, automotive and industrial markets will grow. In 2009, the decline in these markets resulted in slower growth and a decline in demand for our products, which had a material adverse effect on our business, financial condition and results of operations.

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

Our business is dependent upon our ability to attract and retain new customers. The competition for such new customers is intense. There can be no assurance that we will be successful in attracting and retaining new customers. Our failure to do so could materially adversely affect our business, financial position and results of operations.

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

A substantial portion of our sales is derived from several large customers, some of whom have entered into strategic alliances with us. As of December 31, 2009, our largest customer, the Nokia group of companies, accounted for approximately 16.1% of our 2009 net revenues, compared to 17.5% in 2008 and 21.1% in 2007. We cannot guarantee that our largest customers will continue to book the same level of sales with us that they have in the past and will not solicit alternative suppliers. Many of our key customers operate in cyclical businesses that are also highly competitive, and their own demands and market positions may vary considerably. In recent years, certain customers of the semiconductor industry have experienced consolidation. Such consolidations may impact our business in the sense that our relationships with the new entities could be either reinforced or jeopardized pursuant thereto. Our customers have in the past, and may in the future, vary order levels significantly from period to period, request postponements to scheduled delivery dates or modify their bookings. We cannot guarantee that we will be able to maintain or enhance our market share with our key customers or distributors. If we were to lose important design wins for our products with our key customers, or if any key customer or distributors were to reduce or change its bookings, seek alternate suppliers, increase its product returns or become unable or fail to meet its payment obligations, our business financial condition and results of operations could be materially adversely affected. Some of our customers have recently faced

financial difficulties and liquidity constraints, which have made them unable to fulfill their contractual obligations, or could make them unable to fulfill such obligations in the future. If customers do not purchase products made specifically for them, we may not be able to resell such products to other customers or require the customers who have ordered these products to pay a cancellation fee. Furthermore, developing industry trends, including customers use of outsourcing and new and revised supply chain models, may reduce our ability to forecast the purchase date for our products and evolving customer demand, thereby affecting our revenues and working capital requirements. For example, pursuant to industry developments, some of our products are required to be delivered on consignment to customer sites with recognition of revenue delayed until such moment, which must occur within a defined period of time, when the customer chooses to take delivery of our products from our consignment stock.

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

Our operating results can also vary significantly due to impairment of goodwill booked pursuant to acquisitions and to the purchase of technologies and licenses from third parties, which has increased significantly since 2008 due to M&A transactions. Because the market for our products is characterized by rapidly changing technologies, and because of significant changes in the semiconductor industry, our future cash flows may not support the value of goodwill and other intangibles registered in our consolidated balance sheet. Furthermore, the ability to generate revenues for our fixed assets located in Europe may be impaired by an increase in the value of the Euro with respect to the U.S. dollar, as the revenues from the use of such assets are generated in U.S. dollars. We are required to annually test goodwill and to assess the carrying values of intangible and tangible assets when impairment indicators exist. As a result of such tests, we could be required to book impairment in our statement of income if the carrying value in our consolidated balance sheet is in excess of the fair value. The amount of any potential impairment is not predictable as it depends on our estimates of projected market trends, results of operations and cash flows. In addition, the introduction of new accounting standards can lead to a different assessment of goodwill carrying value, which could lead to a potential impairment of the goodwill amount. Any potential impairment, if required, could have a material adverse impact on our results of operations.

We last performed our annual impairment testing in the third quarter of 2009, while the value generated by all of our product segments exceeded the carrying value of their assets. While we recorded specific impairment charges related to the carrying value of certain marketable securities and equity investments during the period, a minor impairment charge was indicated by such analyses on the net value of our assets subject to testing. However, many of the factors used in assessing fair values for such assets are outside of our control and the estimates used in such analyses are subject to change. Due to the ongoing uncertainty of the current market conditions, which may continue to negatively impact our market value, we will continue to monitor the carrying value of our assets. If market and economic conditions further deteriorate, this could result in future non-cash impairment charges against income. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic transactions, including ST-Ericsson, especially if it is unable to complete its ongoing restructuring plans or successfully compete, and possible further impairment charges relating to our investment in Numonyx, particularly, in the event of a downward shift in expected revenues or operating cash flow.

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

Our ability to meet our customers demand to manufacture our products depends upon obtaining adequate supplies of quality raw materials on a timely basis. A number of materials are available only from a limited number of suppliers, or only from a limited number of suppliers in a particular region. In addition, we purchase raw materials such as silicon wafers, lead frames, mold compounds, ceramic packages and chemicals and gases from a number of suppliers on a just-in-time basis, as well as other materials such as copper and gold whose prices on the world markets have fluctuated significantly during recent periods. Although supplies for the raw materials we currently use are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. In addition, the costs of certain materials, such as copper and gold, have increased due to market pressures and we may not be able to pass on such cost increases to the prices we charge to our customers. We also purchase semiconductor manufacturing equipment from a limited number of suppliers and because such equipment is complex it is difficult to replace one supplier with another or to substitute one piece of equipment for another. In addition, suppliers may extend lead times, limit our supply or increase prices due to capacity constraints or other factors. Furthermore, suppliers tend to focus their investments on providing the most technologically advanced equipment and

materials and may not be in a position to address our requirements for equipment or materials of older generations. Shortages of supplies have in the past impacted and may in the future impact the semiconductor industry, in particular with respect to silicon wafers due to increased demand and decreased production. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurances that we will not encounter these problems in the future. Our quarterly or annual results of operations would be adversely affected if we were unable to obtain adequate supplies of raw materials or equipment in a timely manner or if there were significant increases in the costs of raw materials or problems with the quality of these raw materials.

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

We currently use outside contractors, both for foundries and back-end activities, and it is likely that we will increasingly rely on foundries for a growing portion of our needs. The foundries we contract with are primarily manufacturers of high-speed complementary metal-on silicon oxide semiconductor (HCMOS) wafers and nonvolatile memory technology, while our back-end subcontractors engage in the assembly and testing of a wide variety of packaged devices. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. Our internal manufacturing costs include depreciation and other fixed costs, while costs for products outsourced are based on market conditions. Prices for these services also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter to quarter and, in cases of industry shortages, they can increase significantly further, negatively impacting our gross margin.

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

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

As is common in the semiconductor industry, we have, from time to time, experienced and may in the future experience difficulties in transferring equipment between our sites, ramping up production at new facilities or effecting transitions to new manufacturing processes. Our operating results may be adversely affected by an increase in fixed costs and operating expenses linked to production if revenues do not increase commensurately with such fixed costs and operating expenses.

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

We depend on our ability to obtain patents and other IP rights covering our products and their design and manufacturing processes. We intend to continue to seek patents on our inventions relating to product designs and manufacturing processes. However, the process of seeking patent protection can be long and expensive, and we cannot guarantee that we will receive patents from currently pending or future applications. Even if patents are issued, they may not be of sufficient scope or strength to provide meaningful protection or any commercial advantage. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in some countries. Competitors

may also develop technologies that are protected by patents and other IP and therefore either be unavailable to us or be made available to us subject to adverse terms and conditions. We have in the past used our patent portfolio to negotiate broad patent cross-licenses with many of our competitors enabling us to design, manufacture and sell semiconductor products, without fear of infringing patents held by such competitors. We may not, however, in the future be able to obtain such licenses or other rights to protect necessary IP on favorable terms for the conduct of our business, and such failure may adversely impact our results of operations.

We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other IP rights. Competitors with whom we do not have patent cross license agreements may also develop technologies that are protected by patents and other IP rights and which may be unavailable to us or only made available on unfavorable terms and conditions. We may therefore become involved in costly litigation

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brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. We are currently involved in several lawsuits, including litigation before the U.S. International Trade Commission. See Item 8. Financial Information Legal Proceedings. Such lawsuits may have a material adverse effect on our business if we do not prevail. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third party IP and/or face an injunction.

Finally, litigation could cost us financial and management resources necessary to enforce our patents and other IP rights or to defend against third party intellectual property claims when we believe that the amounts requested for a license are unreasonable.

We may be faced with product liability or warranty claims.

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

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

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

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

Loss of key employees could hurt our competitive position.

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

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

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

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Our tax rate is variable and depends on changes in the level of operating profits within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. We currently receive certain tax benefits in some countries, and these benefits may not be available in the future due to changes in the local jurisdictions. As a result, our effective tax rate could increase in the coming years.

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

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. This assessment requires the exercise of judgment on the part of our management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income that is sufficient to utilize loss carry-forwards or tax credits before their expiration. The recorded amount of total deferred tax assets could be reduced, resulting in a decrease in our total assets and, consequently, in our shareholders equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in management s assessment or due to other factors, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize tax loss and credit carry-forwards in the future. A change in the estimated amounts and the character of the future result may require additional valuation allowances, resulting in a negative impact on our income statement.

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

We are required to prepare Consolidated Financial Statements using both IFRS in addition to our Consolidated Financial Statements prepared pursuant to U.S. GAAP and dual reporting may impair the clarity of our financial reporting.

We are incorporated in the Netherlands and our shares are listed on Euronext and on the Borsa Italiana, and, consequently, we are subject to an EU regulation requiring us to report our results of operations and Consolidated Financial Statements using IFRS. As of January 1, 2009, we are also required to prepare a semi-annual set of accounts using IFRS reporting standards. We use U.S. GAAP as our primary set of reporting standards. Applying U.S. GAAP in our financial reporting is designed to ensure the comparability of our results to those of our competitors, as well as the continuity of our reporting, thereby providing our investors with a clear understanding of our financial performance.

As a result of the obligation to report our Consolidated Financial Statements under IFRS, we prepare our results of operations using two different sets of reporting standards, U.S. GAAP and IFRS, which are currently not consistent. Such dual reporting materially increases the complexity of our investor communications. Our financial condition and results of operations reported in accordance with IFRS will differ from our financial condition and results of operations reported in accordance with U.S. GAAP, which could give rise to confusion in the marketplace.

Our reporting under two different accounting standards filed with the relevant regulatory authorities, also now in interim periods, could result in confusion if recipients of the information do not properly distinguish between the information reported using U.S. GAAP and the information reported using IFRS, particularly when viewing our

profitability and operating margins under one or the other set of accounting standards. Given this risk, and the complexity of maintaining and reviewing two sets of accounts, we are considering reporting primarily under IFRS at some point in the future.

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

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules that require us to include a management report assessing the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. In addition, we must also include an attestation by our independent registered public accounting firm regarding the effectiveness of our internal control over financial reporting. We have successfully completed our Section 404 assessment and received the auditors attestation as of December 31, 2009. However, in

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the future, if we fail to complete a favorable assessment from our management or to obtain an unqualified auditors attestation, we may be subject to regulatory sanctions or may suffer a loss of investor confidence in the reliability of our financial statements, which could lead to an adverse effect on our stock price.

The lack of public funding available to us, changes in existing public funding programs or demands for repayment may increase our costs and impact our results of operations.

Like many other manufacturers operating in Europe, we benefit from governmental funding for R&D expenses and industrialization costs (which include some of the costs incurred to bring prototype products to the production stage), as well as from incentive programs for the economic development of underdeveloped regions. Public funding may also be characterized by grants and/or low-interest financing for capital investment and/or tax credit investments. We have entered into public funding agreements in France and Italy, which set forth the parameters for state support to us under selected programs. These funding agreements require compliance with EU regulations and approval by EU authorities. We have also entered into the Nano 2012 funding program. See Item 4. Information on the Company Public Funding.

Furthermore, we receive a material amount of R&D tax credits in France, which is directly linked to the amount spent for our R&D activities. In 2009, we booked $146 million, which reflected amounts relating to yearly activities.

We rely on receiving funds on a timely basis pursuant to the terms of the funding agreements. However, the funding of programs in France and Italy is subject to the annual appropriation of available resources and compatibility with the fiscal provisions of their annual budgets, which we do not control, as well as to our continuing compliance with all eligibility requirements. If we are unable to receive anticipated funding on a timely basis, or if existing government-funded programs were curtailed or discontinued, or if we were unable to fulfill our eligibility requirements, this could have a material adverse effect on our business, operating results and financial condition. There is no assurance that any alternative funding would be available, or that, if available, it could be provided in sufficient amounts or on similar terms.

The application for and implementation of such grants often involves compliance with extensive regulatory requirements including, in the case of subsidies to be granted within the EU, notification to the European Commission by the member state making the contemplated grant prior to disbursement and receipt of required EU approval. In addition, compliance with project-related ceilings on aggregate subsidies defined under EU law often involves highly complex economic evaluations. Furthermore, public funding arrangements are generally subject to annual and project-by-project reviews and approvals. If we fail to meet applicable formal or other requirements, we may not be able to receive the relevant subsidies, which could have a material adverse effect on our results of operations. If we do not receive anticipated funding, this may lead us to curtail or discontinue existing projects, which may lead to further impairments. In addition, if we do not complete projects for which public funding has been approved, we may be required to repay any advances received for completed milestones, which may lead to a material adverse effect on our results of operations.

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

We have been informed that as of December 31, 2009, STMicroelectronics Holding II B.V. (ST Holding II), a wholly-owned subsidiary of STMicroelectronics Holding N.V. (ST Holding), owned 250,704,754 shares, or approximately 27.5%, of our issued common shares. ST Holding is therefore effectively in a position to control actions that require shareholder approval, including corporate actions, the election of our Supervisory Board and our Managing Board and the issuance of new shares or other securities.

We have also been informed that the shareholders agreement among ST Holding s shareholders (the STH Shareholders Agreement), to which we are not a party, governs relations between our current indirect shareholders Areva Group (Areva), Cassa Depositi e Prestiti S.p.A. (CDP) and Commissariat à l Energie Atomique (CEA), each of which is ultimately controlled by the French or Italian government. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders. The STH Shareholders Agreement includes provisions requiring the unanimous approval by shareholders of ST Holding before ST Holding can make any decision with respect to certain actions to be taken by us. Furthermore, as permitted by our Articles of Association, the Supervisory Board has specified selected actions by the Managing Board that require the approval of the Supervisory Board. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders. These requirements for the prior approval of various actions to be taken by us and our subsidiaries may give rise to a conflict of interest between our interests and investors interests, on the one hand, and the interests of the individual shareholders approving such actions, on the other, and may affect the ability of our Managing Board to respond as

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may be necessary in the rapidly changing environment of the semiconductor industry. Our ability to issue new shares or other securities may be limited by the existing shareholders desire to maintain their proportionate shareholding at a certain minimum level and our ability to buy back shares may be limited by our existing shareholders due to a Dutch law that may require shareholders that own more than 30% of our voting rights to launch a tender offer for our outstanding shares. Dutch law, however, requires members of our Supervisory Board to act independently in supervising our management and to comply with applicable corporate governance standards.

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

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

No preference shares have been issued to date. The effect of the preference shares may be to deter potential acquirers from effecting an unsolicited acquisition resulting in a change of control or otherwise taking actions considered hostile by our Managing Board and Supervisory Board. In addition, any issuance of additional capital within the limits of our authorized share capital, as approved by our shareholders, is subject to the requirements of our Articles of Association, see Item 10. Additional Information Memorandum and Articles of Association Share Capital as of December 31, 2009 Issuance of Shares, Preemption Rights and Preference Shares (Article 4).

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

The STH Shareholders Agreement, to which we are not a party, between respectively FT1CI, our French Shareholder controlled by Areva and CEA, and CDP, our Italian shareholder, permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at its sole discretion at any time from their current level, and to reduce the current level of their respective indirect interests in our common shares. The details of the STH Shareholders Agreement, as reported by ST Holding II, are further explained in Item 7. Major Shareholders and Related Party Transactions Major Shareholders. Disposals of our shares by the parties to the STH Shareholders Agreement can be made by way of the issuance of financial instruments exchangeable for our shares, equity swaps, structured finance transactions or sales of our shares. An announcement with respect to one or more of such dispositions could be made at any time without our advance knowledge.

In 2008, Finmeccanica sold approximately 26 million of our shares representing approximately 2.85% of our share capital to FT1CI, and, hence, CEA became a shareholder of FT1CI and is a party to the STH Shareholders Agreement. In addition, in December 2009, Finmeccanica sold all of its remaining 33,707,436 of our shares, held indirectly through ST Holding, to CDP and, as a result, is no longer a party to the STH Shareholders Agreement.

Finmeccanica Finance S.A. (Finmeccanica Finance), a subsidiary of Finmeccanica, has issued 501 million aggregate principal amount of exchangeable notes, exchangeable into up to 20 million of our existing common shares due 2010 (the Finmeccanica Notes). Finmeccanica has entered into a call option arrangement with Deutsche Bank for a corresponding amount of our shares in the event the notes become exchangeable. As of December 31, 2009, none of the Finmeccanica Notes had been exchanged for our common shares.

Further sales of our common shares or issue of bonds exchangeable into our common shares or any announcements concerning a potential sale by ST Holding, FT1CI, Areva, CEA or CDP, could materially impact the market price of our common shares. The timing and size of any future share or exchangeable bond offering by ST Holding, FT1CI, Areva, CEA or CDP would depend upon market conditions as well as a variety of factors.

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

Our corporate affairs are governed by our Articles of Association and by the laws governing corporations incorporated in the Netherlands. The corporate affairs of each of our consolidated subsidiaries are governed by the Articles of Association and by the laws governing such corporations in the jurisdiction in which such consolidated subsidiary is incorporated. The rights of the investors and the responsibilities of members of our Supervisory Board

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and Managing Board under Dutch law are not as clearly established as under the rules of some U.S. jurisdictions. Therefore, U.S. investors may have more difficulty in protecting their interests in the face of actions by our management, members of our Supervisory Board or our controlling shareholders than U.S. investors would have if we were incorporated in the United States.

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

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

Removal of our common shares from the CAC 40 on Euronext, the FTSE MIB on the Borsa Italiana or the PHLX Semiconductor Sector Index (SOX) could cause the market price of our common shares to drop significantly.

Our common shares have been included in the CAC 40 index on Euronext since November 12, 1997; the FTSE MIB index (which replaced the S&P/MIB on June 1, 2009), or Italian Stock Exchange, since March 18, 2002; and the SOX since June 23, 2003. However, our common shares could be removed from the CAC 40, the FTSE MIB or the SOX at any time if, for a sustained period of time, our market capitalization were to fall below the required thresholds for the respective indices or our shares were to trade below a certain price, or in the case of a delisting of our shares from one or more of the stock exchanges where we are currently listed or if we were to decide to pursue a delisting on one of the three stock exchanges on which we maintain a listing as part of the measures we may from time to time consider to simplify our administrative and overhead expenses. Certain investors will only invest funds in companies that are included in one of these indexes. Any such removal or the announcement thereof could cause the market price of our common shares to drop significantly.

Item 4. Information on the Company

History and Development of the Company

STMicroelectronics N.V. was formed and incorporated in 1987 and resulted from the combination of the semiconductor business of SGS Microelettronica (then owned by Società Finanziaria Telefonica (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by the former Thomson-CSF,

now Thales, a French corporation). We completed our initial public offering in December 1994 with simultaneous listings on Euronext and the New York Stock Exchange (NYSE). In 1998, we listed our shares on the Borsa Italiana. Until 1998, we operated as SGS-Thomson Microelectronics N.V. Our length of life is indefinite. We are organized under the laws of the Netherlands. We have our corporate legal seat in Amsterdam, the Netherlands, and our head offices at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol Airport, the Netherlands. Our telephone number there is +31-20-654-3210. Our headquarters and operational offices are located at 39 Chemin du Champ des Filles, 1228 Plan-Les-Ouates, Geneva, Switzerland. Our main telephone number there is +41-22-929-2929. Our agent for service of process in the United States related to our registration under the U.S. Securities Exchange Act of 1934, as amended, is Corporation Service Company (CSC), 80 State Street, Albany, New York, 12207. Our operations are also conducted through our various subsidiaries, which are

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organized and operated according to the laws of their country of incorporation, and consolidated by STMicroelectronics N.V.

Business Overview

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor products used in a wide variety of microelectronic applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Our major customers include Apple, Bosch, Cisco, Continental, Delta, Hewlett-Packard, Huawei, LG Electronics, Marelli, Nintendo, Nokia, Pace, Philips, Research in Motion, Samsung, Seagate, Sharp, Sony Ericsson, Technicolor and Western Digital. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Willas-Array, Wintech and Yosun.

The semiconductor industry has historically been a cyclical one and we have responded through emphasizing balance in our product portfolio, in the applications we serve, and in the regional markets we address.

We offer a broad and diversified product portfolio and develop products for a wide range of market applications to reduce our dependence on any single product, application or end market. Within our diversified portfolio, we have focused on developing products that leverage our technological strengths in creating customized, system-level solutions with high-growth digital and mixed-signal content. Our product families are comprised of differentiated application-specific products (which we define as being our dedicated analog, mixed-signal and digital application-specific standard products (ASICs) and application-specific standard products (ASSP) offerings and semi-custom devices) that we organized in 2009 under our Automotive, Consumer, Computer and Communication Infrastructure (ACCI) and Wireless segment (Wireless) and power devices, microcontrollers, discrete products, special nonvolatile memory and Smartcard products organized under our Industrial and Multi-segment Sector (IMS).

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

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

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

Results of Operations

For our 2009 Results of Operations, see Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information.

Strategy

We aim to become the undisputed leader in multimedia convergence and power applications, dedicating significant resources to product innovation and increasingly becoming a solution provider in order to drive higher value and increase our market share in the markets we serve. As a worldwide semiconductor leader, we are well positioned to implement our strategy after having accomplished two major strategic transformations, namely a refocus of our product portfolio and our move towards being an asset lighter company. In addition, our strategy to enhance market share by developing innovative products and targeting new key customers is gaining momentum. Our strong capital structure enables us to operate as a long-term, viable supplier of semiconductor products.

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The semiconductor industry, steadily recovering from the difficult market conditions experienced from 2008 through the second half of 2009, continues to undergo several significant structural changes characterized by:

- the changing long-term structural growth of the overall market for semiconductor products, which has moved from double-digit average growth rate to single-digit average growth rate over the last several years;
- the strong development of new emerging applications in areas such as wireless communications, solid-state storage, digital TV, video products and games as well as for energy saving and medical applications;
- the importance of the Asia Pacific region, particularly China, Taiwan and other emerging countries, which represent the fastest growing regional markets;
- the importance of convergence between wireless, consumer and computer applications, which drives customer demand to seek new system-level, turnkey solutions from semiconductor suppliers;
- the evolution of the customer base from original equipment manufacturers (OEM) to a mix of OEM, electronic manufacturing service providers (EMS) and original design manufacturers (ODM);
- the expansion of available manufacturing capacity through third-party providers;
- the evolution of advanced process development R&D partnerships; and
- the recent consolidation process, which may lead to further strategic repositioning and reorganization amongst industry players.

Our strategy within this challenging environment is designed to focus on the following complementary key elements:

Broad, balanced market exposure. We offer a diversified product portfolio and develop products for a wide range of market applications using a variety of technologies, thereby reducing our dependence on any single product, application or end market. Within our diversified portfolio, we have focused on developing products that leverage our technological strengths in creating customized, system-level solutions for high-growth digital, advanced analog and mixed-signal applications. We target five key markets comprised of: (i) communications, primarily wireless and portable multi-media; (ii) computer peripherals, including data storage and printers; (iii) digital consumer, including set-top boxes, digital TVs and digital audio; (iv) automotive, including engine, body and safety, and infotainment; and (v) industrial and multi-segment products, including MEMS, microcontrollers, power supply, motor-control, metering, banking and Smartcard.

Product innovation. We aim to be leaders in multi-media convergence and power applications. In order to serve these segments, our plan is to maintain and further establish existing leadership positions for (i) platforms and chipset solutions for multimedia applications; and (ii) power applications, which are driving system solutions for customer specific applications. We have the knowledge, partners and financial resources to develop new, leading edge products, such as cellular modems and application processor solutions for wireless, MEMS, digital consumer products focused on set-top boxes and digital TVs, SoC offerings in data storage and system-oriented products for the multi-segment sector. We are also targeting new end markets, such as medical and energy saving applications.

Customer-based initiatives. We have a strategy based on four tenets, which we believe will help us gain market share. First, we work with our key customers to identify evolving needs and new applications in order to develop innovative products and product features. We have formal alliances with certain strategic customers that allow us and our customers to exchange information and which give our customers access to our process technologies and

manufacturing infrastructure. Secondly, we are targeting new major key accounts, where we can leverage our position as a supplier of application-specific products with a broad range product portfolio to better address the requirements of large users of semiconductor products with whom our market share has been historically quite low. Thirdly, we have targeted the mass market, or those customers outside of our traditional top 50 customers, who require system-level solutions for multiple market segments. Finally, we have focused on two regions as key ingredients in our future sales growth. The first is Greater China and South Asia and the second is Japan and Korea. We have launched important marketing initiatives in both regions.

Global integrated manufacturing infrastructure. We have a diversified, leading-edge manufacturing infrastructure, comprising front-end and back-end facilities, capable of producing silicon wafers using our broad process technology portfolio, including our CMOS, BiCMOS and BCD technologies as well as our discrete technologies. Assembling, testing and packaging of our semiconductor products take place in our large and modern back-end facilities, which generally are located in low-cost areas. In order to have adequate flexibility, we continue to maintain relationships with outside contractors for foundry and back-end services and plan to, over time, increase our outsourcing levels.

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Reduced asset intensity. While confirming our mission to remain an integrated device manufacturing company, and in conjunction with our decision to pursue the strategic repositioning of our product portfolio, we have decided to reduce our capital intensity in order to optimize opportunities between internal and external front-end production, reduce our dependence on market cycles that impact the loading of our fabs, and decrease the impact of depreciation on our financial performance. We have been able to reduce the capex-to-sales ratio from a historic average of 26% of sales during the period of 1995 through 2004, to approximately 5.3% of sales in 2009.

Research and development (R&D) leadership. The semiconductor industry is increasingly characterized by higher costs and technological risks involved in the R&D of leading edge CMOS process development. These higher costs and technological risks have driven us to enter into cooperative partnerships, in particular for the development of basic CMOS technology. We are a member of ISDA, a technology alliance led by IBM with GlobalFoundries, Freescale, Infineon, NEC, Samsung and Toshiba to develop the CMOS process technology for 32/28-nm and 22/20-nm nodes. Furthermore, in order to maintain our differentiation capabilities through process technology leadership, we are continuing our development of proprietary derivatives of CMOS process technologies and of Smart Power, analog, discretes, MEMS and mixed signal processes, for which R&D costs are significantly lower than for CMOS.

Integrated presence in key regional markets. We have sought to develop a competitive advantage by building an integrated presence in each of the world s economic zones that we target: Europe, Asia, China and America. An integrated presence means having product development, sales and marketing capabilities in each region, in order to ensure that we are well positioned to anticipate and respond to our customers business requirements. We have major front-end manufacturing facilities in Europe and Asia. Our more labor-intensive back-end facilities are located in Malaysia, China, Philippines, Singapore, Morocco and Malta, enabling us to take advantage of more favorable production cost structures, particularly lower labor costs. Major design centers and local sales and marketing groups are within close proximity of key customers in each region, which we believe enhances our ability to maintain strong relationships with our customers.

Product quality excellence. We aim to develop the quality excellence of our products and in the various applications we serve and we have launched a company-wide Product Quality Awareness program built around a three-pronged approach: (i) the improvement of our full product cycle involving robust design and manufacturing, improved detection of potential defects, and better anticipation of failures through improved risk assessment, particularly in the areas of product and process changes; (ii) improved responsiveness to customer demands; and (iii) ever increasing focus on quality and discipline in execution.

Sustainable Excellence and Compliance. We are committed to sustainable excellence and compliance. We conduct our business based on our Principles for Sustainable Excellence (PSE) and are focused on following the highest ethical standards, empowering our people and striving for quality and customer satisfaction, while creating value for all of our partners.

Creating Shareholder Value. We remain focused on creating value for our shareholders, which we measure in terms of return on net assets in excess of our weighted average cost of capital.

Products and Technology

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

In 2009, we ran our business along product lines and managed our revenues and internal operating income performance based on the following product segments:

Automotive, Consumer, Computer and Communication Infrastructure (ACCI);

Industrial and Multi segment Sector (IMS); and

Wireless.

We also design, develop, manufacture and market subsystems and modules for a wide variety of products in the telecommunications, automotive and industrial markets in our Subsystems division. Based on its immateriality, we do not report information separately for Subsystems. For a description of the main categories of products sold and/or services performed for each of the last three fiscal years, see Note 27 to our Consolidated Financial Statements.

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ACCI

ACCI is responsible for the design, development and manufacture of application-specific products using advanced bipolar, CMOS, BiCMOS smart power technologies. The businesses in the ACCI offer complete system solutions to customers in several application markets. All products are ASSPs, full-custom or semi-custom devices that may also include digital signal processor (DSP) and microcontroller cores. The businesses in the ACCI particularly emphasize dedicated Integrated Circuits (ICs) for automotive, consumer, computer peripherals, telecommunications infrastructure and certain industrial application segments.

Our businesses in ACCI work closely with customers to develop application-specific products using our technologies, IP, and manufacturing capabilities. The breadth of our customer and application base provides us with a better source of stability in the cyclical semiconductor market.

ACCI is comprised of three major product lines Automotive Products Group (APG); Computer and Communication Infrastructure (CCI); and Home Entertainment & Displays (HED). Furthermore, we also operate an imaging business with a product line called Imaging.

Automotive Products Group

Our automotive products include airbag controls, anti-skid braking systems, vehicle stability control, ignition and injection circuits, multiplex wiring kits and products for body and chassis electronics, engine management, instrumentation systems and car infotainment. We hold a leading position in the IC market for automotive products. In addition, we work with Freescale Semiconductor on 90nm and 55nm embedded Flash Technology and other common products based on cost-effective 32 bit microcontrollers for use in all automotive applications.

(i) *Car Body Division.* We manufacture products for the body and chassis electronics requirements of the car. These products range from microcontrollers used in lighting, door and window/wiper applications to junction boxes, power solutions, dashboards and climate-control needs.

(ii) *Car Radio and Multi-media Division.* We provide our customers with full solutions for analog and digital car radio solutions for tolling, navigation and other telematic applications. The increasingly complex requirements of the car/driver interface have opened a market for us in the area of car multi-media to include products based on our Nomadik platform of multi-media processors. We have the know-how and experience to offer to the market complete telematics solutions, which include circuits for global positioning system (GPS) navigation, voice recognition, audio amplification and audio signal processing.

(iii) *Digital Broadcast Radio Division.* We provide a number of components to the satellite radio market, including base-band products for the reception of signals by the market leaders.

(iv) *Powertrain and Safety Division.* From engine and transmission control to mechanical-electronic solutions, microelectronics are steadily pervading all sectors of the automotive industry. Our robust family of automotive products provide a broad range of features that enhance performance, safety and comfort while reducing the environmental impact of the automobile. The devices support advanced functions, enable improved vehicle performance and economy, and deliver development savings by promoting hardware and software reuse.

In the course of 2009, these divisions were combined into two business units: Automotive Electronics Division and the Automotive Infotainment Division.

Computer and Communications Infrastructure

(i) *BCD Power Division.* This organization serves the markets of hard disk drive (HDD) and Printers with products developed on our BCD technology. Main applications are motor controllers for HDD and motor drivers and head drivers for printers.

(ii) *Communication Infrastructure Division.* This division provides solutions for the wireless and wireline infrastructure segments. Our wireline telecommunications products, mainly digital and mixed signal ASICs, are used for various application in the high-speed electronic and optical communications market. In the wireless field, we focus on the ASIC market due to our many years of experience in the fields of digital baseband, radio frequency and mixed-signal products.

(iii) *Computer System Division*. We are focusing on inkjet and laser printer components and are an important supplier of digital engines including those in high-performance photo-quality applications and multifunction printers. We are also expanding our offerings to include a reconfigurable ASSP product family, known as SPEAr^{tm} (Structured Processor Enhanced Architecture), designed for flexibility and ease-of-use by printer manufacturers.

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(iv) *Data Storage Division*. We produce digital ASICs for data storage applications, with advanced solutions for read/write-channels, disk controllers and host interfaces. We believe that based on sales, we are, and have been for many years, one of the largest semiconductor companies supplying the HDD market.

(v) *Microfluidics Division.* This division builds on the years of our success in microfluidic product design, developed primarily for the inkjet print-head product line, and expands our offering into related fields, such as molecular and health diagnostics. In the field of medical diagnostic, we have developed specific Lab On Chip technology and products. In 2008, we acquired a 41.2% stake in Veredus Laboratories Pte Ltd (Veredus) to combine forces to address this emerging market.

Home Entertainment and Displays Group

Our HED addresses product requirements for the digital consumer application market and has five divisions.

(i) *Audio Division.* We design and manufacture a wide variety of components for use in audio applications. Our audio products include audio power amplifiers, audio processors and graphic-equalizer ICs.

(ii) *Home Video Division.* This division focuses on products for digital retail, satellite, cable and IPTV set-top box products. We continue to expand our product offerings and customer base by introducing innovative platform solutions offering advanced technologies and a wide range of consumer services.

(iii) *Interactive System Solutions Division.* We offer customers and partners the capability to jointly develop highly integrated solutions for their consumer products. We utilize our expertise and knowledge of the digital consumer ecosystem, advanced technologies and hardware/software IP to provide best-in-class differentiated products for a select base of customers and markets.

(iv) *TV & Monitor Division.* We address the digital television markets with a range of highly integrated ASSPs and application-specific microcontrollers. Following the acquisition of Genesis in 2008, we have worked to develop our integrated digital television product portfolio. We recently demonstrated our integrated Freeman product offering for next generation digital TV at the 2010 Consumer Electronics Show.

Imaging Division

We focus on the wireless handset image-sensor market. We are in production of CMOS-based camera modules and processors for low-and-high density pixel resolutions, which also meet the auto focus, advanced fixed focus and miniaturization requirements of this market. In certain situations, we will also sell leading-edge sensors.

IMS

The IMS is comprised of two product groups: Analog, Power and Micro-Electro-Mechanical Systems (APM) and Microcontrollers, non-Flash, non-volatile Memory and Smart Card products (MMS). APM is responsible for the design, development and manufacturing of Discrete Power devices (such as MOSFET, insulated gate bipolar transistors (IGBT), ASD and IPAD), Standard Analog devices (such as Op Amps, Voltage Regulators and Timers), and Sensors (such as MEMS). Those are the devices upon which we are positioning IMS for growth in the High End Analog world that comprises Temperature Sensors, Interfaces and High Voltage Controllers for main industrial applications (such metering and lighting). MMS includes microcontrollers, erasable programmable read-only memory (EPROM), electrically erasable programmable read-only memory (EEPROM) and Smartcards for a wide range of applications.

The variety and range of IMS product portfolio is among the best in the semiconductor environment, allowing IMS to pursue a kit approach strategy by application that few of our peers can match.

APM

(i) *Advanced Analog and Mixed Signal Division.* We develop innovative, differentiated and value-added analog products for a number of markets and applications including point-of-sales terminals, power meters and white goods.

(ii) *ASD and IPAD Division.* This division offers a full range of rectifiers, protection devices, thyristors and Integrated Passive and Active Devices (IPADTM). These components are used in various applications, including telecommunications systems (telephone sets, modems and line cards), household appliances and industrial systems (motor-control and power-control devices). More specifically, rectifiers are used in voltage converters and regulators, while thyristors control current flows through a variety of electrical devices, including lamps and household appliances.

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(iii) *Industrial and Power Conversion Division.* We design and manufacture products for industrial applications including lighting and power-line communication; power supply and power management ICs for computer, industrial, consumer, and telecom applications along with power over Ethernet powered devices. In the industrial market segment, our key products are power ICs for motor control, including monolithic DMOS solutions and high-voltage gate drivers, for a broad range of systems; intelligent power switches for the factory automation and process control.

(iv) *Linear and Interface Division.* We offer a broad product portfolio of linear and switching voltage regulators, addressing various applications, from general purpose point of load , for most of the market segments (consumer, computer and data storage, mobile phones, industrial, medical, automotive, aerospace), to specific functions such as camera flash LED, LCD backlighting and organic LED power supply, for the mobile handset and other portable device markets; low noise block supply and control for set top box; and multiple channels DC-DC for micro storage are also featured.

(v) *MEMS and Sensors, Transceivers and Healthcare Division.* We manufacture MEMS for a wide variety of applications where real-world input is required. Our prior product line of three-axis accelerometers was expanded over 2009 to include a complete family of high-performance multi-axis gyroscopes. The combination of accelerometers and gyroscopes enables accurate motion tracking into a 3D space, which is the primary component of enhanced motion controlled user interfaces in gaming, mobile phones, PND and portable multimedia media players. The same devices are also employed in laptops, automotive, HDDs and digital cameras.

In 2009, we also added active microphones and disposable biosensors to the healthcare market to our product portfolio.

(vi) *Power Bipolar, IGBT and RF Division*. This division produces all bipolar power transistors, from low voltage devices to high voltage like IGBT, classic bipolar transistors and both intelligent and standard power modules, together with RF power transistors for specific market clusters such as power conversion, medical and motor control for both industrial and automotive. The Division is in charge of High-Reliability (high-rel) products and radiation-hardened (rad-hard) devices.

(vii) *Power MOSFET Division*. We design, manufacture and sell Power MOSFETs (Metal-Oxide-Silicon Field Effect Transistors) ranging from 20 to 1500 volts for most of the switching and linear applications on the market today. Our products are particularly well suited for high voltage switch-mode power supplies and lighting applications.

MMS

(i) *Memory Division.* They are used for parameter storage in various electronic devices used in all market segments.

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

(iii) *Smartcard IC Division.* Smartcards are card devices containing ICs that store data and provide an array of security capabilities. Our expertise in security is a key to our leadership in the finance and pay-TV segments and development of IT applications.

(iv) *Incard Division.* The division develops, manufactures and sells plastic cards (both memory and microprocessor based) for banking, identification and telecom applications. Incard operates as a standalone organization and also directly controls the sales force for this product offering.

Wireless

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

Wireless is responsible for the design, development and manufacture of semiconductors and platforms for mobile applications. In addition, this segment spearheads our ongoing efforts to maintain and develop innovative solutions for our mobile customers while consolidating our world leadership position in wireless. This segment is organized into five groups: Wireless Multi Media (WMM); Connectivity & Peripherals (C&P); Cellular Systems (CS); Mobile Platforms (MP), in which, since February 3, 2009, we report the portion of sales and

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operating results of ST-Ericsson as consolidated in the our revenue and operating results; and, Other Wireless, in which we report manufacturing margin, R&D revenues and other items related to wireless business activities occurring outside of ST-Ericsson.

We offer a complete solution in mobile handsets, serving several major OEMs, with a combination of application specific ICs as well as a growing capability in our platform offering. In this market, we are strategically positioned in digital baseband, energy management, audio coding and decoding functions (CODEC) and radio frequency ICs and connectivity. We are also transitioning to platform solutions.

Strategic Alliances with Customers and Industry Partnerships

We believe that strategic alliances with customers and industry partnerships are critical to success in the semiconductor industry. We have entered into several strategic customer alliances, including alliances with Bosch, Continental AG, Hewlett-Packard, Marelli, Nokia, Pioneer, Samsung, Seagate, SonyEricsson and Western Digital. Customer alliances provide us with valuable systems and application know-how and access to markets for key products, while allowing our customers to share some of the risks of product development with us and to gain access to our process technologies and manufacturing infrastructure. We are actively working to expand the number of our customer alliances, targeting OEMs in the United States, in Europe and in Asia.

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

Customers and Applications

We design, develop, manufacture and market thousands of products that we sell to thousands of customers. Our major customers include Apple, Bosch, Cisco, Continental, Delta, Hewlett-Packard, Huawei, LG Electronics, Marelli, Nintendo, Nokia, Pace, Philips, Research in Motion, Samsung, Seagate, Sharp, Sony Ericsson, Technicolor and Western Digital. To many of our key customers we provide a wide range of products, including application-specific products, discrete devices, memory products and programmable products. Our position as a strategic supplier of application-specific products to certain customers fosters close relationships that provide us with opportunities to supply such customers requirements for other products, including discrete devices, programmable products and memory products. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Future Electronics, Rutronik and Yosun.

The following table sets forth certain of our significant customers and certain applications for our products:

Telecommunications

Customers:	Alcatel-Lucent	Huawei	Nokia	Sharp
	Cisco	LG Electronics	Research in Motion	Sony Ericsson
	Ericsson Finisar	Motorola	Samsung	
Applications:	Camera modules/mobile imaging		Application processor & integrated modem	

	Entry platforms (mobile handsets)		Telephone terminals	
	Central office switching systems		Connectivity	
	Thin modems		Connected devices	
	Infrastructure			
Computer Peripherals				
Customers:	Agilent	Delta		Seagate
	Apple	Hewlett-Packard	Microsoft	Western Digital
	Dell	Hitachi	Samsung	Eastman Kodak
Applications:	Data storage		Power management	
	Microfluidics / print-head cartridges		Printers	
Automotive				
Customers:	Bosch	Harman	Lear	Valeo
	Continental	Hella	Marelli	
	Delphi			Sirius Satellite
	Denso	Kostal	Pioneer	Radio

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Applications:	Airbags Anti-lock braking systems Body and chassis electronics Engine management systems		GPS multimedia Radio/satellite radio Telematics Vehicle stability control	
Consumer				
Customers:	ADB AOC Echostar	Garmin Pace LG Electronics Nintendo	Sagem Connunications Samsung Cisco/SA	Technicolor
Applications:	Audio processing Digital TVs Display Port Internet TV		High Definition DVD Imaging Set-top boxes Multimedia player	
Industrial/Other Applications				
Customers:	Medtronic Autostrade Delta Emerson	Gemalto General Electric	Safran Nagra Nintendo	Philips Siemens Taiwan-Liteon Vodafone
Applications:	Battery chargers Smartcard ICs Intelligent power switches Industrial automation/ control systems Lighting systems		MEMS Motor controllers Power supplies Switch mode power supplies	

In 2009, our largest customer, the Nokia group of companies, represented approximately 16.1% of our net revenues, compared to approximately 17.5% in 2008 and 21.1% in 2007. No other single customer accounted for more than 10% of our net revenues. There can be no assurance that such customers or distributors, or any other customers, will continue to place orders with us in the future at the same levels as in prior periods. See Item 3. Key Information Risk Factors Risks Related to Our Operations Disruptions in our relationships with any one of our key customers could adversely affect our results of operations.

Sales, Marketing and Distribution

In 2009, we operated regional sales organizations in EMEA, which includes all of Europe, the Middle East and Africa, the Americas, Asia Pacific, Greater China and Japan. A description of our regional sales organizations activities and structure during 2009 is below.

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

(ii) *Americas* In the Americas region, the sales and marketing team is organized into six business units: automotive (Detroit, Michigan); industrial (Boston, Massachusetts); consumer, industrial and medical (Chicago, Illinois); communications, consumer and computer Peripherals (San Jose, California and Longmont, Colorado); RFID and communications (Dallas, Texas); and distribution (Boston, Massachusetts). A central product-marketing operation in Boston provides product support and training for standard products for the Americas region. In addition, a comprehensive distribution business unit provides product and sales support for the regional distribution network.

(iii) *Asia Pacific* In the Asia Pacific region, the sales and marketing organization is managed from our regional headquarters in Singapore and is organized into seven business units (computer peripherals, automotive, industrial, consumer, telecom, distribution and EMS) and central support functions (service and business management, field quality, human resources, strategic planning, finance, corporate communication and design center). The business units are comprised of sales, marketing, customer service, technical support and competence center. We have sales offices in Korea, Malaysia, Thailand, the Philippines, Vietnam, Indonesia and Australia. As of January 1, 2009, we added a part of the Emerging Market region to our sales perimeter and now have offices in India, namely in Greater Noida, Mumbai, Pune and Bengalore. In Korea, we have a strong local presence serving

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the local Korean companies in telecom, consumer, automotive and industrial applications. Our design center in Singapore carries out full custom designs in HDD, smart card, imaging and display applications.

(iv) *Greater China* In the Greater China region, which encompasses China, Taiwan and Hong Kong, our sales, design and support resources are designed to expand on our many years of successful participation in this quickly growing market, not only with transnational customers that have transferred their manufacturing to China, but also with domestic customers.

(v) *Japan* In Japan, the large majority of our sales have historically been made through distributors, as is typical for foreign suppliers to the Japanese market. However, we are now seeking to work more directly with our major customers to address their requirements. We provide marketing and technical support services to customers through sales offices in Tokyo and Osaka. In addition, we have established a quality laboratory and an application laboratory in Tokyo. The quality laboratory allows us to respond quickly to the local requirement, while the application laboratory allows Japanese customers to test our products in specific applications.

As of January 1, 2010, our regions in Asia are consolidated into two: Greater China and South Asia; and Japan and Korea. See Item 5. Operating and Financial Review and Prospects Other Developments.

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

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

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

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

Research and Development

We believe that research and development (R&D) is critical to our success. The main R&D challenge we face is to continually increase the functionality, speed and cost-effectiveness of our semiconductor devices, while ensuring that technological developments translate into profitable commercial products as quickly as possible.

We are market driven in our R&D and focused on leading-edge products and technologies developed in close collaboration with strategic alliance partners, leading universities and research institutions, key customers, leading EDA vendors and global equipment manufacturers working at the cutting edge of their own markets. In addition, we have a technology council comprised of 15 leading experts to review, evaluate and advise us on the competitive landscape. Front-end manufacturing and technology R&D, while being separate organizations, are under the responsibility of our Chief Operating Officer, thereby ensuring a smooth flow of information between the R&D and manufacturing organizations. The R&D activities relating to new products are managed by the Product Segments and consist mainly of design activities.

We devote significant effort to R&D because semiconductor manufacturers face immense pressure to be the first to make breakthroughs that can be leveraged into competitive advantages; new developments in semiconductor technology can make end products significantly cheaper, smaller, faster, more reliable and embedded with more functionalities than their predecessors and enable, through their timely appearance on the market, significant value

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creation opportunities. For a description of our R&D expenses, see Item 5. Operating and Financial Review and Prospects Research and Development Expenses.

To ensure that new technologies can be exploited in commercial products as quickly as possible, an integral part of our R&D philosophy is concurrent engineering, meaning that new fabrication processes and the tools needed to exploit them are developed simultaneously. Typically, these include not only EDA software, but also cell libraries that allow access to our rich IP portfolio and a demonstrator product suitable for subsequent commercialization. In this way, when a new process is delivered to our product segments or made available to external customers, they are more able to develop commercial products immediately.

In the same spirit, we develop, in a concurrent engineering mode, a complete portfolio of Analog and RF IP. The new generation of products now mix Analog and Digital IP Blocks, and even complex RF solutions, high performance data converters and high speed data transmission ports. Our R&D design centers located in France, India and Morocco have been specialized in the development of these functions, offering a significant advantage for us in quickly and cost effectively introducing products in the consumer and wireless market.

Our advanced R&D centers are strategically located around the world, including in France, Italy, Belgium, Canada, China, India, Singapore, Sweden, the United Kingdom and the United States.

In 2008, we entered into an R&D alliance with the ISDA to develop core 32/28nm and 22/20 nm CMOS technologies, and derivative technologies, also working with CEA Leti, in 65nm, 45nm, 32nm and 22nm. In this context, five strategic objectives have been established:

Repatriate to Crolles the core CMOS technologies jointly developed under the ISDA alliance.

Accelerate the development and the number of differentiated technologies for SoC so as to be able to supply amongst the worlds leading prototypes ICs, thereby develop a strategy of advanced differentiated products to compete with Asia foundries.

Develop libraries and perform transversal R&D on the methods and tools necessary to develop complex ICs using these technologies.

Perform advanced technology research linked to the conception of CMOS nano electric functionalities advance devices on 300mm wafers.

Pervade local, national and European territories, taking advantage of nano-electronic diffusion technologies to further promote innovation in various application sectors.

In 2009, we entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the Nano2012 Research and Development program. For more information, see Item 4. Information on the Company Public Funding. In addition, our manufacturing facility in Crolles, France houses a R&D center that is operated in the legal form of a French Groupement d intérêt économique named Centre Commun de Microelectronique de Crolles. Laboratoire d Electronique de Technologie d Instrumentation (LETI), a research laboratory of CEA (one of our indirect shareholders), is our partner.

There can be no assurance that we will be able to develop future technologies and commercially implement them on satisfactory terms, or that our alliances will allow the successful development of state-of-the-art core or derivative CMOS technologies on satisfactory terms. See Item 3. Key Information Risk Factors Risks Related to Our Operations Our R&D efforts are increasingly expensive and dependent on alliances, and our business, results of

operations and prospects could be materially adversely affected by the failure or termination of such alliances, or failure to find new partners in such alliance, or in developing new process technologies in line with market requirements.

The R2 activity in Agrate encompasses prototyping, pilot and volume production of the newly developed technologies with the objective of accelerating process industrialization and time-to-market for Smart power affiliation (BCD), including on SOI, High Voltage CMOS and MEMS. It is the result of an ongoing cooperation under a consortium with Numonyx. The R2 consortium agreement is also part of the Micron deal. Please refer to Item 5 Other developments . Our IP design center in Greater Noida, India supports all of our major design activities worldwide and hosts a major central R&D activity focused on software and core libraries development, with a strong emphasis on system solutions. The fundamental mission of our Advanced System Technology (AST) organization is to create system knowledge that supports our SoC development. AST s objective is to develop the advanced architectures that will drive key strategic applications, including digital consumer, wireless communications, computer peripherals and Smartcards, as well as the broad range of emerging automotive applications such as car multi-media. AST s challenge is to combine the expertise and expectations of our customers, industrial and academic partners, our central R&D teams and product segments to create a cohesive,

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practical vision that defines the hardware, software and system integration knowledge that we will need in the next three to five years and the strategies required to master them.

All of these worldwide activities create new ideas and innovations that enrich our portfolio of IP and enhance our ability to provide our customers with winning solutions. Furthermore, an array of important strategic customer alliances ensures that our R&D activities closely track the changing needs of the industry, while a network of partnerships with universities and research institutes around the world ensures that we have access to leading-edge knowledge from all corners of the world. We also play leadership roles in numerous projects running under the European Union s IST (Information Society Technologies) programs. We actively participate in these programs and continue collaborative R&D efforts such as the CATRENE, ARTEMIS and ENIAC programs.

Finally, we believe that platforms are the answer to the growing need for full system integration, as customers require from their silicon suppliers not just chips, but an optimized combination of hardware and software. Our world-class engineers and designers are currently developing platforms we selected to spearhead our future growth in some of the fastest developing markets of the microelectronics industry. The platforms include the application arocessors and integrated modem, set-top boxes/integrated digital TV, which include high definition and 3-D capability, and in the area of computer peripherals, the SPEArTM family of reconfigurable SoC ICs for printers and related applications.

Property, Plants and Equipment

We currently operate 15 main manufacturing sites around the world. The table below sets forth certain information with respect to our current manufacturing facilities, products and technologies. Front-end manufacturing facilities are fabs and back-end facilities are assembly, packaging and final testing plants.

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Location	Products	Technologies
Front-end facilities		
Crolles1, France	Application-specific products, image sensors	Fab: 200-mm CMOS and BiCMOS, Analog/RF, imaging
Crolles2, France	Application-specific products and leading edge logic products	Fab: 300-mm research and development on deep sub-micron (45-nm and below) CMOS and differentiated SoC technology development, imaging, TSV line
Phoenix, Arizona (entering the final stages of closure)	Application-specific products and microcontrollers	Fab: 200-mm BCD, BiCMOS, microcontrollers, CMOS
Agrate, Italy	Nonvolatile memories, microcontrollers and application-specific products MEMS	Fab 1: 200-mm BCD, MEMS, Microfluidics Fab 2: 200-mm, embedded Flash, research and development on nonvolatile memories and BCD technologies and Flash (operating in consortium with Numonyx)
Rousset, France	Microcontrollers, nonvolatile memories and Smartcard ICs, application-specific products and image sensors	Fab 1: 200-mm CMOS, Smartcard, embedded Flash, Analog/RF
Catania, Italy	Power transistors, Smart Power ICs and application-specific products	Fab 1: 150-mm Power metal-on silicon oxide semiconductor process technology (MOS),VIPower, MO-3, MO-5 and Pilot Line RF Fab 2: 200-mm, Microcontrollers, BCD, power MOS
Tours, France	Protection thyristors, diodes and ASD power transistors, IPAD	Fab: 125-mm, 150-mm and 200-mm pilot line discrete
Ang Mo Kio, Singapore	Analog, microcontrollers, power transistors, commodity products, nonvolatile memories, and application-specific products	Fab 1: 125-mm, power MOS, bipolar, power Fab 2: 150-mm bipolar, power MOS and BCD, EEPROM, Smartcard, Micros, CMOS logic Fab 3: 150 mm Microfluidics, MEMS, BCD, BiCMOS, CMOS
Back-end facilities		
Muar, Malaysia	Application-specific and standard products, microcontrollers	A building (block P) inside the plant has been contributed to STE
Kirkop, Malta	Application-specific products, MEMS, Embedded Flash for Automotive	
Toa Payoh, Singapore		

	Optical packages research and development, under reconversion into an EWS center
Bouskoura, Morocco	Nonvolatile memories, discrete and standard products, micromodules, RF and subsystems
Shenzhen, China(1)	Nonvolatile memories, discrete and standard products
Longgang, China	Discrete and standard products
Calamba, Philippines(2)	Application Specific Products and standard products

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

(2) Operated by ST but contributed to the ST-Ericsson joint venture.

At the end of 2009, our front-end facilities had a total capacity of approximately 115,000 200-mm equivalent wafer starts per week. The number of wafer starts per week varies from facility to facility and from period to period as a result of changes in product mix. Among the 200-mm wafers production facilities, the fabs based in Europe (Crolles and Rousset, France; Agrate and Catania, Italy) had a comparable installed capacity as of December 31, 2009. Among the 150-mm wafers production facilities, two (at Catania, Italy and Tours, France) had full design

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capacity installed as of December 31, 2009. As of the same date, the fab in Singapore had approximately two thirds of the full design capacity installed.

Our advanced 300-mm wafer pilot-line fabrication facility in Crolles, France had an installed capacity of 2,800 wafers per week at the end of 2009, and we plan to increase production to up to approximately 4,500 wafers per week as required by market conditions and within the framework of our R&D Nano 2012 program.

We own all of our manufacturing facilities, except Crolles2, France, which is the subject of leases for the building shell and some equipment that represents overall a small percentage of total assets.

We have historically subcontracted a portion of total manufacturing volumes to external suppliers. In 2009, we reduced our capital spending to $451 million, from $983 million registered in 2008, and we maintained our ratio of capital investment spending to revenues at 5.3%, in line with our goal of keeping this ratio in the range of 5 to about 7%. Such a level of capital spending is also designed to reduce our dependence on economic cycles, which affects the loading of our fabs, and decrease the effects of depreciation on our financial performance while optimizing opportunities between internal and external front-end production.

At December 31, 2009, we had approximately $267 million in outstanding commitments for purchases of equipment and other assets for delivery in 2010. For information on our anticipated 2010 capital expenditure costs, see Item 5. Operating and Financial Review and Prospects Financial Outlook.

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

The present environment is strongly affected by demand growth and supply availability remains constrained throughout the entire semiconductor market. Recently, our existing capacity has been outstripped by the increase in business demand as a result of the upturn in the semiconductor industry. This situation is completely different from the one seen in the first six months of 2009, where we had experienced a severe under-loading that resulted in significant unused capacity charges and cost inefficiencies despite our ongoing measures to reduce the activity of our fabs. No assurance can be given that we will be able to increase manufacturing efficiencies in the future to the same extent as in the past, or that we will not experience further production difficulties and/or unsaturation in the future.

In addition, as is common in the semiconductor industry, we have from time to time experienced difficulty in ramping up production at new facilities or effecting transitions to new manufacturing processes and, consequently, have suffered delays in product deliveries or reduced yields. There can be no assurance that we will not experience manufacturing problems in achieving acceptable yields, product delivery delays or interruptions in production in the future as a result of, among other things, capacity constraints, production bottlenecks, construction delays, equipment failure or maintenance, ramping up production at new facilities, upgrading or expanding existing facilities, changing our process technologies, or contamination or fires, storms, earthquakes or other acts of nature, any of which could result in a loss of future revenues. In addition, the development of larger fabrication facilities that require state-of-the-art sub-micron technology and larger-sized wafers has increased the potential for losses associated with production difficulties, imperfections or other causes of defects. In the event of an incident leading to an interruption of production at a fab, we may not be able to shift production to other facilities on a timely basis, or our customers

may decide to purchase products from other suppliers, and, in either case, the loss of revenues and the impact on our relationship with our customers could be significant. Our operating results could also be adversely affected by the increase in our fixed costs and operating expenses related to increases in production capacity if revenues do not increase commensurately. Finally, in periods of high demand, we increase our reliance on external contractors for foundry and back-end service. Any failure to perform by such subcontractors could impact our relationship with our customers and could materially affect our results of operations.

Intellectual Property (IP)

IP rights that apply to our various products include patents, copyrights, trade secrets, trademarks and mask work rights. A mask work is the two or three-dimensional layout of an integrated circuit. Including patents owned by ST-Ericsson, we currently own over 18,600 patents and pending patent applications which have been registered in several countries around the world and correspond to more than 9,600 patent families (each patent family

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containing all patents originating from the same invention). We filed 736 new patent applications around the world in 2009 (including patent applications owned by ST-Ericsson).

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

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

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

Backlog

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

In addition, our sales are affected by seasonality, with the first quarter generally showing lowest revenue levels in the year, and the third or fourth quarter generating the highest amount of revenues due to electronic products purchased from many of our targeted market segments.

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

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

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We entered 2009 with a backlog significantly lower compared to 2008 due to the sharp decline in the semiconductor industry registered in the second half of 2008. During 2009, our backlog grew as a result of a strong increase in order flow in the second half of the year, reflecting a more favorable industry environment. As a result of this rebound, we entered 2010 with a backlog significantly higher than we had entering 2009.

Competition

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

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

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

Organizational Structure and History

We are a multinational group of companies that designs, develops, manufactures and markets a broad range of products used in a wide variety of microelectronic applications, including telecommunications systems, computer systems, consumer goods, automotive products and industrial automation and control systems. We are organized in a matrix structure with geographic regions interacting with product divisions, both being supported by central functions, bringing all levels of management closer to the customer and facilitating communication among the R&D, production, marketing and sales organizations.

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

The following table lists our consolidated subsidiaries and our percentage ownership as of December 31, 2009:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Australia Sydney	STMicroelectronics PTY Ltd	100
Belgium Zaventem	ST-Ericsson Belgium N.V.	50
Belgium Zaventem	Proton World International N.V.	100
Brazil Sao Paolo	STMicroelectronics Ltda	100
Brazil Sao Paulo	Incard do Brazil Ltda	50
Canada Ottawa	STMicroelectronics (Canada), Inc.	100
Canada Thorn hill	Genesis Microchip (Canada) Co.	100
China Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
China Beijing	Beijing T3G Technology Co. Ltd	50
China Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China Shanghai	STMicroelectronics (Shanghai) R&D Co. Ltd	100

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Legal Seat	Name	Percentage Ownership (Direct or Indirect)
China Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China Shanghai	Shanghai NF Trading Ltd	50
China Shanghai	Shanghai NF Semiconductors Technology Ltd	50
China Shenzhen	Shenzhen STS Microelectronics Co. Ltd	60
China Shenzhen	STMicroelectronics (Shenzhen) Co. Ltd	100
China Shenzhen	STMicroelectronics (Shenzhen) Manufacturing Co. Ltd	100
China Shenzhen	STMicroelectronics (Shenzhen) R&D Co. Ltd	100
Czech Republic Prague	STMicroelectronics Design and Application s.r.o.	100
Czech Republic Prague	STN Wireless Sro	50
Finland Helsinki	ST-Ericsson R&D OY	50
Finland Lohja	ST-Ericsson OY	50
France Crolles	STMicroelectronics (Crolles 2) SAS	100
France Grenoble	STMicroelectronics (Grenoble 2) SAS	100
France Grenoble	ST-Ericsson (Grenoble) SAS	50
France Montrouge	STMicroelectronics S.A.	100
France Paris	ST-Ericsson (France) SAS	50
France Rousset	STMicroelectronics (Rousset) SAS	100
France Tours	STMicroelectronics (Tours) SAS	100
Germany Grasbrunn	STMicroelectronics GmbH	100
Germany Grasbrunn	STMicroelectronics Design and Application GmbH	100
Germany Grasbrunn	ST-NXP Wireless GmbH i.L.	50
Holland Amsterdam	STMicroelectronics Finance B.V.	100
Holland AmsterdamLuchtaven	ST-Ericsson Wireless N.V.	50
Holland Eindhoven	ST-Ericsson B.V.	50
Holland Eindhoven	ST-Ericsson Holding B.V.	50
Hong Kong Hong Kong	STMicroelectronics LTD	100
India Bangalore	NF Wireless India Pvt Ltd	50
India New Delhi	STMicroelectronics Marketing Pvt Ltd	100
India Noida	STMicroelectronics Pvt Ltd	100
India Noida	ST-Ericsson India Pvt Ltd	50
Ireland Dublin	NXP Falcon Ireland Ltd	50
Israel Netanya	STMicroelectronics Ltd	100
Italy Agrate Brianza	ST Incard S.r.l.	100
Italy Agrate Brianza	ST-Ericsson Srl	50
Italy Agrate Brianza	STMicroelectronics S.r.l.	100
Italy Aosta	DORA S.p.a.	100
Italy Catania	CO.RI.M.ME.	100
Italy Naples	STMicroelectronics Services S.r.l.	100
Japan Tokyo	STMicroelectronics KK	100
Japan Tokyo	ST-Ericsson KK	50
Korea Seoul	ST-Ericsson (Korea) Ltd	50
Malaysia - Kuala Lumpur	STMicroelectronics Marketing SDN BHD	100
Malaysia Muar	STMicroelectronics SDN BHD	100
Malaysia Muar	ST-Ericsson SDN.BHD	50

Malta	Kirkop	STMicroelectronics (Malta) Ltd	100
Mexico	Guadalajara	STMicroelectronics Marketing, S. de R.L. de C.V.	100
Mexico	Guadalajara	STMicroelectronics Design and Applications, S. de R.L. de C.V.	100
Morocco	Casablanca	STMicroelectronics S.A.S. (Maroc)	100
Morocco	Rabat	Electronic Holding S.A.	100
Morocco	Rabat	ST-Ericsson (Maroc) SAS	50
Norway	Grimstad	ST-Ericsson A.S.	50
Philippines	Calamba	STMicroelectronics, Inc..	100
Philippines	Calamba	ST-Ericsson (Philippines) Inc.	50
Philippines	Calamba	Mountain Drive Property, Inc.	20
Singapore	Ang Mo Kio	STMicroelectronics ASIA PACIFIC Pte Ltd	100
Singapore	Ang Mo Kio	STMicroelectronics Pte Ltd	100
Singapore	Ang Mo Kio	ST-Ericsson Asia Pacific Pte Ltd	50
Spain	Madrid	STMicroelectronics Iberia S.A.	100
Sweden	Kista	STMicroelectronics A.B.	100
Sweden	Kista	STMicroelectronics Wireless A.B.	50
Sweden	Stockholm	ST-Ericsson A.B.	50
Switzerland	Geneva	STMicroelectronics S.A.	100

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Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Switzerland Geneva	INCARD S.A.	100
Switzerland Geneva	INCARD Sales and Marketing S.A.	100
Switzerland Geneva	ST-Ericsson S.A.	50
Switzerland Zurich	ST-Ericsson Holding AG	50
Taiwan Taipei	ST-Ericsson (Taiwan) Ltd	50
Thailand Bangkok	STMicroelectronics (Thailand) Ltd	100
Turkey Istanbul	STMicroelectronics Elektronik Arastirma ve Gelistirme Anonim Sirketi	50
United Kingdom Bristol	Inmos Limited	100
United Kingdom Bristol	ST-Ericsson (UK) Ltd	50
United Kingdom Marlow	STMicroelectronics Limited	100
United Kingdom Marlow	STMicroelectronics (Research & Development) Limited	100
United Kingdom Reading	Synad Technologies Limited	100
United Kingdom Southampton	NF UK, Ltd	50
United States Carrollton	STMicroelectronics Inc.	100
United States Carrollton	ST-Ericsson Inc.	50
United States Carrollton	Genesis Microchip Inc.,	100
United States Carrollton	Genesis Microchip (Del) Inc.	100
United States Carrollton	Genesis Microchip LLC	100
United States Carrollton	Genesis Microchip Limited Partnership	100
United States Carrollton	Sage Inc.	100
United States Carrollton	Faroudja Inc.	100
United States Carrollton	Faroudja Laboratories Inc.	100
United States Wilmington	STMicroelectronics (North America) Holding, Inc.	100
United States Wilsonville	The Portland Group, Inc.	100

The following table lists our principal equity investments and our percentage ownership as of December 31, 2009:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
The Netherlands Rotterdam	Numonyx Holdings B.V.	48.6
Switzerland Zurich	ST-Ericsson AT Holding AG	49
Singapore The Curie	Veredus Laboratories Pte Ltd	41.2
South Korea Yongin-si	ATLab Inc.	8.1
Italy Caivano	INGAM Srl	20

In February 2010, we entered into a definitive agreement with Micron Technology Inc., in which Micron will acquire Numonyx Holdings B.V. in an all-stock transaction. Please refer to Item 5 Other developments .

Public Funding

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

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

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

The main programs for R&D in which we are involved include: (i) the CATRENE cooperative R&D program, which is the successor of MEDEA+ (which ended in 2008); (ii) EU R&D projects with FP6 and FP7 (Sixth and Seventh Frame Program) for Information Technology; (iii) European industry initiatives such as ENIAC and ARTEMIS (Embedded Computing Systems Initiative); and (iv) national or regional programs for R&D and for industrialization in the electronics industries involving many companies and laboratories. The pan-European

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programs cover a period of several years, while national or regional programs in France and Italy are subject mostly to annual budget appropriation.

In Italy, there are some national funding programs established to support the new FIRST (Fondo per gli Investimenti nella Ricerca Scientifica e Tecnologica) that will group previous funding regulations (FIRB, Fondo per gli Investimenti della Ricerca di Base, aimed to fund fundamental research), FAR, Fondo per le Agevolazioni alla Ricerca, to fund industrial research), and the FCS (Fondo per la Competitività e lo Sviluppo). The FRI (Fondo rotativo per il sostegno alle imprese e agli investimenti in ricerca) funds research and innovation activities and the FIT (Fondo speciale rotativo per l Innovazione Tecnologica) is designed to fund precompetitive development in manufacturing. These programs are not limited to microelectronics and are suitable to support industry R&D in any segment. Italian programs often cover several years and the approval phase is quite long, up to two/three years. In 2009, under a new call for proposals, the strategic program industria 2015 (involving a two-step evaluation procedure) finished the first stage screening process and three of our projects proposed were advanced as full proposals to the second evaluation stage.

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

In 2006, the EU Commission allowed the modification of the conditions of a grant pertaining to the building, facilitization and equipment of our facility in Catania, Italy (the M6 Plant). Following this decision, the authorized timeframe for completion of the project was extended and the Italian government was authorized to allocate 446 million, out of the 542 million grants originally authorized, for the completion of the M6 Plant if we made a further investment of 1,700 million between January 1, 2006 through the end of 2009. The M6 plant and the Contratto di programma have been transferred to Numonyx, which will benefit from future M6 grants linked to the completion of the M6 plant and assume related responsibilities. Under a Memorandum of Understanding dated July 30, 2009 the Italian Authorities declared their willingness to release public grants in connection with a revision of the current M6 Program Agreement so that original project (consisting in 1,700 million of investments to complete the M6 plant so as to make it able to produce memories with corresponding public funds for 446 million) is replaced by 2 separate projects, one related to Numonyx R&D activities in its Italian sites and the second to the finalization of the announced joint venture in the photovoltaic field with Enel and Sharp, and the conversion of the industrial destination of the new M6 facility in Catania from production of memories to production of photovoltaic panels. In particular, subject to finalization of the announced joint venture in the photovoltaic field with Enel and Sharp, we will contribute the M6 plant to the new joint venture, which will make the necessary investments to convert industrial destination of M6 from production of memories to production of photovoltaic panels up to a maximum of 1GW/year production capability for a corresponding maximum investment of 1,150 million.

In France, support for R&D is given by ANR (Agence Nationale de la Recherche), by OSEO (the agency taking over the missions and budgets of the AII Agency for Industrial Innovation), by the Ministry of Industry (FCE) and local public authorities. Specific support for microelectronics is provided through FCE to over 30 companies with activities in the semiconductor industry. The amount of support under French programs is decided annually and subject to budget appropriation. In 2009, we entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the Nano2012 Research and Development program, which confirmed our position as the Coordinator and Project Leader and allocated to us 340 million (about $450 million) in grants for the period 2008-2012. Nano2012 is designed to promote development of advanced CMOS (32nm and below) technologies for system-on-chip semiconductor products in the Grenoble-Crolles region of France, in cooperation with the ISDA.

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

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

Government support for capital expenditures funding has been used to support our capital investment. Although receipt of these funds is not directly reflected in our results of operations, the resulting lower amounts recorded in property, plant and equipment costs reduce the level of depreciation recognized by us. In Italy the new Tremonti-ter allows business income tax reduction excluding from taxation of business income an amount equal

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to 50 percent of the value of investments in a detailed list of new machinery and new equipment, made from July 1, 2009 through June 30, 2010. See Note 10 to our Consolidated Financial Statements.

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

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

Suppliers

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

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

Our manufacturing processes use many raw materials, including silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases. The prices of many of these raw materials are volatile. We obtain our raw materials and supplies from diverse sources on a just-in-time basis. Although supplies for the raw materials used by us are currently adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. See Item 3. Key Information Risk Factors Risks Related to Our Operations Because we depend on a limited number of suppliers for raw materials and certain equipment, we may experience supply disruptions if suppliers interrupt supply or increase prices.

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

Environmental Matters

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

Consistent with our PSE, we have established proactive environmental policies with respect to the handling of chemicals, gases, emissions and waste disposals from our manufacturing operations, and we have not suffered material environmental claims in the past. We believe that our activities comply with presently applicable environmental regulations in all material respects. We have engaged outside consultants to audit all of our environmental activities and created environmental management teams, information systems and training. We have

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also instituted environmental control procedures for processes used by us as well as our suppliers. As a company, we have been certified to be in compliance with the quality standard ISO9001:2008 and with the technical specification ISO/TS16949:2009.

Our activities are subject to two directives: Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment (ROHS Directive, as amended by Commission Decision 2005/618/EC of August 18, 2005); and Directive 2002/96/EC on waste electrical and electronic equipment (WEEE Directive, as modified by Directive 2003/108/EC of December 8, 2003). Both Directives are in the process of being replaced by new directives that are expected to be adopted in mid-2010. The ROHS Directive aims at banning the use of lead and other flame-retardant substances in manufacturing electronic components. The WEEE Directive promotes the recovery and recycling of electrical and electronic waste. Due to unclear statutory definitions and interpretations, we are unable at this time to determine in detail the ramifications of our activities under the WEEE Directive. The WEEE Directive to be adopted in 2010 may or may not clarify such definitions with respect to our activities. At this stage, we do not participate in a take back organization in France.

Our activities in the EU are also subject to the European Directive 2003/87/EC establishing a scheme for greenhouse gas allowance trading (as modified by Directive 2004/101/EC), and applicable national legislation. The 2003 Directive was amended by Directive 2009/29/EC, which must be transposed into national law by the European Member States on or before December 31, 2012. Two of our manufacturing sites (Crolles, France, and Agrate, Italy) have been allocated a quota of greenhouse gas for the period 2008-2012. Failure to comply would force us to acquire potentially expensive additional emission allowances from third parties, or to pay a fee for each extra ton of gas emitted. Our on-going programs to reduce CO_2 emissions should allow us to comply with the greenhouse gas quota allocations that have been defined for Crolles and Agrate for the period 2008-2012. At this stage, the emission permits are allocated for free to the industry. However, pursuant to provisions created by the 2009 Directive, a growing percentage of the permits will be auctioned by Member States beginning in 2013. However, the remaining permits will be allocated for free until 2027, when all of the permits will be subject to auction.

In the United States, we participate in the Chicago Climate Exchange program, a voluntary greenhouse gas trading program whose members commit to reduce emissions. We have also implemented voluntary reforestation projects in several countries in order to sequester additional CO_2 emissions and report our emissions in our annual Corporate Sustainable Report as well as through our internal Carbon Disclosure Project.

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

Industry Background

The Semiconductor Market

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

Although cyclical changes in production capacity in the semiconductor industry and demand for electronic systems have resulted in pronounced cyclical changes in the level of semiconductor sales and fluctuations in prices and margins for semiconductor products from time to time, the semiconductor industry has experienced substantial

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growth over the long term. Factors that contribute to long-term growth include the development of new semiconductor applications, increased semiconductor content as a percentage of total system cost, emerging strategic partnerships and growth in the electronic systems industry, in particular, the Asia Pacific region.

Semiconductor Classifications

Process technologies, levels of integration, design specificity, functional technologies and applications for different semiconductor products vary significantly. As differences in these characteristics have increased, the semiconductor market has become highly diversified as well as subject to constant and rapid change. Semiconductor product markets may be classified according to each of these characteristics.

Semiconductors can be manufactured using different process technologies, each of which is particularly suited to different applications. Since the mid-1970s, the two dominant processes have been bipolar (the original technology used to produce ICs) and CMOS. Bipolar devices typically operate at higher speeds than CMOS devices, but CMOS devices consume less power and permit more transistors to be integrated on a single IC. CMOS has become the prevalent technology, across all major mass markets such as personal computers, consumer application and cellular phones. Advanced technologies have been developed during the last decade that are particularly suited to more systems-oriented semiconductor applications. BiCMOS technologies have been developed to combine the high-speed and high-voltage characteristics of bipolar technologies with the low power consumption and high integration of CMOS technologies. BCD technologies have been developed that combine bipolar, CMOS and DMOS technologies to target intelligent power control and conversion applications. Such systems-oriented technologies require more process steps and mask levels, and are more complex than the basic function-oriented technologies.

Process technologies, referred to as MEMS, has significantly developed in the last decade and has allowed to expand the scope of traditional semiconductor devices from signal processing, storage and power conversion, up to sensing and converting a wide variety of physical dimensions such as pressure, temperature and acceleration.

Semiconductors are often classified as either discrete devices (such as individual diodes, thyristors and single high voltage and power transistors, as well as optoelectronic products) or ICs (in which thousands of functions are combined on a single chip of silicon to form a more complex circuit). Compared to the market for ICs, there is typically less differentiation among discrete products supplied by different semiconductor manufacturers. Also, discrete markets have generally grown at slower, but more stable, rates than IC markets.

Semiconductors may also be classified as either standard components, ASSPs or ASICs. Standard components are used for a broad range of applications, while ASSPs and ASICs are designed to perform specific functions in specific applications.

The two basic functional technologies for semiconductor products are analog and digital. Mixed-signal products combine both analog and digital functionality. Analog devices monitor, condition, amplify or transform analog signals, which are signals that vary continuously over a wide range of values.

Analog/digital (or mixed-signal) ICs combine analog and digital devices on a single chip to process both analog signals and digital data. System designers are increasingly demanding system-level integration in which complete electronic systems containing both analog and digital functions are integrated on a single IC.

Digital devices are divided into two major types: memory products and logic devices. Memory products, which are used in electronic systems to store data and program instructions, are classified as either volatile memories (which lose their data content when power to the device is switched off) or nonvolatile memories (which retain their data content without the need for continuous power).

The primary volatile memory devices are dynamic random access memories (DRAMs). DRAMs are used in a computer s main memory. SRAMs are principally used as caches and buffers between a computer s microprocessor and its DRAM-based main memory and in other applications such as mobile handsets.

Nonvolatile memories are used to store program instructions. Among such nonvolatile memories, read-only memories (ROMs) are permanently programmed when they are manufactured while programmable ROMs (PROMs) can be programmed by system designers or end-users after they are manufactured. Erasable PROMs (EPROMs) may be erased after programming by exposure to ultraviolet. Electrically erasable PROMs (EEPROMs) can be erased byte by byte and reprogrammed in-system without the need for removal.

Logic devices process digital data to control the operation of electronic systems. The largest segment of the logic market includes microprocessors, microcontrollers and DSPs. Microprocessors are the central processing units of computer systems. microcontrollers are complete computer systems contained on single ICs that are

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programmed to specific customer requirements. Microcontrollers control the operation of electronic and electromechanical systems by processing input data from electronic sensors and generating electronic control signals. They are used in a wide variety of consumer, communications, automotive, industrial and computer products. DSPs are parallel processors used for high complexity, high-speed real-time computations in a wide variety of applications.

A significant number of our logic devices is constituted by ASSP SoC, which gathers the functions of system control, multi-media signal processing and communication protocols in a wide variety of systems, such as smart-phones, set-top-boxes and communication infrastructure platforms.

Item 5. Operating and Financial Review and Prospects

Overview

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto included elsewhere in this Form 20-F. The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections Critical Accounting Policies Using Significant Estimates, Business Outlook and Liquidity and Capital Resources Financial Outlook. Our actual resu may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see Cautionary Note Regarding Forward-Looking Statements and Item 3, Key Information Risk Factors. We assume no obligation to update the forward-looking statements or such risk factors.

Critical Accounting Policies Using Significant Estimates

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

- sales returns and allowances;
- determination of best estimate of selling price for deliverables in multiple element sale arrangements;
- inventory reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory;
- accruals for litigation and claims;
- valuation at fair value of acquired assets including intangibles and assumed liabilities in a business combination, goodwill, investments and tangible assets as well as the impairment of their related carrying values;
- the assessment in each reporting period of events, which could trigger interim impairment testing;
- estimated value of the consideration to be received and used as fair value for asset groups classified as assets to be disposed of by sale and the assessment of probability to realize the sale;
- measurement of the fair value of debt and equity securities classified as available-for-sale, including debt securities, for which no observable market price is obtainable;

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

the valuation of noncontrolling interests, particularly in case of contribution in kind as part of a business combination;

restructuring charges;

assumptions used in calculating pension obligations;

assumptions used to measure and recognize a liability for the fair value of the obligation we assume at the inception of a guarantee;

deferred income tax assets including required valuation allowances and liabilities as well as provisions for specifically identified income tax exposures and income tax uncertainties.

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

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

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

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

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

Our insurance policies relating to product liability only cover physical and other direct damages caused by defective products. We carry only limited insurance against immaterial, non-consequential damages in the event of a product recall. We record a provision for warranty costs as a charge against cost of sales based on historical trends of warranty costs incurred as a percentage of sales which we have determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period. Any potential warranty claims are subject to our determination that we are at fault and liable for damages, and that such claims usually must be submitted within a short period following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms expressed or implied by statute or common law. Our contractual terms and conditions typically limit our liability to the sales value of the products that gave rise to the claim.

We maintain an allowance for doubtful accounts for estimated potential losses resulting from our customers inability to make required payments. We base our estimates on historical collection trends and record a provision accordingly. Furthermore, we are required to evaluate our customers credit ratings from time to time and take an additional provision for any specific account that we consider doubtful. In 2009, we did not record any new material specific provision related to bankrupt customers other than our standard provision of 1% of total receivables based on estimated historical collection trends. If we receive information that the financial condition of our customers has deteriorated, resulting in an impairment of their ability to make payments, additional allowances could be required. Such deterioration is increasingly likely given the current crisis in the credit markets. Under the current financial situation, we are obliged to hold shipment to certain of our customers on credit watch, which affects our sales and aims at protecting us from credit risk.

While the majority of our sales agreements contain standard terms and conditions, we may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. Prior to 2009, where multiple elements existed in an agreement, the revenue arrangement

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was allocated to the different elements based upon verifiable objective evidence of the fair value of the elements, as governed under the guidance on revenue arrangements with multiple deliverables, for such periods. In 2009, we early adopted new revenue recognition guidance requiring allocation of revenue to different deliverables based upon the best estimate of selling price of each deliverable.

Goodwill and purchased intangible assets. The purchase method of accounting for acquisitions requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are instead subject to annual impairment tests. The amounts and useful lives assigned to other intangible assets impact future amortization. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required. At December 31, 2009, the value of goodwill amounted to $1,071 million. Of such amount, $143 million was recognized in 2009 at the creation of ST-Ericsson following the purchase price allocation.

Impairment of goodwill. Goodwill recognized in business combinations is not amortized and is instead subject to an impairment test to be performed on an annual basis, or more frequently if indicators of impairment exist, in order to assess the recoverability of its carrying value. Goodwill subject to potential impairment is tested at a reporting unit level, which represents a component of an operating segment for which discrete financial information is available. This impairment test determines whether the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, we usually estimate the expected discounted future cash flows associated with the reporting unit. Significant management judgments and estimates are used in forecasting the future discounted cash flows. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market evolution, our sales expectations and our costs evaluation, and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect, and future adverse changes in market conditions or operating results of acquired businesses that are not in line with our estimates may require impairment of certain goodwill. As a result of our yearly impairment testing, we recorded $6 million of impairment of goodwill charges in 2009.

We last performed our annual impairment testing in the third quarter of 2009. We did not record any goodwill impairment during the third or fourth quarter of 2009. However, many of the factors used in assessing fair values for such assets are outside of our control and the estimates used in such analyses are subject to change. Due to the ongoing uncertainty of the current market conditions, which may continue to negatively impact our market value, we will continue to monitor the carrying value of our assets. If market and economic conditions deteriorate further, this could result in future non-cash impairment charges against income. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic transactions, including ST-Ericsson, and possible further impairment charges relating to our investment in Numonyx (in the event its sale to Micron is not finalized), particularly in the event of a downward shift in future revenues or operating cash flow in relation to our current plans.

Intangible assets subject to amortization. Intangible assets subject to amortization include the cost of technologies and licenses purchased from third parties, as well as from the purchase method of accounting for acquisitions, purchased software and internally developed software that is capitalized. In addition, intangible assets subject to amortization include intangible assets acquired through business combinations such as core technologies and customer relationships. Intangible assets subject to amortization are reflected net of any impairment losses and are amortized over their estimated useful life. The carrying value of intangible assets subject to amortization is evaluated whenever changes in circumstances indicate that the carrying amount may not be recoverable. In determining recoverability, we

initially assess whether the carrying value exceeds the undiscounted cash flows associated with the intangible assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset s carrying value also exceeds its fair value. An impairment loss is recognized for the excess of the carrying amount over the fair value. We normally estimate the fair value based on the projected discounted future cash flows associated with the intangible assets. Significant management judgments and estimates are required to forecast the future operating results used in the discounted cash flow method of valuation. Our evaluations are based on financial plans updated with the latest available projections of growth in the semiconductor market and our sales expectations. They are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect and that future adverse changes in market conditions or operating results of businesses acquired may not be in line with our estimates and may therefore require us to recognize impairment of certain intangible assets. At December 31, 2009, the value of

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intangible assets subject to amortization amounted to $819 million, of which $48 million was related to the ST-Ericsson joint venture consolidated in the first quarter of 2009.

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

We perform an impairment review when there is reason to suspect that the carrying value of tangible assets or groups of assets might not be recoverable. In determining the recoverability of assets to be held and used, we initially assess whether the carrying value exceeds the undiscounted cash flows associated with the tangible assets or group of assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset s carrying value also exceeds its fair value. We normally estimate this fair value based on market appraisals or the sum of discounted future cash flows, using market assumptions such as the utilization of our fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies. We also evaluate the continued validity of an asset s useful life when impairment indicators are identified. Assets classified as held for sale are reflected at the lower of their carrying amount and fair value less selling costs and are not depreciated during the selling period. Selling costs include incremental direct costs to transact the sale that we would not have incurred except for the decision to sell.

Our evaluations are based on financial plans updated with the latest projections of growth in the semiconductor market and our sales expectations, from which we derive the future production needs and loading of our manufacturing facilities, and which are consistent with the plans and estimates that we use to manage our business. These plans are highly variable due to the high volatility of the semiconductor business and therefore are subject to continuous modifications. If future growth differs from the estimates used in our plans, in terms of both market growth and production allocation to our manufacturing plants, this could require a further review of the carrying amount of our tangible assets and result in a potential impairment loss. In 2009, $25 million of impairment charges were recorded on long-lived assets of our manufacturing sites in Carrollton, Texas and in Phoenix, Arizona.

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

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. Provisions for obsolescence are estimated for excess uncommitted inventories based on the previous quarter s sales, order backlog and production plans. To the extent that future negative market conditions generate order backlog cancellations and declining sales, or if future conditions are less favorable than the projected revenue assumptions, we could be required to record additional inventory provisions, which would have a negative impact on our gross margin.

Business combination. The purchase method of accounting for business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets

acquired. The amounts and useful lives assigned to other intangible assets impact future amortization. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required. On February 3, 2009, we announced the closing of our agreement to merge ST-NXP Wireless into a joint venture with Ericsson Mobile Platforms (EMP). Ericsson contributed $1,155 million in cash, out of which $700 million was paid to us. We also received $99 million as an equity investment in JVD, in which we own 50% less a controlling share held by Ericsson. Our contribution to the joint venture represented a total amount of $2,210 million, of which $1,105 million was allocated to noncontrolling interests in the wireless business. The purchase price allocation resulted in the recognition of $48 million in customer relationships, $23 million in property, plant and equipment, $47 million liabilities net of other current assets, $143 million on goodwill and $306 million on Ericsson s noncontrolling interest in the joint venture.

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Restructuring charges. We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us, or may require us in the future, to develop formalized plans for exiting any of our existing activities. We recognize the fair value of a liability for costs associated with exiting an activity when a probable liability exists and it can be reasonably estimated. We record estimated charges for non-voluntary termination benefit arrangements such as severance and outplacement costs meeting the criteria for a liability as described above. Given the significance and timing of the execution of such activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. This process can require more than one year due to requisite governmental and customer approvals and our capability to transfer technology and know-how to other locations. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or newer initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, we may be required to incur additional charges as well as change estimates of the amounts previously recorded. The potential impact of these changes could be material and could have a material adverse effect on our results of operations or financial condition. In 2009, the net amount of restructuring charges and other related closure costs amounted to $256 million before taxes.

Share-based compensation. We measure our share-based compensation cost based on its fair value on the grant date of each award. This cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. Our share-based compensation plans may award shares contingent on the achievement of certain financial objectives, including our financial results. In order to assess the fair value of this share-based compensation, we are required to estimate certain items, including the probability of meeting market performance and financial results targets, forfeitures and employees service period. As a result, in relation to our nonvested Stock Award Plan, we recorded a total pre-tax expense of $38 million in 2009, out of which $4 million was related to the 2006 plan; $17 million to the 2007 plan; $8 million to the 2008 plan; and $9 million to the 2009 plan, provided that two out of the three performance conditions have been met. The shares from the 2009 plan were granted on July 28, 2009. The performance measurement conditions for the 2009 plan include: evolution of sales and evolution of operating income both compared against our top competitors and actual cash flow as compared to the forecast. As of December 31, 2009, according to our best estimates, we anticipate that two criteria will probably be met: evolution of sales and cash flow.

Earnings (loss) on Equity Investments. We are required to record our proportionate share of the results of the entities that we account for under the equity method. This recognition is based on results reported by these entities, sometimes on a one-quarter lag, and, for such purpose, we rely on their internal controls. In 2009, we recognized approximately $103 million, on a one quarter lag, as our proportional interest in the loss recorded by Numonyx, based on our 48.6% ownership interest, net of amortization of basis differences; $5 million of which was recorded in the fourth quarter of 2009. In addition, we recognized in 2009, $32 million related to the ST-Ericsson JVD entities we account for under the equity method, net of the amortization of basis differences; $7 million of which was recorded in the fourth quarter of 2009. In case of triggering events, we are required to determine the fair value of our investment and assess the classification of temporary versus other-than-temporary impairments of the carrying value. We make this assessment by evaluating the business on the basis of the most recent plans and projections or to the best of our estimates. In the first quarter of 2009, due to the deterioration of both the global economic situation and the Memory market segment, as well as Numonyx s results, we assessed the fair value of our investment and recorded an additional other-than temporary impairment charge of $200 million. The calculation of the impairment was based on both an income approach, using discounted cash flows, and a market approach, using the metrics of comparable public companies. We did not book any impairment charge in the second, third or fourth quarter of 2009.

Financial assets. We classify our financial assets in the following categories: held-for-trading and available-for-sale. Upon the adoption of FASB guidance on fair value measurements for financial assets and liabilities, we did not elect to apply the fair value option on any financial assets. Such classification depends on the purpose for which the

investments are acquired. Management determines the classification of its financial assets at initial recognition. Unlisted equity securities with no readily determinable fair value are carried at cost. They are neither classified as held-for-trading nor as available-for-sale. Regular purchases and sales of financial assets are recognized on the trade date the date on which we commit to purchase or sell the asset. Financial assets are initially recognized at fair value, and transaction costs are expensed in the consolidated statements of income. Available-for-sale and held-for-trading financial assets are subsequently carried at fair value. The gain (loss) on the sale of the financial assets is reported as a non-operating element on the consolidated statements of income. The fair values of quoted debt and equity securities are based on current market prices. If the market for a financial asset is not active and if no observable market price is obtainable, we measure fair value by using assumptions and estimates. For unquoted equity securities, these assumptions and estimates include the use of recent arm s length

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transactions; for debt securities without available observable market price, we establish fair value by reference to publicly available indexes of securities with same rating and comparable or similar underlying collaterals or industries exposure, which we believe approximates the orderly exit value in the current market. In measuring fair value, we make maximum use of market inputs and rely as little as possible on entity-specific inputs. Based on the previously adopted mark to model methodology, in 2009 we had an additional impairment of $72 million on the value of the Auction Rate Securities (ARS) that Credit Suisse purchased on our account contrary to our mandate, that was considered as other than temporary, with no additional loss in the third or fourth quarter of 2009. For more information about the ARS purchased by Credit Suisse contrary to our instruction, which are still accounted for and owned by us pending the execution of the favorable arbitration award against Credit Suisse Securities LLC (Credit Suisse) by the Financial Industry Regulatory Authority (FINRA), see Liquidity and Capital Resources .

Income taxes. We are required to make estimates and judgments in determining income tax expense or benefit for financial statement purposes. These estimates and judgments also occur in the calculation of certain tax assets and liabilities and provisions. Furthermore, the adoption of the FASB guidance on accounting for uncertainty in income taxes requires an evaluation of the probability of any tax uncertainties and the recognition of the relevant charges.

We are also required to assess the likelihood of recovery of our deferred tax assets. If recovery is not likely, we are required to record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable, which would increase our provision for income taxes. Our deferred tax assets have increased substantially in recent years in light of our negative net earnings. As of December 31, 2009, we recorded in our accounts certain valuation allowances based on our current operating assumptions. However, should our operating assumptions change we may be impaired in our ability to fully recover our deferred tax assets in the future. Likewise, a change in the tax rates applicable in the various jurisdictions could have an impact on our future tax provisions in the periods in which these changes could occur.

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

We record a provision when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims with the support of our outside counsel to determine whether they need to be adjusted based on current information available to us. Legal costs associated with claims are expensed as incurred. In the event of litigation that is adversely determined with respect to our interests, or in the event that we need to change our evaluation of a potential third-party claim based on new evidence or communications, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize. We are in discussion with several parties with respect to claims against us relating to possible infringement of other parties IP rights. We are also involved in several legal proceedings concerning such issues.

As of December 31, 2009, based on our assessment, we did not record any provisions in our financial statements relating to third party IP right claims since we had not identified any risk of probable loss that is likely to arise out of asserted claims or ongoing legal proceedings. There can be no assurance, however, that these will be resolved in our favor. If the outcome of any claim or litigation were to be unfavorable to us, we could incur monetary damages, and/or

face an injunction, all of which singly or in the aggregate could have an adverse effect on our results of operation and our ability to compete.

Pension and Post Retirement Benefits. Our results of operations and our consolidated balance sheet include an amount of pension and post retirement benefits that are measured using actuarial valuations. At December 31, 2009, our pension and long-term benefit obligations net of plan assets amounted to $317 million based on the assumption that our employees will work with us until they reach the age of retirement. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds and salary increase rates. These assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. Any changes in the pension schemes or in the above assumptions can have an impact on our valuations. The measurement date we use for the majority of our plans is December 31.

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Other claims. We are subject to the possibility of loss contingencies arising in the ordinary course of business. These include, but are not limited to: warranty costs on our products not covered by insurance, breach of contract claims, tax claims and provisions for specifically identified income tax exposure as well as claims for environmental damages. In determining loss contingencies, we consider the likelihood of a loss of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly reevaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. In the event we are unable to estimate in a correct and timely manner the amount of such loss, this could have a material adverse effect on our results of operations or financial condition at the time such loss were to materialize.

For more information, see Note 2 to our Consolidated Financial Statements.

Fiscal Year 2009

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 2009 ended on March 28, 2009. The second quarter of 2009 ended on June 27, 2009 and the third quarter of 2009 ended on September 26, 2009. The fourth quarter of 2009 ended on December 31, 2009. 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.

2009 Business Overview

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

In 2009, the semiconductor industry continued to be negatively impacted by the difficult conditions in the global economy, which caused both the TAM and the SAM to register significant declines compared to the prior year. However, although the early part of the year was characterized by a steep downturn in demand, there was a sharp turnaround in the latter part of the year. This has resulted in difficulty for the industry to keep up with demand. On a quarterly basis, during 2009 the industry registered a sequential recovery after the bottom registered in the first quarter. In particular, in the third and fourth quarters the semiconductor market experienced a solid recovery, driven by an overall surge in volume. Based on published industry data by WSTS, semiconductor industry revenues declined in 2009 on a year-over-year basis by approximately 9% for the TAM and 13% for the SAM to reach approximately $226 billion and $135 billion, respectively. However, in the fourth quarter the TAM and the SAM increased 7% and 4% sequentially, exceeding their 2008 levels by approximately 29% and 16%, respectively.

With reference to our business performance, following the deconsolidation of our FMG segment during the first quarter of 2008, the consolidation of the NXP wireless business on August 2, 2008 and the consolidation of the EMP wireless business as of February 3, 2009, our operating results are no longer directly comparable to previous periods.

In 2009, our revenues as reported were $8,510 million, or a 13.5% decline year-over-year, reflecting the difficult market conditions registered in the semiconductor industry. As a result, our overall performance was basically in line with the SAM.

Our quarterly revenues continuously recovered on a sequential basis during 2009 after the bottom registered in the first quarter, driven by a significant increase in demand by our customers across all of our served market segments and regions. Consequently, our fourth quarter revenues reached $2,583 million, exceeding our year-over-year and

sequential performance by 13.5% and 13.6%, respectively. While our sequential performance was significantly better than the SAM, our year-over-year revenue growth was below the SAM.

In 2009, our effective exchange rate was $1.37 for 1.00, which reflects actual exchange rate levels and the impact of cash flow hedging contracts, compared to an effective exchange rate of $1.49 for 1.00 in 2008. In the fourth quarter of 2009 our effective exchange rate was $1.43, while in the third quarter of 2009 and in the fourth quarter of 2008 our effective exchange rate was $1.38 and $1.40, respectively, for 1.00. 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 2009 gross margin dropped 5.3 percentage points on a year-over-year basis to 30.9%, due to lower sales volume and pressure on average selling prices as a result of the difficult market conditions in the industry, as well as underutilization charges associated with the significant loading reduction of all of our manufacturing sites. In

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addition to the severe impact of an unprecedented volume discontinuity on fab operations and efficiency, unused capacity charges negatively impacted our 2009 gross margin by approximately 4 percentage points. The loading reduction also resulted in part from our decision to cut inventory levels in order to protect our cash resources in face of the turmoil in the financial markets. The aforementioned negative impact of such charges was partially offset by the more favorable U.S. dollar exchange rate and the contribution of an improved product portfolio mix following the wireless business integration.

Our fourth quarter 2009 gross margin was 37.0%, increasing both compared to the 36.1% registered in the equivalent period in 2008 and the 31.3% reported in the third quarter of 2009. The fourth quarter benefited from a more favorable economic environment, which contributed to improved sales volume and, consequently, the loading of our fabs. Our fourth quarter gross margin was also favorably impacted by improved efficiencies resulting from our restructuring and cost cutting measures, in particular the closing of certain fabs. However, we were still not at full saturation and our margin continued to reflect certain unused capacity charges.

Our operating expenses, combining selling, general and administrative expenses and research and development expenses, grew in 2009 compared to 2008, due primarily to increased R&D activities consolidated with our recent wireless integration, and despite a significant favorable currency impact. As in the previous year, 2009 R&D expenses were accounted for net of certain tax credits directly associated with our ongoing programs. In 2009, the amount of these credits was $146 million compared to $161 million in 2008.

In 2009, we continued certain ongoing restructuring initiatives and implemented new programs to streamline our cost structure, in particular after the consolidation of the new wireless activities. This resulted in impairment and restructuring charges of $291 million, similar to the amount booked in 2008. In 2008, we reported additional charges of $216 million in connection with the closing of the FMG transaction.

Our Other income and expenses, net improved significantly in 2009, supported by additional funds granted to our R&D programs through new contracts signed with the French government covering the period 2008 through 2012. Total funding recognized in 2009 was approximately $202 million, including the recognition of contracts signed in 2009 but also related to 2008 projects, significantly higher than the $83 million registered in the prior year period. As a result, Other income and expenses, net resulted in income of $166 million compared to income of $62 million in 2008.

Our operating result in 2009 was a loss of $1,023 million compared to a loss of $198 million in 2008. As indicated above, our operating loss was largely negatively impacted by the material drop in our revenues and unused capacity charges, which exceeded the benefits of the strengthening U.S. dollar exchange rate and higher amounts of R&D funding. Our fourth quarter 2009 operating result was a loss of $6 million, decreasing from the previous quarter s loss of $196 million, driven by higher sales volume and improved manufacturing efficiencies. Our product segments, except Wireless, achieved operating profit in the fourth quarter. IMS and ACCI, in particular, registered a substantial improvement in their level of profitability.

Interest income, net decreased significantly from $51 million in 2008 to $9 million in 2009 due to lower interest income resulting from significantly lower U.S. dollar and Euro denominated interest rates registered in the financial markets compared to 2008.

In 2009, we booked a $337 million loss on equity investments, mainly consisting of $303 million related to our proportional stake in Numonyx, which included a $200 million equity investment impairment recorded in the first quarter 2009. In 2008, our loss on equity investments was $553 million almost entirely attributable to our loss in Numonyx.

In summary, our profitability in 2009 was negatively impacted by the following factors:

- sharp drop in demand as a result of the global economic downturn;
- negative pricing trend;
- manufacturing inefficiencies experienced in our fabs due to the disruption in their operations throughout the year;
- unused capacity charges arising from the underutilization of our fabs;
- loss recorded in relation to our equity investments, although mitigated compared to the prior year;
- additional impairment and other restructuring charges related to our ongoing and newly adopted plans, although lower compared to the prior year;

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the additional R&D expenses inherited from the integrated wireless businesses, while the synergy plans are being implemented; and

losses on financial assets, pending the payment by Credit Suisse of the amount due pursuant to the FINRA arbitration award that is favorable to us.

The aforementioned factors were partially offset by the following elements:

favorable currency impact;

improved product portfolio mix, after deconsolidating Flash and integrating the wireless businesses;

additional funding for our R&D projects;

the cost savings resulting to date from the restructuring programs that are in progress; and

non-controlling interest related to the 50% ownership of ST-Ericsson s losses, which counterbalanced the negative operating results in the wireless segment.

Our fourth quarter financial results reflect a positive finish to a very difficult year for us, the semiconductor industry and the global economy. Our fourth quarter net revenues increased sequentially above our outlook range and our gross margin came above the midpoint of our outlook range. We approached break-even with a $6 million loss after restructuring charges of $96 million. Excluding restructuring charges, our fourth quarter operating result therefore returned to profitability. Our stronger than forecasted quarterly sequential revenue performance was thanks to growth in all regions and market segments, with all segments, except Telecom, posting double-digit growth. As a result, we improved our financial performance in the fourth quarter in terms of operating margins and net operating cash flow despite an unfavorable currency environment.

Despite the challenging economic environment, we made significant progress over the course of 2009 by successfully delivering on key actions announced earlier in the year. First, we protected and then enhanced our cash position. Second, we made excellent progress in lowering our cost base with a $1 billion cost savings plan announced in mid-2009, which we anticipate will be completed by around the middle of 2010.

Our focus on strong capital management is clearly evidenced from our cash flow and balance sheet metrics. We took aggressive actions to generate cash by accelerating our cash conversion cycle, resulting in a $565 million reduction in inventory and record turns above five times. We reduced the ratio of our capital expenditures to sales to 5.3%, in line with our asset lighter strategy. We repurchased approximately one-third of our outstanding convertible bonds with no need of refinancing. We closed the year with $2.9 billion in cash, restricted cash and marketable securities and with a net cash position of $420 million at of December 31, 2009, significantly improving from a net debt of $545 million at December 31, 2008.

Business Outlook

We started the first quarter of 2010 with a solid backlog and are working to serve our customers demand. In line with historical trends, we expect to register a sequential net revenue decrease in the first quarter of 2010 of between about -7% and -13%, which equates to an increase of 35% to 45% in net revenues when compared to the year-over-year period. We expect a better than historical evolution in our gross margin to about 37.5%, plus or minus 1 percentage point, thanks to better manufacturing loading and efficiencies and an improved product mix.

Looking forward, we believe we are well positioned to benefit from the industry upturn because of the important work we have done in product and technology innovation. We plan to deliver the benefits of our innovation to our customers and we also expect ST-Ericsson to execute on its plan to transition to the new portfolio strategy they have devised for their next generation offering. Our recent design-wins for digital consumer platforms, ASICs, and automotive products and our many promising offerings including 32-bit microcontrollers, MEMS with our new families of gyroscopes and active microphones, low-power sensors for healthcare, and building automation applications highlight our efforts to continuously improve our product portfolio.

We have emerged from the recession in a stronger financial position. Our balance sheet is among the strongest in the semiconductor industry, with healthy receivables, appropriate inventory levels and a solid net cash position. Two of our three product segments have returned to profitability and are expected to improve their level of operating margin performance as we move through 2010. We also expect ST-Ericsson to complete its cost realignment plan during the year. Overall, we are confident that all product segments will contribute to further improvement in our operating results.

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In summary, we are excited about the many opportunities ahead of us. While we continue to make solid progress on reducing our cost structure, our innovative product portfolio is positioning us well to achieve sustainable profitability and cash flow generation.

Our outlook is based on an assumed effective currency exchange rate of approximately $1.42 = 1.00 for the 2010 first quarter, which reflects an assumed exchange rate of $1.44 = 1.00, combined with the impact of existing hedging contracts averaging a hedged rate of about $1.41 = 1.00. In addition, the first quarter will close on March 27, 2010.

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

Other Developments

On February 3, 2009, we announced the closing of our agreement to merge ST-NXP Wireless into a joint venture with EMP. Ericsson contributed $1.1 billion to the joint venture and $700 million was paid to us. Prior to the closing of the transaction, we exercised our option to buy out NXP s 20% ownership stake of ST-NXP Wireless. Governance of ST-Ericsson is balanced, with each parent appointing four directors to the board. Employing about 8,000 people roughly 3,000 from Ericsson and approximately 5,000 from us ST-Ericsson is headquartered in Geneva, Switzerland. On September 2, 2009, ST-Ericsson announced the appointment of wireless industry expert Gilles Delfassy as president and CEO. Mr. Delfassy assumed his position on November 2, 2009.

On February 16, 2009, we announced that we had received a favorable arbitration award by FINRA against Credit Suisse for unauthorized investments made in ARS, awarding approximately $406 million plus interest to us. For more information, see Liquidity and Capital Resources .

At the end of March 2009, we entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the Nano2012 Research and Development program, which confirmed our position as the Coordinator and Project Leader and allocated to us 340 million (about $450 million) in grants for the period 2008-2012. On July 17, 2009 we formally launched the program at our site in Crolles, near Grenoble, France.

On March 31, 2009, we announced the completion of our $500 million medium-term committed credit-facilities program. The $500 million of credit facilities were provided on a bilateral basis by Intesa-San Paolo, Société Générale, Citibank, Centrobanca (UBI Group) and Unicredit. The loan agreements had been executed between October 2008 and March 2009 with commitments from the banks for up to 3 years. We do not currently envisage any utilization of these credit facilities, which have been set up for liquidity purposes to strengthen the Company s financial flexibility.

At our annual general meeting of shareholders held on May 20, 2009, the following proposals, inter alia, were approved and/or adopted by our shareholders:

The distribution of a cash dividend of $0.12 per common share, to be paid in four equal installments, in May 2009, August 2009, November 2009 and February 2010. Payment of an installment will be made to shareholders of record in the month of each quarterly payment;

The reappointment for a three-year term, expiring at the 2012 Annual General Meeting, for the following members of the Supervisory Board: Mr. Doug Dunn and Dr. Didier Lamouche; and

The maximum number of restricted Share Awards under our existing 5-year Employee Unvested Share Award Plan (2008-2012) of 30,500,000, which includes any Unvested Stock Awards granted to our President and CEO as part of his compensation, with the maximum number of restricted shares in 2009 to be 6,100,000.

On June 25, 2009, we announced the publication of our 2008 Corporate Responsibility Report. The report which covers all our activities and sites in 2008, contains detailed indicators of our performance across the full range of Social, Environmental, Health & Safety, and Corporate Governance issues and reaffirms our long-established commitment to serving its stakeholders with integrity, transparency and excellence.

On September 22, 2009 we announced the appointment of Paul Grimme as Corporate Vice President and General Manager of the Automotive Product Group (APG), reporting to our President and CEO, Carlo Bozotti.

In December 2009, we began a program to repurchase a portion of our outstanding Zero Coupon Senior Convertible Bonds due 2016 (2016 Bonds). At December 31, 2009, a total of 98 thousand bonds with an accreted

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value of $106 million had been repurchased for a total cash consideration of $103 million. The bonds were repurchased in off market transactions by financial intermediaries, acting as agents for us. On January 14, 2010, we completed our program, repurchasing over 200 thousand additional 2016 Bonds, with an accreted value of $215 million for a total cash consideration of $212 million. In all, the repurchased bonds represented approximately $321 million, or 30.6% of the total amount originally issued and were equivalent to 13,070,129 shares. The repurchased bonds have been cancelled in accordance with their terms.

On December 3, 2009, we announced changes in our global sales and marketing organization, which consolidated our regions in Asia to two: Greater China and South Asia; and Japan and Korea. Greater China and South Asia will be led by Corporate Vice President Francois Guibert, and Japan and Korea will be led by Corporate Vice President Marco Cassis. In addition, we announced that Corporate Vice President Bob Krysiak will spearhead our efforts to expand into Central and South America and to continue to increase market share in North America. With this move, we have put in place an organization to further improve the overall focus and effectiveness of our sales and marketing efforts.

On January 4, 2010, we announced the signature of a joint agreement with Enel and Sharp for the manufacture of triple-junction thin-film photovoltaic panels in Italy. The factory, located in Catania, Italy in the existing M6 facility to be contributed by us, is expected to have an initial production capacity of 160 MW per year. The plant s capacity is targeted to be gradually increased to 480 MW per year over the next few years and from its start will represent the single most important production facility for solar panels in Italy. Photovoltaic panel manufacturing at the Catania plant is expected to start at the beginning of 2011.

On February 3, 2010, we announced that Tjerk Hooghiemstra joined the Company as Executive Vice-President, Chief Administrative Officer, reporting to our President and CEO, Carlo Bozotti. This new position was created with the aim of generating synergies among several staff organizations by optimizing the functions of Human Resources, Health & Safety, Education, Legal, Internal Communication, Security and Corporate Responsibility.

On February 10, 2010, we announced that we, together with our partners Intel Corporation and Francisco Partners, had entered into a definitive agreement with Micron Technology Inc., in which Micron will acquire Numonyx Holdings B.V. in an all-stock transaction. In this transaction, upon the terms and subject to the conditions of the definitive agreement, in exchange for all of the outstanding capital stock of Numonyx, the cancellation of 30-year notes due to the Numonyx shareholders by Numonyx, and the assumption of all outstanding restricted stock units held by Numonyx employees at closing, Micron will issue to Numonyx s shareholders an aggregate of 140 million shares of Micron common stock, subject to a purchase price adjustment on a linear basis of up to 10 million additional shares of Micron common stock to the extent the volume weighted average price of the Micron shares for the 20 trading days, ending two days prior to the closing of the transaction, ranges from $9.00 to $7.00 per share. At the closing, 15% of the Micron shares issuable to us and the other sellers will be deposited into escrow for 12 months as partial security for our indemnification obligations to Micron. Micron shares will be held by us as a financial investment. Based on Micron s closing stock price on February 9, 2010 of $9.08 per share, we will receive in exchange for our 48.6% stake in Numonyx and the cancellation of the 30-year note due to us by Numonyx approximately 66.6 million shares of Micron common stock (including the shares that will be held in escrow and taking into account a payable of $77.8 million that we owe to Francisco Partners) and the transfer to us from Numonyx of the M6 industrial facility in Catania, Italy. As previously announced, we plan to contribute our M6 facility in Catania to our new photovoltaic joint initiative with Enel and Sharp. Upon closing, Numonyx will repay the full amount of its outstanding $450 million term loan, while simultaneously terminating our $225 million guarantee of its debt. The closing of the deal is subject to regulatory approvals and customary closing conditions.

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 through our divisions, which include the production and sale of both silicon chips and Smart cards.

As of March 31, 2008, following the creation with Intel of Numonyx, a new independent semiconductor company from the key assets of our and Intel s Flash memory business (FMG deconsolidation), we ceased reporting the FMG segment.

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Starting August 2, 2008, we reorganized our product groups. A new segment was created to report wireless operations. Moreover, as of February 3, 2009, we added the MP product line to Wireless.

The organization during 2009 was as follows:

Automotive, Consumer, Computer and Communication Infrastructure (ACCI), comprised of four product lines:

Automotive Products Group (APG);

Computer and Communication Infrastructure (CCI);

Home Entertainment & Displays (HED); and

Imaging (IMG).

Industrial and Multi segment Sector (IMS), comprised of:

Analog Power and Micro-Electro-Mechanical Systems (APM); and

Microcontrollers, non-Flash, non-volatile Memory and Smart Card products (MMS).

Wireless (Wireless), comprised of:

Cellular Systems (CS);

Connectivity & Peripherals (C&P);

Mobile Platforms (MP);

Wireless Multi Media (WMM);

in which, since February 3, 2009, we report the portion of sales and operating results of ST-Ericsson as consolidated in our revenue and operating results; and

Other Wireless, in which we report manufacturing margin, R&D revenues and other items related to the wireless business but outside the ST-Ericsson JVS.

As of January 1, 2010, Wireless is comprised of the following lines:

2 GE TD-SCDMA & Connectivity;

3G Multimedia & Platforms;

LTE & 3G Modem Solutions;

in which we report the portion of sales and operating results of ST-Ericsson as consolidated in our revenue and operating results; and

Other Wireless, in which we report manufacturing margin, R&D revenues and other items related to the wireless business but outside the ST-Ericsson JVS.

We have restated our results in prior periods for illustrative comparisons of our performance by product segment. The preparation of segment information based on the current segment structure requires management to make significant estimates, assumptions and judgments in determining the operating income of the segments for the prior reporting periods. We believe that the restated 2007 and 2008 presentation is consistent with 2009 s and we use these comparatives when managing our Company.

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

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

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The following tables present our consolidated net revenues and consolidated operating income by semiconductor product group 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 expenses and a significant part of R&D expenses. Additionally, in compliance with our internal policies, certain cost items are not charged to the segments, including unused capacity charges, impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate level operating expenses, acquired IP R&D, other non-recurrent purchase accounting items and certain other miscellaneous charges.

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Net revenues by product segments:			
Automotive Consumer Computer and Communication Infrastructure (ACCI)	$ 3,198	$ 4,129	$ 3,944
Industrial and Multi-segment Sector (IMS)	2,641	3,329	3,138
Wireless (Wireless)	2,585	2,030	1,495
Others(1)	86	55	60
Flash Memories Group (FMG)		299	1,364
Total consolidated net revenues	**$ 8,510**	**$ 9,842**	**$ 10,001**

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

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

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Net revenues by product lines:			
Automotive Products Group (APG)	$ 1,051	$ 1,460	$ 1,419
Computer and Communication Infrastructure (CCI)	932	1,077	1,123
Home Entertainment & Displays (HED)	787	1,086	963
Imaging (IMG)	417	499	439
Others	11	7	
Automotive Consumer Computer and Communication Infrastructure (ACCI)	**3,198**	**4,129**	**3,944**
Analog, Power and Micro-Electro-Mechanical Systems (APM)	1,887	2,393	2,313
Microcontrollers, non-Flash, non-volatile Memory and Smartcard products (MMS)	752	936	825
Others	2		
Industrial and Multisegment Sector (IMS)	**2,641**	**3,329**	**3,138**
Cellular Systems (CS)(1)	748	321	
Connectivity & Peripherals (C&P)	416	416	207

Mobile Platforms (MP)	300		
Wireless Multi Media (WMM)	1,110	1,293	1,288
Others	11		
Wireless (Wireless)	**2,585**	**2,030**	**1,495**
Others	86	55	60
Flash Memories Group (FMG)		299	1,364
Total consolidated net revenues	**$ 8,510**	**$ 9,842**	**$ 10,001**

(1) CS includes the largest part of the revenues contributed by NXP Wireless and, as such, there are no comparable numbers available for 2007. C&P also partly benefited from the NXP wireless contribution.

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	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Operating income (loss) by product segments:			
Automotive Consumer Computer and Communication Infrastructure (ACCI)	$ (91)	$ 136	$ 198
Industrial and Multisegment Sector (IMS)	113	482	469
Wireless (Wireless)(1)	(356)	(65)	105
Others(2)	(689)	(767)	(1,266)
Operating income (loss) excluding FMG	**(1,023)**	**(214)**	**(494)**
Flash Memories Group (FMG)		16	(51)
Total consolidated operating loss	**$ (1,023)**	**$ (198)**	**$ (545)**

(1) The majority of Wireless activities are run through ST-Ericsson JVS, a JV between us and Ericsson. The minority interest of Ericsson in ST-Ericsson s operating losses (which are 100% included in the wireless segment) is credited in the line Non controlling interest of our Income Statement, which reported income of $265 million for the year ended December 31, 2009.

(2) Operating loss of Others includes items such as unused capacity charges, impairment, restructuring charges and other related closure costs, start-up and phase-out costs, and other unallocated expenses such as: strategic or special R&D programs, acquired IP R&D and other non-recurrent purchase accounting items, certain corporate level operating expenses, certain patent claims and litigation, and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group.

	Year Ended December 31,		
	2009	2008	2007
	(As percentage of net revenues)		
Operating income (loss) by product segments:			
Automotive Consumer Computer and Communication Infrastructure (ACCI)	(2.8)%	3.3%	5.0%
Industrial and Multi-segment Sector (IMS)(1)	4.3	14.5	14.9
Wireless (Wireless)(1)	(13.8)	(3.2)	7.0
Others(2)			
Flash Memories Group (FMG)(1)	0	5.4	(3.7)
Total consolidated operating loss(3)	**(12.0)%**	**(2.0)%**	**(5.4)%**

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

(2) Includes operating income (loss) from sales of subsystems and other income (costs) not allocated to product segments.

(3) As a percentage of total net revenues.

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	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Reconciliation to consolidated operating loss:			
Total operating income (loss) of product segments	$ (334)	$ 553	$ 772
Total operating income FMG		16	(51)
Unused capacity charges	(322)	(57)	
Impairment, restructuring charges and other related closure costs	(291)	(481)	(1,228)
Start-up / phase- out costs	(39)	(17)	(24)
Strategic and other research and development programs	(13)	(24)	(20)
Equipment write-off	(11)		
R&D funding	(9)		
Consulting fees related to business combinations	(8)		
Acquired In-Process R&D and other non recurring purchase accounting items		(185)	
Manufacturing services	16		
Other non-allocated provisions(1)	(12)	(3)	6
Total operating loss Others	(689)	(767)	(1,266)
Total consolidated operating loss	**$ (1,023)**	**$ (198)**	**$ (545)**

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

Net revenues by location of order shipment and by market segment

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

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Net Revenues by Location of Order Shipment:(1)(2)			
EMEA	$ 2,413	$ 3,024	$ 3,342
Americas	1,015	1,334	1,342
Asia Pacific	2,567	2,480	2,092
Greater China	2,132	2,492	2,750
Japan	383	512	475
Total	**$ 8,510**	**$ 9,842**	**$ 10,001**

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

(2)

As of January 1, 2009, Emerging Markets has been reallocated to the EMEA, Americas and Asia Pacific organizations.

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

	Year Ended December 31,		
	2009	2008	2007
	(As percentage of net revenues)		
Net Revenues by Location of Order Shipment:(1)(2)			
EMEA	28.4%	30.7%	33.4%
Americas	11.9	13.6	13.4
Asia Pacific	30.2	25.2	20.9
Greater China	25.0	25.3	27.5
Japan	4.5	5.2	4.8
Total	**100.0%**	**100.0%**	**100.0%**
Net Revenues by Market Segment Application(3):			
Automotive	12.2%	13.8%	14.4%
Consumer	11.5	13.6	14.0
Computer	12.9	12.0	12.4
Telecom	39.9	33.3	33.5
Industrial and Other	7.7	9.0	7.5
Distribution	15.8	18.3	18.2
Total	**100.0%**	**100.0%**	**100.0%**

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

(2) As of January 1, 2009, Emerging Markets has been reallocated to the EMEA, Americas and Asia Pacific organizations.

(3) The above table estimates, within a variance of 5% to 10% in the absolute dollar amount, the relative weighting of each of our target segments.

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

	Year Ended December 31,		
	2009	2008	2007
	(As percentage of net revenues)		
Net sales	99.5%	99.5%	99.7%
Other revenues	0.5	0.5	0.3
Net revenues	**100**	**100**	**100**
Cost of sales	(69.1)	(63.8)	(64.6)
Gross profit	**30.9**	**36.2**	**35.4**
Selling, general and administrative	(13.6)	(12.1)	(11.0)
Research and development	(27.8)	(21.9)	(18.0)
Other income and expenses, net	1.9	0.6	0.5
Impairment, restructuring charges and other related closure costs	(3.4)	(4.9)	(12.3)
Operating loss	**(12.0)**	**(2.0)**	**(5.4)**
Other-than-temporary impairment charge and realized losses on financial assets	(1.6)	(1.4)	(0.4)
Interest income, net	0.1	0.5	0.8
Gain (loss) on financial assets	(0.1)	(0.1)	
Gain on convertible debt buyback	0.0		
Earnings (loss) on equity investments	(4.0)	(5.6)	0.1
Loss before income taxes and noncontrolling interests	**(17.6)**	**(8.4)**	**(4.9)**
Income tax benefit	1.1	0.4	0.2
Loss before noncontrolling interests	**(16.5)**	**(7.9)**	**(4.7)**
Net loss (income) attributable to noncontrolling interest	3.2	(0.1)	(0.1)
Net loss attributable to parent company	**(13.3)%**	**(8.0)%**	**(4.8)%**

2009 vs. 2008

Based on published industry data by WSTS, semiconductor industry revenue decreased by approximately 9% for the TAM and 13% for the SAM.

Net Revenues

	Year Ended December 31,		
	2009	2008	% Variation
	(Audited, in millions)		
Net sales	$ 8,465	$ 9,792	(13.5)%
Other revenues	45	50	(10.2)
Net revenues	$ 8,510	$ 9,842	(13.5)%

In 2009, our net revenues decreased significantly due to the difficult market environment experienced overall by the semiconductor industry. Our revenues performance was basically in line with the SAM s decline. The majority of our

market segments was negatively impacted by these difficult conditions and registered declining rates, except for Telecom, which benefited from the additional contribution of the NXP and EMP wireless businesses integrated in August 2008 and February 2009, respectively. Such a negative trend in our revenues was driven by the large drop in units sold since average selling prices basically remained flat as a result of an improved product mix.

By product segment, both ACCI and IMS registered double digit declines, driven by a sharp drop in sales volume. Wireless, however, increased approximately 27%, benefiting from the additional contribution of the integrated wireless business.

By location of order shipment, all regions but Asia Pacific registered a drop in revenues, ranging from declines of approximately 25% and 24% in Japan and Americas, respectively, to approximately 20% in EMEA and 14% in Greater China. Our largest customer, the Nokia group of companies, accounted for approximately 16.1% of our net revenues, compared to 17.5% during 2008, excluding FMG.

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Gross profit

	Year Ended December 31,		
	2009	2008	% Variation
	(Audited, in millions)		
Cost of sales	$ (5,884)	$ (6,282)	6.3%
Gross profit	$ 2,626	$ 3,560	(26.2)%
Gross margin (as a percentage of net revenues)	30.9%	36.2%	

Our gross profit in 2009 was largely penalized by unused capacity charges of $322 million due to the significant underloading of our wafer fabs planned in response to dropping demand, coupled with our substantial reduction in inventory and manufacturing inefficiencies. Consequently, our gross margin was largely below the previous year s result, totaling 30.9%, or a drop of 5.3 percentage points, with unused capacity charges estimated to account for approximately 4 percentage points.

Gross profit and gross margin in 2009, however, benefited from the positive impact of the strengthening U.S. dollar.

Selling, general and administrative expenses

	Year Ended December 31,		
	2009	2008	% Variation
	(Audited, in millions)		
Selling, general and administrative expenses	$ (1,159)	$ (1,187)	2.3%
As a percentage of net revenues	(13.6)%	(12.1)%	

Our selling, general and administrative expenses decreased by approximately 2.3% despite the additional activities related to the integration of the NXP and EMP businesses, mainly due to the favorable impact of the strengthening U.S. dollar exchange rate and savings from the progression of cost restructuring plans. As a percentage of revenues, they increased to 13.6% compared to the prior year, due primarily to the sharp decline in our sales. The 2009 amount included $19 million of share-based compensation charges compared to $37 million in 2008.

Research and development expenses

	Year Ended December 31,		
	2009	2008	% Variation
	(Audited, in millions)		
Research and development expenses	$ (2,365)	$ (2,152)	(9.9)%
As a percentage of net revenues	(27.8)%	(21.9)%	

On a year-over-year basis, our R&D expenses increased in line with the expansion of our activities, including, primarily, the integration of the businesses from NXP and Ericsson. Our 2009 R&D expenses also benefited from a

stronger U.S. dollar exchange rate and savings from the progression of cost restructuring plans for both us and ST-Ericsson. The 2009 amount included $11 million of share-based compensation charges compared to $24 million in 2008. Furthermore, there was $55 million related to amortization charges generated by recently integrated intangibles, while the year ago period included $23 million of such amortization charges and $97 million as IP R&D. R&D expenses in 2009 were net of research tax credits, which amounted to $146 million, decreasing $15 million compared to the year-ago period.

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Other income and expenses, net

	Year Ended December 31,	
	2009	**2008**
	(Audited, in millions)	
Research and development funding	$ 202	$ 83
Start-up/phase-out costs	(39)	(17)
Exchange gain (loss) net	11	20
Patent costs, net of gain from settlement	(5)	(24)
Gain on sale of other non-current assets	3	4
Other, net	(6)	(4)
Other income and expenses, net	**$ 166**	**$ 62**
As a percentage of net revenues	2.0%	0.6%

Other income and expenses, net, mainly included, as income, items such as R&D funding and exchange gain and, as expenses, start-up and phase-out costs. R&D funding income was associated with our R&D projects, which, upon project approval, qualifies as funding pursuant to contracts with local government agencies in locations where we pursue our activities. In 2009, the balance of these factors resulted in net income of $166 million, a significant improvement compared to the equivalent period in 2008, resulting from the booking of new funding for an R&D program in France. As a result, total funding reached in 2009 was $202 million, which included the catch-up of 2008 projects, and resulted in an amount significantly higher compared to 2008. The 2009 amount also included a higher level of phase-out costs associated with the closure of our facilities in Carrollton, Texas and Ain Sebaa, Morocco.

Impairment, restructuring charges and other related closure costs

	Year Ended December 31,	
	2009	**2008**
	(Audited, in millions)	
Impairment, restructuring charges and other related closure costs	$ (291)	$ (481)

In 2009, we recorded $291 million in impairment, restructuring charges and other related closure costs, of which:

$126 million related to the closure of our Ain Sebaa (Morocco), Carrollton (Texas) and Phoenix (Arizona) sites, including $101 million of one-time termination benefits, as well as other relevant charges and $25 million as impairment charges on the fair value of Carrollton and Phoenix assets;

$100 million related to the new plans announced in April and December 2009 by ST-Ericsson, to be completed in 2010, primarily consisting of on-going termination benefits pursuant to the closure of certain locations in Europe and the United States;

$59 million related to other ongoing and newly committed restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations; and

$6 million as impairment on certain goodwill.

In 2008, this expense was mainly comprised of the following: $216 million originated by the disposal of the FMG assets, which required the recognition of $190 million as an additional loss as a result of a revision in the terms of the transaction from those expected at December 31, 2007 and $26 million as restructuring and other related disposal costs; $164 million incurred as part of our ongoing 2007 restructuring initiatives which included the closure of our fabs in Phoenix and Carrollton (USA) and of our back-end facilities in Ain Sebaa (Morocco); $13 million as impairment charges on goodwill and certain financial investments; and $88 million for other

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previously and newly announced restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations.

Operating loss

	Year Ended December 31,	
	2009	2008
	(Audited, in millions)	
Operating loss	$ (1,023)	$ (198)
As a percentage of net revenues	(12.0)%	(2.0)%

Our operating results were largely impacted by the strong decline in revenues, which also triggered the recognition of significant underutilization charges. As a result, we registered an operating loss of $1,023 million, significantly larger than our operating loss of $198 million in 2008.

All of our product segments registered a decline in their operating results on a year-over-year basis, driven by the drop in revenues. ACCI moved from a profit of $136 million to a loss of $91 million. IMS registered a profit of $113 million, compared to a profit of $482 million in 2008. Wireless registered an operating loss of $356 million compared to an operating loss of $65 million in the year ago period, due to deteriorated market conditions and additional charges associated with recent acquisitions. The majority of Wireless activities are run through ST-Ericsson JVS, the JV between us and Ericsson. The minority interest of Ericsson in ST-Ericsson s operating losses (which are 100% included in the wireless segment) is credited in the line Non controlling interest of our Income Statement, which reported income of $265 million for the year ended December 31, 2009. The Segment Others reported a significant loss since it included the allocation of $322 million of unused capacity charges, $291 million impairment and restructuring charges and $39 million phase-out costs related to the closure of certain manufacturing facilities.

Other-than-temporary impairment charges and realized losses on financial assets

	Year Ended December 31,	
	2009	2008
	(Audited, in millions)	
Other-than-temporary impairment charges and realized losses on financial assets	$ (140)	$ (138)

The 2009 amount is related to an other-than-temporary impairment of $72 million and a realized loss of $68 million, both linked to the portfolio of ARS purchased on our account by Credit Suisse contrary to our instruction. See Liquidity and Capital Resources.

Interest income, net

	Year Ended December 31,	
	2009	2008

	(Audited, in millions)	
Interest income, net	$ 9	$ 51

We recorded net interest income of $9 million, which decreased compared to previous periods as a result of significantly lower U.S. dollar and Euro denominated interest rates, despite a higher amount of cash and cash equivalents. The favorable impact of lower interest rates on our financial liabilities at floating rate resulted in a lower average cost of debt of 1.18%.

Loss on equity investments

	Year Ended December 31,	
	2009	2008
	(Audited, in millions)	
Loss on equity investments	$ (337)	$ (553)

The 2009 amount represented a loss of $337 million, which includes $103 million as our net proportional share of the loss reported by Numonyx, an additional impairment loss of $200 million booked in the first quarter of 2009

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on our Numonyx equity investment, a $32 million loss related to our proportionate share in JVD as a loss pick-up including an amortization of basis difference and $2 million related to other investments.

In 2008, our income on equity investments included our minority interest in the joint venture with Hynix Semiconductor in China, which was transferred to Numonyx on March 30, 2008.

Gain (loss) on financial assets

	Year Ended December 31,	
	2009	2008
	(Audited, in millions)	
Gain (loss) on financial assets	$ (8)	$ 15

In 2006, we entered into cancellable swaps with a combined notional value of $200 million to hedge the fair value of a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps convert the fixed rate interest expense recorded on the convertible bonds due 2016 to a variable interest rate based upon adjusted LIBOR. Until November 1, 2008, the cancellable swaps met the criteria for designation as a fair value hedge. Due to the exceptionally low U.S. dollar interest rate as a consequence of the financial crisis, we assessed in 2008 that the swaps were no longer effective as of November 1, 2008 and the fair value hedge relationship was discontinued. Consequently, the swaps were classified as held-for-trading financial assets. An unrealized gain of $15 million was recognized in earnings from the discontinuance date and was reported on the line Unrealized gain on financial assets in the consolidated statement of income for the year ended December 31, 2008.

This instrument was sold in 2009 with a loss of $8 million due to variation in the underlying interest rates compared to December 31, 2008.

Gain on convertible debt buyback

	Year Ended December 31,	
	2009	2008
	(Audited, in millions)	
Gain on convertible debt buyback	$ 3	$

The $3 million gain on convertible debt buyback is related to the repurchase of bonds with a principal value of $106 million for total cash consideration of $103 million. Please see Capital Resources .

Income tax benefit

	Year Ended December 31,

	2009	2008
	(Audited, in millions)	
Income tax benefit	$ 95	$ 43

In 2009, we registered an income tax benefit of $95 million, reflecting the actual tax benefit estimated on our loss before income taxes in each of our jurisdictions. This benefit was net of about $56 million booked as a tax expense related to the valuation allowances on our deferred tax asset associated with our estimates of the net operating loss recoverability in certain jurisdictions.

Net loss (income) attributable to noncontrolling interest

	Year Ended December 31,	
	2009	2008
	(Audited, in millions)	
Net loss (income) attributable to noncontrolling interest	$ 270	$ (6)
As a percentage of net revenues	3.2%	(0.1)%

In 2009, we booked $270 million in income, which primarily represented the share of the loss attributable to noncontrolling interest that included the 20% owned by NXP in the ST-NXP joint venture for the month of January 2009 and the 50% owned by Ericsson in the consolidated ST-Ericsson Holding AG as of February 2009. This amount reflected their share in the joint venture s losses.

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All periods included the recognition of noncontrolling interest related to our joint venture in Shenzhen, China for assembly operating activities. Such amounts were not material.

Net loss attributable to parent company

	Year Ended December 31,	
	2009	2008
	(Audited, in millions)	
Net loss attributable to parent company	$ (1,131)	$ (786)
As a percentage of net revenues	(13.3)%	(8.0)%

In 2009, we reported a loss of $1,131 million as a result of adverse economic conditions, which negatively impacted our operations and certain non-operating charges. In 2008, we had a net loss of $786 million.

Loss per share was $(1.29) in 2009. The impact of restructuring, impairment and other-than-temporary impairment charges was estimated to be approximately $(0.57) per share. In 2008, loss per share was $(0.88) and was impacted for approximately $(1.28) per share by restructuring, impairment charges and other specific one-time items.

2008 vs. 2007

Based upon published industry data by WSTS, semiconductor industry revenue decreased by approximately 2.8% for the TAM while the SAM increased by approximately 2.4%.

Net Revenues

	Year Ended December 31,		
	2008	2007	% Variation
	(Audited, in millions)		
Net sales	$ 9,792	$ 9,966	(1.8)%
Other revenues	50	35	
Net revenues	$ 9,842	$ 10,001	(1.6)%

Our 2008 net revenues decreased 1.6% due to the deconsolidation of FMG at the end of the first quarter of 2008, despite the positive contribution received from the acquired NXP wireless business. FMG revenues accounted for $299 million in 2008 and $1,364 million in 2007, while the NXP wireless contribution accounted for $491 million in 2008. Excluding FMG and the NXP wireless business, our revenues in 2008 would have registered a 4.8% increase over 2007, therefore exceeding the SAM s performance. Such growth was due, in particular, to an improved product mix and, partially, to an increase in units sold.

All of our product group segments registered an increase in 2008 compared to 2007, with ACCI increasing by 4.7%, IMS by 6.1% and WPS by 2.9%, excluding the NXP wireless business.

By market segment application, Industrial & Others was the main contributor to positive year-over-year variation with growth of approximately 6.9% (13.1% excluding Flash). Excluding Flash, Telecom increased by 22.4%.

By location of order shipment, Emerging Markets and Asia Pacific registered the most significant growth, by 18.8% and 17.4%, respectively. Japan had a more moderate increase by 7.8%, while Europe and Greater China decreased significantly. Americas remained basically flat. Excluding FMG, all regions increased except for China which remained flat, with the main contributors being Japan, Asia Pacific and Emerging Markets, which increased by 42.8%, 34.6% and 28.1%, respectively.

In 2008, we had several large customers, with the largest one, the Nokia Group of companies, accounting for approximately 18% of our net revenues excluding FMG and the NXP wireless business, decreasing from the 22% (excluding FMG) it accounted for in 2007.

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Gross profit

	Year Ended December 31,		
	2008	2007	% Variation
	(Audited, in millions)		
Cost of sales	$ (6,282)	$ (6,465)	2.8%
Gross profit	$ 3,560	$ 3,536	0.7%
Gross margin (as a percentage of net revenues)	36.2%	35.4%	

Our gross profit increased slightly in 2008 compared to 2007, in spite of lower revenues, the significant negative impact of the U.S. dollar exchange rate and the inventory step-up one-time charge related to the purchase accounting for the NXP wireless business. Excluding the inventory step-up one time charge, our gross margin increased to 37.1% of net revenues compared to 35.4% in 2007, mainly driven by our portfolio repositioning and improvements in our manufacturing performance. Furthermore, year-over-year gross margin reflects an estimated 150 basis points decrease related to the negative impact of currency fluctuations and approximately 60 basis points related to unused capacity charges.

Selling, general and administrative expenses

	Year Ended December 31,		
	2008	2007	% Variation
	(Audited, in millions)		
Selling, general and administrative expenses	$ (1,187)	$ (1,099)	(8.0)%
As a percentage of net revenues	(12.1)%	(11.0)%	

Our selling, general and administrative expenses increased by approximately 8% mainly due to the impact of the weakening U.S. dollar exchange rate and the additional expenses originated by recent acquisitions. They also included $14 million of amortization of intangible assets as part of the purchase accounting for the NXP wireless business. In 2008, such expenses included $37 million for share-based compensation, which was the same amount we had registered in 2007.

Research and development expenses

	Year Ended December 31,		
	2008	2007	% Variation
	(Audited, in millions)		
Research and development expenses	$ (2,152)	$ (1,802)	(19.5)%
As a percentage of net revenues	(21.9)%	(18.0)%	

Our R&D expenses increased for several reasons, such as because of $97 million of one-time charges that were booked as a write-off of IP R&D and $23 million of amortization of acquired intangible assets related to the purchase accounting for the NXP wireless business and Genesis. Additionally, 2008 included higher expenses originated by the

expansion of our activities following the acquisition of Genesis and a 3G wireless design team, as well as those associated with the integration of the NXP wireless business. The negative impact of the U.S. dollar exchange rate also contributed to the increase. Such higher expenses, however, were partially offset by the benefits of the FMG deconsolidation.

R&D expenses in 2008 also included $24 million of share-based compensation charges, compared to $22 million in 2007. In 2008, however, we benefited from $161 million recognized as research tax credits following the amendment of a law in France. The research tax credits were also available in previous periods, however under different terms and conditions. As such, in the past they were not shown as a reduction in R&D expenses but rather as a reduction of income tax expenses for the period.

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Other income and expenses, net

	Year Ended December 31,	
	2008	2007
	(Audited, in millions)	
Research and development funding	$ 83	$ 97
Start-up/phase-out costs	(17)	(24)
Exchange gain (loss) net	20	1
Patent litigation costs	(14)	(18)
Patent pre-litigation costs	(10)	(10)
Gain on sale of non-current assets	4	
Other, net	(4)	2
Other income and expenses, net	**$ 62**	$ 48
As a percentage of net revenues	0.6%	0.5%

Other income and expenses, net resulted in net income of $62 million in 2008, compared to net income of $48 million in 2007 primarily as a result of some exchange gains and lower start-up costs. R&D funding included the income of some of our R&D projects, which qualify as funding on the basis of contracts with local government agencies in locations where we pursue our activities. The majority of our R&D funding was received in Italy and France and, compared to 2007, it decreased slightly.

Impairment, restructuring charges and other related closure costs

	Year Ended December 31,	
	2008	2007
	(Audited, in millions)	
Impairment, restructuring charges and other related closure costs	$ (481)	$ (1,228)

Impairment, restructuring charges and other related closure costs continued to materially impact our results, although they decreased significantly compared to the previous year. In 2008 this expense was mainly comprised of:

- $216 million originated by the FMG assets disposal which required the recognition of $190 million as an additional loss and $26 million as restructuring and other related disposal costs; this additional loss was the result of revised terms of the transaction from those expected at December 31, 2007;
- $164 million incurred as part of our ongoing 2007 restructuring initiatives which include the closure of our fabs in Phoenix and Carrollton (USA) and of our back-end facilities in Ain Sebaa (Morocco);
- $13 million as impairment charges on goodwill and certain financial investments; and
- $88 million for other previously and newly announced restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations.

In 2007, we incurred $1,228 million of impairment, restructuring charges and other related closure costs, including $1,106 million loss booked upon signing the agreement for the disposal of our FMG assets, a $1 million impairment charge related to certain FMG equipment and $5 million in FMG related closure costs, $73 million related to the severance costs booked in relation to the 2007 restructuring plan of our manufacturing activities, $5 million as impairment charge on equity investment and certain technologies and $38 million relating to previously announced headcount reduction programs.

Operating loss

	Year Ended December 31,	
	2008	**2007**
	(Audited, in millions)	
Operating loss	$ (198)	$ (545)
As a percentage of net revenues	(2.0)%	(5.4)%

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Our operating loss significantly decreased compared to 2007 primarily due to lower impairment charges, while our business operations improved during the period, despite the significant negative impact of fluctuations in the U.S. dollar exchange rate.

Other-than-temporary impairment charges on financial assets

	Year Ended December 31,	
	2008	2007
	(Audited, in millions)	
Other-than-temporary impairment charges on financial assets	$ (138)	$ (46)

At December 31, 2008, subsequent to the unauthorized purchase made by Credit Suisse, we had Auction Rate Securities, representing interests in collateralized obligations and credit linked notes, that were carried on our balance sheet as available-for-sale financial assets at an amount of $242 million with a par value of $415 million. For more details, see the paragraph Liquidity and Capital Resources.

Interest income, net

	Year Ended December 31,	
	2008	2007
	(Audited, in millions)	
Interest income, net	$ 51	$ 83

In 2008, interest income, net contributed $51 million compared to the $83 million recorded in 2007. The lower amount is due to the decrease of our cash position after payment for the NXP wireless business and Genesis, and also because of less interest income received on our cash investments compared to 2007 due to lower U.S. dollar denominated interest rates.

Earnings (loss) on equity investments

	Year Ended December 31,	
	2008	2007
	(Audited, in millions)	
Earnings (loss) on equity investments	$ (553)	$ 14

In 2008, we registered a loss on equity investments related to our Numonyx investment, which was comprised of $480 million as an impairment of our Numonyx evaluation and $65 million as an equity loss related to our share of the

Numonyx loss that was recognized in the third and fourth quarters pursuant to one-quarter lag reporting. The impairment of our investment in Numonyx was required in light of (i) the turmoil in the financial markets and its resulting impact on the market cap of the industry, and (ii) the deviation from plan in Numonyx s 2008 results and 2009 most recent forecast, since our evaluation is primarily based on their operating performance in terms of cash flow, revenues and EBITDA.

Income tax benefit

	Year Ended December 31,	
	2008	2007
	(Audited, in millions)	
Income tax benefit	$ 43	$ 23

In 2008, we registered an income tax benefit of $43 million, reflecting the annual effective tax computation for the loss before income taxes in each jurisdiction. Furthermore, this benefit was net of a $47 million provision booked as evaluation of uncertain tax positions in one of our jurisdictions.

Our tax rate is variable and depends on changes in the level of operating income within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. We currently enjoy certain tax benefits in some countries. As such benefits may not be available in the future due to changes in the laws of the local jurisdictions, our effective tax rate could be

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different in future quarters and may increase in the coming years. In addition, our yearly income tax charges include the estimated impact of some provisions related to potential and certain positions.

Net loss

	Year Ended December 31,	
	2008	2007
	(Audited, in millions)	
Net loss	$ (786)	$ (477)
As a percentage of net revenues	(8.0)%	(4.8)%

In 2008, we reported a net loss of $786 million, compared to a net loss of $477 million in 2007. Our performance in 2008 was negatively impacted by the impairment charge associated with our equity investment in Numonyx, the additional loss recorded for the FMG deconsolidation, the one-time elements of the purchase accounting used for the NXP wireless business and the adverse impact of fluctuations in the U.S. dollar exchange rate. During 2007, there was a significant amount of impairment on the FMG deconsolidation once those assets were reclassified for sale, significant restructuring charges and a material negative effect of the weakening U.S. dollar exchange rate. Loss per share in 2008 was $(0.88). Impairment, restructuring charges and other specific items accounted for an approximate $(1.28) loss net of taxes per diluted share in 2008, while they accounted for $(1.29) per diluted share in the same period in the prior year.

Quarterly Results of Operations

Certain quarterly financial information for the years 2009 and 2008 are set forth below. Such information is derived from our unaudited Consolidated Financial Statements, prepared on a basis consistent with the Consolidated Financial Statements that include, in the opinion of management, all normal adjustments necessary for a fair statement of the interim information set forth therein. Operating results for any quarter are not necessarily indicative of results for any future period. In addition, in view of the significant growth we have experienced in recent years, the increasingly competitive nature of the markets in which we operate, the changes in products mix and the currency effects of changes in the composition of sales and production among different geographic regions, we believe that period-to-period comparisons of our operating results should not be relied upon as an indication of future performance.

Our quarterly and annual operating results are also affected by a wide variety of other factors that could materially and adversely affect revenues and profitability or lead to significant variability of operating results, including, among others, capital requirements and the availability of funding, competition, new product development and technological change and manufacturing developments in litigation and possible IP claims. In addition, a number of other factors could lead to fluctuations in operating results, including order cancellations or reduced bookings by key customers or distributors, IP developments, international events, currency fluctuations, problems in obtaining adequate raw materials on a timely basis, impairment, restructuring charges and other related closure costs, as well as the loss of key personnel. As only a portion of our expenses varies with our revenues, there can be no assurance that we will be able to reduce costs promptly or adequately in relation to revenue declines to compensate for the effect of any such factors. As a result, unfavorable changes in the above or other factors have in the past and may in the future adversely affect our operating results. Quarterly results have also been and may be expected to continue to be substantially affected by the cyclical nature of the semiconductor and electronic systems industries, the speed of some process and manufacturing technology developments, market demand for existing products, the timing and success of new product

introductions and the levels of provisions and other unusual charges incurred. Certain additions of our quarterly results will not total our annual results due to rounding.

In the fourth quarter of 2009, based upon published industry data by WSTS, the TAM and the SAM increased year-over-year approximately 29% and 16%, reaching approximately $67 billion and $39 billion, while sequentially, they increased approximately 7% and 4%, respectively.

In the fourth quarter of 2009, our average effective exchange rate was approximately $1.43 to 1.00, compared to $1.38 to 1.00 in the third quarter of 2009 and $1.40 to 1.00 in the year-ago quarter. Our effective exchange rate reflects actual exchange rate levels combined with the impact of cash flow hedging programs.

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Net revenues

	Three Months Ended			% Variation	
	Dec 31, 2009	Sept 26, 2009	Dec 31, 2008	Sequential	Year-Over-Year
	(Unaudited, in millions)				
Net sales	$ 2,570	$ 2,269	$ 2,264	13.3%	13.5%
Other revenues	13	6	12		
Net revenues	$ 2,583	$ 2,275	$ 2,276	13.6%	13.5%

Year-over-year comparison

Our fourth quarter 2009 net revenues increased in all market segments compared to the year ago quarter, except in Consumer, and in all regions, except Japan, reflecting the broad based recovery in the semiconductor market. Such performance was driven by an increase in sales volume, while average selling prices declined approximately 6%.

ACCI s revenues increased by approximately 11%, driven by the strong results observed in all its served markets. IMS registered an increase of 8% across the majority of its product lines, reflecting the overall recovery in the industrial and multi-segment markets. Wireless sales registered growth of approximately 24% and included the positive contribution of the integrated EMP wireless business.

By location of order shipment, almost all regions were positively impacted by strong local demand from their customers, ranging from the greatest revenue increases of approximately 26% and 25% in Asia Pacific and Greater China, respectively, to the lowest of approximately 0.4% in the EMEA. Japan experienced a decrease of 16% due to lower demand in the Consumer market. Our largest customer, the Nokia group of companies, accounted for approximately 15% of our fourth quarter 2009 net revenues, which was the same as in the fourth quarter of 2008.

Sequential comparison

On a sequential basis our revenues registered a strong performance as well, with a 13.6% increase, exceeding the high end of our targeted range of 12% sequential growth. This improvement was the result of solid demand across all of our product segments, as well as in all regions, with particular strength in Japan, Greater China and the Americas. This favorable trend was supported by an approximate 14% increase in units sold, with an immaterial impact from average selling prices.

ACCI revenues increased by 17%, reflecting a solid contribution from Home Entertainment and Displays, as well as Computer and Communication Infrastructure, mainly driven by a higher level of units sold. IMS revenues increased by 23% mainly as a result of higher sales volume. Wireless revenues increased by 1%, driven by an increase in demand.

The sequential improvement in revenue was evident across all market segments. Distribution and Computer led, with 35% and 22% growth, respectively, followed by Automotive and Industrial.

On a regional basis, the strength we saw in Greater China and Asia Pacific in the third quarter expanded to the other regions. In terms of revenue growth, the sequential performance ranged from an approximate 28% and 22% increase

in Japan and Greater China, respectively, to an approximate 8% increase in EMEA. In the fourth quarter of 2009, our largest customer, the Nokia group of companies, accounted for approximately 14.9% of our net revenues, remaining stable compared to the third quarter of 2009.

Gross profit

	Three Months Ended			% Variation	
	December 31, 2009	September 26, 2009	December 31, 2008	Sequential	Year-Over-Year
	(Unaudited, in millions)				
Cost of sales	$ (1,626)	$ (1,562)	$ (1,454)	(4.1)%	(11.9)%
Gross profit	957	713	822	34.2%	16.3%
Gross margin (as a percentage of net revenues)	37.0%	31.3%	36.1%		

Fourth quarter gross margin reached a level of 37%, increasing on a year-over-year basis by nearly 1 percentage point. The increase in gross margin reflected higher revenues in the fourth quarter of 2009, certain purchase

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accounting related items charged in the fourth quarter of 2008 and an improved product mix and was partially off-set by the unfavorable impact of exchange rates and market price pressure.

On a sequential basis, gross margin in the fourth quarter increased by nearly 6 percentage points, due to higher sales volume, increased fab loading and improved efficiencies. Our manufacturing performance improved in the fourth quarter as we continued to ramp towards full capacity, which has yet to be accomplished. Unused capacity charges in the fourth quarter were $13 million, significantly lower than the $47 million registered in the third quarter.

Selling, general and administrative expenses

	Three Months Ended			% Variation	
	December 31, 2009	September 26, 2009	December 31, 2008	Sequential	Year-Over-Year
	(Unaudited, in millions)				
Selling, general and administrative expenses	$ (303)	$ (290)	$ (304)	(4.8)%	0.4%
As percentage of net revenue	(11.7)%	(12.7)%	(13.4)%		

The amount of our selling, general and administrative expenses was basically flat on a year-over-year basis, benefiting in the fourth quarter of 2009 amid cost savings relating to our restructuring initiatives. On a sequential basis, SG&A expenses increased, reflecting a longer quarter, as well as a negative currency impact, which were partially offset by ongoing cost saving measures. Our share-based compensation charges were $5 million in the fourth quarter of 2009, compared to $5 million in the fourth quarter of 2008 and $3 million in the third quarter of 2009.

The ratio to sales of our selling, general and administrative expenses was mainly driven by the volume of our revenues. As a percentage of revenues, they decreased to 11.7% compared to 13.4% in the prior year s fourth quarter, while sequentially they decreased from 12.7%.

Research and development expenses

	Three Months Ended			% Variation	
	December 31, 2009	September 26, 2009	December 31, 2008	Sequential	Year-Over-Year
	(Unaudited, in millions)				
Research and development expenses	$ (603)	$ (595)	$ (572)	(1.2)%	(5.3)%
As percentage of net revenues	(23.3)%	(26.2)%	(25.1)%		

The year-over-year increase in R&D expenses was primarily due to the integration of Ericsson mobile platform activities and, to a lesser extent, the weakening U.S. dollar exchange rate. On a sequential basis, R&D expenses increased, reflecting a longer quarter, as well as a negative currency impact, which were partially offset by ongoing cost saving measures.

The fourth quarter of 2009 included $3 million of share-based compensation charges compared to $4 million in the fourth quarter of 2008 and $2 million in the third quarter of 2009. In addition, the fourth quarter of 2009 included $15 million related to amortization charges generated by recent acquisitions. Total R&D expenses were net of research tax credits, which amounted to $33 million, basically equivalent to prior periods.

As a percentage of revenues, fourth quarter 2009 R&D equaled 23.3%, a decrease compared to the year ago period due to increasing revenues.

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Other income and expenses, net

	December 31, 2009	Three Months Ended September 26, 2009	December 31, 2008
		(Unaudited, in millions)	
Research and development funding	$ 44	$ 26	$ 19
Start-up/phase-out costs	(2)	(3)	(7)
Exchange gain (loss) net	2	(4)	
Patent costs, net of gain from settlement	(5)	11	(5)
Gain on sale of other non-current assets	2	1	
Other, net	(2)	(2)	(1)
Other income and expenses, net	**39**	**29**	**6**
As a percentage of net revenues	1.5%	1.3%	0.3%

Other income and expenses, net, mainly included, as income, items such as R&D funding and, as expenses, start-up costs and patent claim costs net of settlement agreements. Income from R&D funding was associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies in locations where we pursue our activities. In the fourth quarter of 2009, the balance of these factors resulted in net income of $39 million, which was favorably impacted by R&D funding of approximately $44 million, a higher amount compared to the year-ago quarter.

Impairment, restructuring charges and other related closure costs

	December 31, 2009	Three Months Ended September 26, 2009	December 31, 2008
		(Unaudited, in millions)	
Impairment, restructuring charges and other related closure costs	$ (96)	$ (53)	$ (91)

In the fourth quarter of 2009, we recorded $96 million of impairment and restructuring charges and other related closure costs, of which:

$16 million was recorded in preparation of the closure of our Ain Sebaa, Morocco, Carrollton, Texas and Phoenix (Arizona) sites, and was composed of one-time termination benefits, as well as other relevant charges;

$17 million related to the plan announced in April 2009 by ST-Ericsson, to be completed by the mid- 2010, primarily consisting of on-going termination benefits pursuant to the closure of certain locations in Europe and the United States and $45 million related to a new plan announced in December 2009 by ST-Ericsson, to be completed by 2010, primarily consisting of on-going termination benefits pursuant to workforce reduction; and

$18 million related to other ongoing and newly committed restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations.

In the third quarter of 2009, we recorded impairment, restructuring charges and other related closure costs of $53 million, of which: $21 million of charges were recorded in light of the closure of our Ain Sebaa (Morocco), Carrollton (Texas) and Phoenix (Arizona) sites, composed of $1 million impairment charges on the Phoenix assets and $20 million of one-time termination benefits, as well as other relevant charges; $17 million related to the ST-Ericsson plan announced in April 2009, primarily consisting of on-going termination benefits pursuant to the closure of certain locations in Europe and the Unites States; and $15 million related to other ongoing and newly committed restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations.

In the fourth quarter of 2008, we recorded impairment, restructuring charges and other related closure costs pertaining to: $29 million related to one-time termination benefits to be paid at the closure of our Carrollton (Texas) and Phoenix (Arizona) sites, as well as other charges; $2 million impairment costs associated with an investment in a minority participation; $9 million charges related to the FMG deconsolidation; and $51 million related to other ongoing and newly committed restructuring plans, consisting primarily of voluntary termination benefits and early retirement arrangements in some of our European locations.

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Operating loss

	Three Months Ended		
	December 31, 2009	September 26, 2009	December 31, 2008
	(Unaudited, in millions)		
Operating loss	$ (6)	$ (196)	$ (139)
In percentage of net revenues	(0.2)%	(8.6)%	(6.1)%

Our operating results significantly improved compared to both the third quarter of 2009 and the year ago period. The fourth quarter 2009 registered an operating loss of $6 million compared to a loss of $139 million in the year ago quarter and $196 million in the prior quarter. The recovery in our revenues led to a strong increase in loading, thereby reducing underutilization charges from $57 million in the year ago quarter and $47 million in third quarter 2009 to $13 million in the fourth quarter of 2009.

The fourth quarter registered an improved operating result despite the fact that our operating loss was impacted by $96 million in restructuring, impairment and other-than-temporary impairment charges and other one-time charges related to acquisitions, while in the third quarter of 2009 those charges amounted $53 million. In the year-ago quarter, the negative impact of impairment, restructuring and one-time charges related to acquisitions was $91 million.

ACCI and IMS reported an operating profit, while Wireless mitigated its loss from the year ago period. ACCI increased its operating income from $18 million to $57 million, driven by a growth in revenues. IMS registered a profit of $90 million, compared to a profit of $101 million in the year ago quarter, following a year of severe pressure on market prices. Wireless posted an operating loss of $48 million, improving compared to a loss of $77 million in the year ago period, as a result of higher revenues and the initial impact of the on-going synergies plan. The segment Others was largely negative including the allocation of impairment and restructuring charges and of unused capacity charges.

Other-than-temporary impairment charges and realized losses on financial assets

	Three Months Ended		
	December 31, 2009	September 26, 2009	December 31, 2008
	(Unaudited, in millions)		
Other-than-temporary impairment charges and realized losses on financial assets	$ (68)	$ 0	$ (55)

The fourth quarter of 2009 income statement includes a pre-tax non-cash loss of $68 million related to the sale of a part of the portfolio of ARS purchased on our account by Credit Suisse contrary to our instruction. See Liquidity and Capital Resources.

Interest income, net

	Three Months Ended

	December 31, 2009	September 26, 2009	December 31, 2008
		(Unaudited, in millions)	
Interest income, net	$ 3	$ 4	$ 3

We recorded net interest income of $3 million, similar to the year-ago quarter, due to low U.S. dollar and Euro denominated interest rates. On a sequential basis the net interest income decreased by $1 million.

Loss on equity investments

	Three Months Ended		
	December 31, 2009	September 26, 2009	December 31, 2008
		(Unaudited, in millions)	
Earnings (loss) on equity investments	$ (13)	$ (42)	$ (204)

In the fourth quarter of 2009, we recorded a charge of $13 million, of which $5 million representing our net proportional share of the loss reported by Numonyx, booked pursuant to a one quarter lag, and $7 million related to our proportionate share in JVD as a loss pick-up including amortization of basis difference.

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Gain on convertible debt buyback

	December 31, 2009	Three Months Ended September 26, 2009	December 31, 2008
		(Unaudited, in millions)	
Gain on convertible debt buyback	$ 3	$	$

The $3 million gain on convertible debt buyback is related to the repurchase of bonds with a principal value of $106 million for total cash consideration of $103 million. Please see Capital Resources .

Income tax benefit (expense)

	December 31, 2009	Three Months Ended September 26, 2009	December 31, 2008
		(Unaudited, in millions)	
Income tax benefit (expense)	$ (48)	$ (15)	$ 9

During the fourth quarter of 2009, we registered an income tax expense of $48 million, reflecting actual tax provisions in each jurisdiction. There was a tax charge in the fourth quarter of 2009, notwithstanding the loss, because of a tax rate true-up and some valuation allowances taken on loss carryforwards in certain jurisdictions.

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

Net loss attributable to noncontrolling interest

	December 31, 2009	Three Months Ended September 26, 2009	December 31, 2008
		(Unaudited, in millions)	
Net loss attributable to noncontrolling interest	$ 59	$ 48	$ 5

In the fourth quarter of 2009, we booked $59 million income representing the loss attributable to noncontrolling interest, which mainly included the 50% owned by Ericsson in the consolidated ST-Ericsson Holding AG (JVS). In the third quarter of 2009, the corresponding amount was $48 million. These amounts reflected its share in the joint

venture s loss.

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

Net loss attributable to parent company

	Three Months Ended		
	December 31, 2009	**September 26, 2009**	**December 31, 2008**
	(Unaudited, in millions)		
Net loss attributable to parent company	$ (70)	$ (201)	$ (366)
As percentage of net revenues	(2.7)%	(8.8)%	(16.1)%

For the fourth quarter of 2009, we reported a net loss of $70 million as a result of adverse economic conditions impacting our operations and also due to certain specific charges as described above.

Loss per share for the fourth quarter of 2009 was $(0.08) compared to $(0.23) in the third quarter of 2009 and $(0.42) in the year-ago quarter.

In the fourth quarter of 2009, the impact after tax of restructuring, impairment and other-than-temporary impairment charges was estimated to be approximately $(0.12) per share, while in the third quarter of 2009, it was approximately $(0.06) per share. In the year ago quarter, the impact of restructuring and impairment charges, other-than-temporary impairment charges, the loss on our Numonyx equity investment and non-recurrent items was estimated to be approximately $(0.36) per share.

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

In summary, as our reporting currency is the U.S. dollar, currency exchange rate fluctuations affect our results of operations: 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. Our results are favorably impacted when the dollar strengthens. As described below, our effective average U.S. dollar exchange rate strengthened during 2009, particularly against the Euro, causing us to report lower expenses and favorably impacting both our gross margin and operating income. Our consolidated statements of income for 2009 included income and expense items translated at the average U.S. dollar exchange rate for the period.

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 raw 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 selling and general and administrative expenses, located in the Euro zone. Our effective average exchange rate of the Euro to the U.S. dollar was $1.37 for 1.00 in 2009 compared to $1.49 for 1.00 in 2008. Our effective average rate of the Euro to the U.S. dollar was $1.43 for 1.00 for the fourth quarter of 2009 and $1.38 for 1.00 in the third quarter of 2009 while it was $1.40 for 1.00 for the fourth quarter of 2008. These effective exchange rates reflect the actual exchange rates combined with the impact of cash flow hedging contracts that matured in the period.

As of December 31, 2009, the outstanding hedged amounts were 432 million to cover manufacturing costs and 508 million to cover operating expenses, at an average rate of about $1.46 and $1.43 for 1.00, respectively (including the premium paid to purchase foreign exchange options), maturing over the period from January to December 2010. In the fourth quarter of 2008 the company decided to extend the time horizon of its cash flow hedging contracts for manufacturing costs and operating expenses for up to 12 months. As of December 31, 2009, these outstanding hedging contracts and certain expired contracts covering manufacturing expenses capitalized in inventory represented a deferred gain of approximately $6 million after tax, recorded in Other comprehensive income in equity, compared to a deferred gain of approximately $64 million after tax at September 26, 2009 and a deferred gain of approximately $12 million after tax at December 31, 2008.

Our cash flow hedging policy is not intended to cover the full exposure and is based on hedging a declining percentage of exposure quarter after quarter. In addition, 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. We may in the future purchase or sell similar types of instruments. See Item 11, Quantitative and Qualitative Disclosures about Market Risk. Furthermore, we may not predict in a timely fashion the amount of future transactions in the volatile industry environment. Consequently, our results of operations have been and may continue to be impacted by fluctuations in exchange rates.

Our treasury strategies to reduce exchange rate risks are intended to mitigate the impact of exchange rate fluctuations. No assurance may be given that our hedging activities will sufficiently protect us against declines in the value of the U.S. dollar. Furthermore, if the value of the U.S. dollar increases, we may record losses in connection with the loss in value of the remaining hedging instruments at the time. In 2009, as a result of cash flow

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hedging, we recorded a net gain of $71 million, consisting of a gain of $36 million to R&D expenses, $29 million to costs of goods sold and a gain of $6 million to selling, general and administrative expenses, while in 2008, we recorded a net gain of $1 million, consisting of a loss of $1 million to R&D expenses, a gain of $4 million to costs of goods sold and a loss of $2 million to selling, general and administrative expenses.

The net effect of the consolidated foreign exchange exposure resulted in a net gain of $11 million in Other income and expenses, net in 2009.

The asssets 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 of such translation adjustments has been, and may be expected to be, significant from period to period since a large part of our assets and liabilities are accounted for in Euros as their functional currency. Adjustments resulting from the translation are recorded directly in shareholders equity, and are shown as Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity. At December 31, 2009, our outstanding indebtedness was denominated mainly in U.S. dollars and in Euros.

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

Impact of Changes in Interest Rates

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

Our interest income, net, as reported on our consolidated statements of income, is the balance between interest income received from our cash and cash equivalent and marketable securities investments and interest expense paid on our long-term debt. 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 short-term market interest rates would mean an equivalent increase or decrease in our interest income. As of December 31, 2009, approximately 40% of our long-term debt was at fixed interest rates. Our interest expenses are associated with our long-term Zero Coupon 2016 Convertible Bonds (with a fixed rate of 1.5%), our 2013 Floating Rate Senior Bond, which is fixed quarterly at a rate of EURIBOR plus 40bps, and European Investment Bank Floating Rate Loans totaling $672 million at LIBOR plus variable spreads. To manage the interest rate mismatch, in the second quarter of 2006, we entered into cancellable swaps to hedge a portion of the fixed rate obligations on our outstanding long-term debt with floating rate derivative instruments. Of the $974 million in 2016 Convertible Bonds issued in the first quarter of 2006, we entered into cancellable swaps for $200 million of the principal amount of the bonds, swapping the 1.5% yield equivalent on the bonds for 6 Month USD LIBOR minus 3.375%, partially offsetting the interest rate mismatch of the 2016 Convertible Bond. Our hedging policy was not intended to cover the full exposure and all risks associated with these instruments. Due to the exceptionally low U.S. dollar interest rate brought about by the financial crisis, in 2008 we determined that the swaps had not been effective since November 1, 2008 and the fair value hedge relationship was discontinued. Consequently, the swaps were designated as held-for-trading financial assets and reported at fair value as a component of Other receivables and current assets in the consolidated balance sheet at December 31, 2008 for $34 million, since we intended to hold the derivative instruments for a short period of time that would not exceed twelve months. An unrealized gain of $15 million was recognized in earnings from the discontinuance date and was reported on the line Unrealized gain on financial assets of the consolidated statement of income for the year ended December 31, 2008. This instrument was sold during the first quarter of 2009 with a positive cash flow impact of $26 million and a loss of $8 million.

In December 2009, in order to reduce the negative carry of the outstanding Zero Coupon Senior Convertible Bonds due 2016, we began a program to repurchase a portion of them. At December 31, 2009, 98 thousand bonds had been repurchased, corresponding to 4,295,722 shares. In light of the put option that will be exercisable by bondholders on February 23, 2011, we decided to repurchase a portion of the 2016 Bonds to optimize our liquidity management and yield through that date. See Other Developments. We also have $250 million of restricted cash at a fixed rate (Hynix Semiconductor-Numonyx JV), which partially offsets the interest rate mismatch of the 2016 Convertible Bond. Our hedging policy is not intended to cover the full exposure and all risks associated with these instruments.

At December 31, 2009, our total financial resources, including cash, cash equivalents, marketable securities current and non-current and restricted cash, generated an average interest income rate of 0.86%. This does not include interest income accrued on the shareholder loan to Numonyx.

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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 A or better. Part of our liquidity is also held in Euros to naturally hedge intercompany payables and financial debt in the same currency and is placed with financial institutions rated at least single A long-term rating, meaning at least A3 from Moody s Investor Service and A- from Standard & Poor s or Fitch Ratings. Marginal amounts are held in other currencies. See Item 11, Quantitative and Qualitative Disclosures About Market Risk.

As of December 31, 2009, our total liquidity and capital resources were comprised of $1,588 million in cash and cash equivalents, of which $186 million is held at the ST-Ericsson level, $1,032 million in marketable securities as current assets, of which $40 million is held at the ST Ericsson level, $250 million as restricted cash and $42 million in ARS, invested by Credit Suisse contrary to our instruction, both items considered as non-current assets. Our total capital resources were $2,912 million as of December 31, 2009, a significant increase compared to $2,132 million at December 2008. Such increase was originated by the proceeds from the ST-Ericsson business combination and from operating cash flow.

As of December 31, 2009, we had $1,032 million in marketable securities as current assets, composed of $484 million invested in Aaa treasury bills from the French and U.S. governments, $548 million invested in senior debt floating rate notes issued by primary financial institutions with an average rating, excluding one impaired debt security for a notional value of 15 million, of Aa3/A+ from Moody s and S&P. Both the treasury bills and the Floating Rate Notes are classified as available-for-sale and reported at fair value, with changes in fair value recognized as a separate component of Accumulated other comprehensive income in the consolidated statement of changes in equity, except if deemed to be other-than-temporary. We reported as of December 31, 2009 a before tax increase of $8 million compared to December 31, 2008 in the fair value of our floating rate note portfolio. Since the duration of the floating-rate note portfolio is only an average of two years and the securities have a minimum Moody s rating of A3, we expect the value of the securities to return to par as the final maturity approaches (with the only exception being the $15 million of Senior Floating Rate Notes issued by Lehman Brothers, the value of which was impaired through an other than temporary charge in 2008). The fair value of these securities is based on market prices publicly available through major financial information providers. The market price of the Floating Rate Notes is influenced by changes in the credit standing of the issuer but is not significantly impacted by movement in interest rates. In 2009, we invested $1,730 million in French and U.S. treasury bills, of which $1,263 million was sold or matured during the year. The change in fair value of the $484 million debt securities classified as available-for-sale was not material at December 31, 2009. The duration of the treasury bills portfolio is less than five months and the securities are rated Aaa by Moody s.

Due to regulatory and withholding tax issues, we could not directly provide the Hynix joint venture with the $250 million long-term financing as originally planned. As a result, in 2006, we entered into a ten-year term debt guarantee agreement with an external financial institution through which we guaranteed the repayment of the loan by the joint venture to the bank. The guarantee agreement includes our placing up to $250 million in cash in a deposit account with a yield of 6.06%. The guarantee deposit will be used by the bank in case of repayment failure from the joint venture (which is now known as the Numonyx-Hynix joint venture), with $250 million as the maximum potential amount of future payments we, as the guarantor, could be required to make. In the event of default and failure to repay the loan from the joint venture, the bank will exercise our rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the joint venture s assets. The $250 million, which has been on deposit since 2007, was reported as Restricted cash on the consolidated balance sheet at December 31, 2009. The debt guarantee was evaluated under guidance related to disclosures about credit

derivatives and certain guarantees, and resulted in the recognition of a $17 million liability, corresponding to the fair value of the guarantee at inception of the transaction. The debt guarantee obligation continues to be reported on the line Other non-current liabilities in the consolidated balance sheet at December 31, 2009, since we retained the deposit, as an asset, and the related guarantee at the formation of Numonyx. At December 31, 2009, the guarantee was not exercised. To the best of our knowledge, at December 31, 2009, the joint venture was current on its debt obligations, was not in default of any debt covenants and did not expect to be in default on these obligations in the foreseeable future. Our current maximum exposure to loss as a result of our involvement with the joint venture is limited to our indirect investment through Numonyx and the debt guarantee commitments. Under the terms of the recently signed agreement to sell Numonyx to Micron, we will continue to retain the $250 million deposit with DBS Bank Ltd. in Singapore, which is intended to guarantee the Hynix-Numonyx joint venture s debt financing for such amount. Under the terms of the joint venture agreement with Hynix, upon the closing of the sale of Numonyx, Hynix and Numonyx have certain rights to buy or sell or cause the other party to buy or sell their interests in the Hynix JV. We have entered into an agreement with

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Micron and Numonyx that provides that, in the event that Hynix exercises its right to purchase Numonyx interest in the Hynix joint venture following the closing of the Numonyx transaction, Numonyx will take over all or part of our obligations under the guarantee.

As of December 31, 2009, we had Auction Rate Securities, purchased by Credit Suisse contrary to our instruction, representing interests in collateralized debt obligations with a par value of $261 million, that were carried on our balance sheet as available-for-sale financial assets for $42 million, including the positive revaluation of $15 million in other comprehensive income in equity. Following the continued failure of auctions for these securities which began in August 2007, we first registered a decline in the value of these Auction Rate Securities as an Other-than-temporary impairment charge against net income for $46 million during the fourth quarter of 2007. Since the initial failure of the auctions in August 2007, the market for these securities has completely frozen without any observable secondary market trades, and consequently, during 2008 and 2009, the portfolio experienced a further estimated decline in fair value charged to our Income Statement pursuant applicable GAAP of $127 million and $72 million, respectively, of which no additional impairment was recorded during the third or fourth quarter of 2009. The reduction in estimated fair value was recorded as an Other-than-temporary impairment charge against net income.

The investments made in the aforementioned Auction Rate Securities were made without our authorization and, in 2008, we launched a legal action against Credit Suisse. On February 16, 2009, the arbitration panel of FINRA awarded us approximately $406 million comprising compensatory damages, as well as interest and attorneys fees, and authorized us to retain an interest award of approximately $27 million, out of which $25 million has already been paid, as well as to obtain interest at the rate of 4.64% on the par value of the portfolio from December 31, 2008 until the award is paid in full. In December 2009, Credit Suisse, because of its contingent interest in certain securities held by us and issued by Deutsche Bank, requested that we either tender the securities or accept that the amount that would be received by us pursuant to such tender ($75 million) be deducted from the sum to be collected by us if and when the FINRA award is confirmed and enforced. Pursuant to legal advice, and while reserving our legal rights, we participated in the tender offer. As a result, we sold ARS with a face value of $154 million, collected $75 million and registered $68 million as realized losses on financial assets. Such amount comes in addition to the $245 million impairment that had been taken as of September 30, 2009 with respect to the portfolio of ARS purchased on our account by Credit Suisse contrary to our instruction. These amounts should be recovered upon collection of the award. We are seeking confirmation of the award from the United States District Court of the Southern District of New York.

Since the fourth quarter of 2007, as there was no information available regarding mark to market bids and mark to model valuations from the structuring financial institutions for these securities, we based our estimation of fair value on a theoretical model using yields obtainable for comparable assets. The value inputs for the evaluation of these securities were publicly available indices of securities with the same rating, similar duration and comparable/similar underlying collaterals or industries exposure (such as ABX for the collateralized debt obligation and ITraxx and IBoxx for the credit linked notes). The higher impairment charges during 2008 and 2009 reflect downgrading events on the collateral debt obligations comparing the relevant ABX indices of a lower rating category and a general negative trend of the corporate debt market. The estimated value of the collateralized debt obligations could further decrease in the future as a result of credit market deterioration and/or other downgrading.

Liquidity

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

During 2009, the evolution of our cash flow produced an increase in our cash and cash equivalents of $579 million, generated by net cash from both operating and investing activities, the latter including the proceeds from the

ST-Ericsson business combination.

The evolution of our cash flow for each period is as follows:

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Net cash from (used in) operating activities	$ 816	$ 1,722	$ 2,188
Net cash from (used in) investing activities	290	(2,417)	(1,737)
Net cash from (used in) in financing activities	(513)	(67)	(296)
Effect of change in exchange rates	(14)	(84)	41
Net cash increase (decrease)	$ 579	$ (846)	$ 196

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Net cash from (used in) operating activities. The net cash from operating activities in 2009 was significantly lower compared to previous periods due to a higher amount of net losses registered. See Results of Operations for more information. However, in response to the financial market crisis we focused on strong capital management by taking aggressive actions to generate cash by accelerating our cash conversion cycle, resulting in a $553 million reduction in inventory and reflecting the accelerated collection of States receivables, mainly certain R&D tax credits.

As a result, our net cash from operating activities decreased from $1,722 million in 2008 to $816 million in 2009. Depreciation and amortization was $1,367 million in 2009, equivalent to the prior year period.

Net cash from (used in) investing activities. Investing activities generated cash in 2009 primarily due to the net proceeds of $1,155 million, received from Ericsson in relation to the creation of ST-Ericsson. Payments for the purchase of tangible assets totaled $451 million, a significant reduction from the $983 million registered in the equivalent prior year period. Furthermore, in 2009, we made payments of $1,730 million for the purchases of marketable securities, while we collected $1,446 million upon the sales of marketable securities largely due to their maturity dates.

Net cash from (used in) financing activities. Net cash used in financing activities was $513 million in 2009 compared to the $67 million used in 2008. The 2009 amount included $158 million as dividends paid to shareholders, $134 million as repayment at maturity of long term debt, $103 million related to the repurchase of the 2016 Bonds and $92 million of purchase of equity from noncontrolling interests related to the acquisition of NXP s 20% stake in ST-NXP Wireless. There were no proceeds from long term debt in 2009, while the corresponding amount in 2008 was $663 million.

Net operating cash flow. We also present net operating cash flow, defined as net cash from (used in) operating activities plus (minus) net cash from (used in) investing activities, excluding payment for purchases of and proceeds from the sale of marketable securities (both current and non-current), short-term deposits and restricted cash. We believe net operating cash flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operating activities. Net operating 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. In addition, our definition of net operating cash flow may differ from definitions used by other companies. Net operating cash flow is determined as follows from our Audited Consolidated Statements of Cash Flow:

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Net cash from (used in) operating activities	$ 816	$ 1,722	$ 2,188
Net cash from (used in) investing activities	290	(2,417)	(1,737)
Payment for purchase and proceeds from sale of marketable securities (current and non-current), short-term deposits and restricted cash, net	258	(351)	389
Net operating cash flow	**$ 1,364**	**$ (1,046)**	**$ 840**

We had favorable net operating cash flow of $1,364 million in 2009, significantly higher compared to net negative operating cash flow of $(1,046) million in 2008, mainly as a result of the $1,137 million, net of related fees, received from EMP as part of the creation of the ST-Ericsson joint venture. Excluding the effects of business combinations, net operating cash flow was favorable by $227 million in 2009, decreasing compared to favorable net operating cash flow

of $648 million in 2008, because of the deterioration in our operating results which negatively impacted the net cash from operating activities.

Capital Resources

Net financial position

Our net financial position represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, current and non-current marketable securities, short-term deposits and restricted cash, and our total financial debt includes bank overdrafts, current portion of long-term debt and long-term debt, as represented in our consolidated balance sheet. 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,

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cash equivalents and marketable securities and the total level of our financial indebtedness. Our net financial position has been determined as follows from our Consolidated Balance Sheets at December 31, 2009:

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Cash and cash equivalents, net of bank overdrafts	$ 1,588	$ 989	$ 1,855
Marketable securities, current	1,032	651	1,014
Restricted cash	250	250	250
Marketable securities, non-current	42	242	369
Total financial resources	2,912	2,132	3,488
Current portion of long-term debt	(176)	(123)	(103)
Long-term debt	(2,316)	(2,554)	(2,117)
Total financial debt	(2,492)	(2,677)	(2,220)
Net financial position	**$ 420**	**$ (545)**	**$ 1,268**

Our net financial position as of December 31, 2009 resulted in a net cash position of $420 million, representing a solid improvement compared to the net debt of $545 million at December 31, 2008, due to the proceeds from the ST-Ericsson business combination and favorable net operating cash flow. In the same period, both our cash position and our current marketable securities portfolio increased significantly to $1,588 million and $1,032 million, respectively, while total financial debt decreased by $185 million.

At December 31, 2009, the aggregate amount of our long-term debt, including the current portion, was $2,492 million, which included $943 million of our 2016 Convertible Bonds, $720 million of our 2013 Senior Bonds (corresponding to 500 million at issuance) and $672 million in European Investment Bank loans (the EIB Loans). The EIB Loans represent two committed credit facilities as part of R&D funding programs. The first, for 245 million for R&D in France was fully drawn in U.S. dollars for a total amount of $341 million, of which $49 million had been paid back at December 31, 2009. The second, signed on July 21, 2008, for 250 million for R&D projects in Italy, was fully drawn in U.S. dollars for $380 million at December 31, 2009. Additionally, we had unutilized committed medium term credit facilities with core relationship banks totaling $500 million. Furthermore, the aggregate amo