STMICROELECTRONICS NV
Form 20-F
March 03, 2015
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As filed with the Securities and Exchange Commission on March 3, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

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

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

OR

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

OR

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

Commission file number: 1-13546

STMicroelectronics N.V.

(Exact name of registrant as specified in its charter)

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

WTC Schiphol Airport

Schiphol Boulevard 265

1118 BH Schiphol

The Netherlands

(Address of principal executive offices)

Carlo Bozotti

39, chemin du Champ des Filles

1228 Plan-Les-Ouates

Geneva

Switzerland

Tel: +41 22 929 29 29

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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:

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

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

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

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 x No ¨

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

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

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

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

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board ¨	Other ¨

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

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

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

We have compiled market size and our market share data in this Form 20-F using statistics and other information obtained from several third-party sources. Except as otherwise disclosed herein, all references to trade association data are references to World Semiconductor Trade Statistics (WSTS). Certain terms used in this Form 20-F are defined in Certain Terms .

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

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

We and our affiliates own or otherwise have rights to the trademarks and trade names, including those mentioned in this Form 20-F, used in conjunction with the marketing and sale of our products.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- uncertain macro-economic and industry trends;
- customer demand and acceptance for the products which we design, manufacture and sell;
- unanticipated events or circumstances, which may either impact our ability to execute the planned reductions in our net operating expenses and/or meet the objectives of our R&D programs, which benefit from public funding;
- the loading and the manufacturing performance of our production facilities;
- the functionalities and performance of our IT systems, which support our critical operational activities including manufacturing, finance and sales;
- variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;

the impact of intellectual property (IP) claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;

restructuring charges and associated cost savings that differ in amount or timing from our estimates;

changes in our overall tax position as a result of changes in tax laws, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;

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

natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, health risks and epidemics in locations where we, our customers or our suppliers operate;

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

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

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward-looking terminology, such as believes , expects , may , are expected to , should , would be , seeks or anticipates or similar e the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Some of these risk factors are set forth and are discussed in more detail in Item 3. Key Information Risk Factors . Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Form 20-F as anticipated, believed or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this Form 20-F to reflect subsequent events or circumstances.

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

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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, 2014. Such data have been derived from our audited Consolidated Financial Statements. Audited Consolidated Financial Statements for each of the years in the three-year period ended December 31, 2014, including the Notes thereto (collectively, the Consolidated Financial Statements), are included elsewhere in this Form 20-F, while data for prior periods have been derived from our audited Consolidated Financial Statements used in such periods.

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

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

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

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

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

Risks Related to the Semiconductor Industry which Impact Us

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

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

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

In particular, economic downturns affecting the semiconductor industry may result in a variety of risks that could significantly affect our business, including, but not limited to, declines in revenues, reductions in selling prices, underutilization of manufacturing capacity, deterioration of our gross margins, profitability and net cash flow, closure of our wafer fabrication plants (fabs) and associated restructuring plans and impairment of goodwill or other assets associated with our product segments.

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

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

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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 or major customers do not grow as we anticipated when making investments in production capacity, we risk overcapacity and related unused capacity charges. In addition, if demand for our products is lower than expected, this may result in write-offs of inventories and losses on products, and could require us to undertake restructuring measures that may involve significant charges to our earnings. Furthermore, during certain periods, we have also experienced increased demand in certain market segments and product technologies, which has led to a shortage of capacity and an increase in the lead times of our delivery to customers. See Item 5. Operating and Financial Review and Prospects Results of Operations Impairment, restructuring charges and other related closure costs .

Competition in the semiconductor industry is intense, and we may not be able to compete successfully if our product design technologies, process technologies and products do not meet market requirements or if we are unable to obtain the necessary IP. Furthermore, the competitive environment of the semiconductor industry may result in consolidation and vertical integration at the customer level, which may lead to erosion of our market share, impact our capacity to compete and require us to restructure.

We compete in different product lines to various degrees on certain characteristics, for example, price, technical performance, product features, product design, product availability, process technology, manufacturing capabilities and sales and technical support. Given the intense competition in the semiconductor industry, if our products are not selected based on any of these characteristics, our business, financial condition and results of operations could be materially adversely affected.

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

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

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

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

Risks Related to Our Operations

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

In recent years, we have undertaken several new initiatives to reposition our business, both through divestitures and new investments. Our strategies to improve our results of operations and financial condition led us, and may in the future lead us, to acquire businesses that we believe

to be complementary to our own, or to divest ourselves of activities that we believe do not serve our longer term business plans. Our potential acquisition strategies depend in part on our ability to identify suitable acquisition targets, finance their acquisition and obtain required regulatory and other approvals. Our potential divestiture strategies depend in part on our ability to compete and to identify the activities in which we should no longer engage, and then determine and execute appropriate methods to divest of them.

We are constantly monitoring our product portfolio and cannot exclude that additional steps in this repositioning process may be required; further, we cannot assure that any strategic repositioning of our business,

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

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results, including, but not limited to, the risk that we may be unable to successfully integrate businesses or teams we acquire with our culture and strategies on a timely basis or at all, the risk of the diversion of management s attention, the risk that we may be required to record charges related to the goodwill or other long-term assets associated with the acquired businesses and in the case of joint ventures, the risk of being unable to effectively control the joint venture when management acts independently. We cannot be certain that we will be able to achieve the full scope of the benefits we expect from a particular acquisition, divestiture or investment. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any acquired businesses. In addition, the financing of future acquisitions or divestitures may negatively impact our financial position and could require us to raise additional funding.

Other risks associated with acquisitions or joint ventures include: assumption of potential liabilities, disclosed or undisclosed, associated with the business acquired, which liabilities may exceed the amount of indemnification available from the seller; potential inaccuracies in the financials of the business acquired; and our ability to retain customers of an acquired entity or business. Identified risks associated with divestitures include: loss of activities and technologies that may have complemented our remaining businesses or operations; and loss of important services provided by key employees that are assigned to divested activities.

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

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

There can be no assurance that we will successfully implement our strategic plan and achieve our financial targets, which is dependent upon solid revenue growth, improving gross margins and reducing our operating costs. Our success is contingent upon our ability to respond to the following significant changes currently characterizing the semiconductor market: the long-term structural growth of the overall market for semiconductor products, which is strongly correlated with the global macroeconomic environment and now averages single digit annual growth; the acceleration of new product innovation and the strong development of new applications in areas such as smart consumer devices, trust and data security, healthcare and wellness, and energy and power management savings; the growing importance of the Asia Pacific region, particularly China and other emerging countries, which represent the fastest growing regional markets; the evolving customer demand to seek new system level, turnkey solutions from semiconductor suppliers; the evolution of the customer base, which also includes polarization and vertical integration at leading manufacturers; the expansion of available manufacturing capacity through third party providers; and the evolution of advanced process development R&D partnerships.

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

Semiconductor manufacturing is characterized by high fixed costs. In difficult market conditions, we are driven to reduce prices in response to competitive pressures and we are also faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. We are not always able to cut our total costs in line with resulting revenue declines. As a result, our fixed costs associated with our manufacturing facilities may not be fully absorbed, leading to unused capacity charges, higher average unit costs and lower gross margins, adversely impacting our results.

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

A significant variation of the value of the U.S. dollar against the principal currencies that have a material impact on us (primarily the Euro, but also certain other currencies of countries where we have operations, such as the Singapore dollar) could result in a favorable impact on our net income in the case of an appreciation of the U.S. dollar, or a negative impact on our net income if the U.S. dollar depreciates relative to these currencies, in particular with respect to the Euro. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major portion of our revenues, while, more importantly, we incur a significant portion of our costs in currencies other than the U.S. dollar.

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

Our results of operations and financial condition could be adversely affected by economic conditions in Europe.

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

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

As a result of our choice to maintain control of a certain portion of our manufacturing technologies, significant amounts of capital to maintain or upgrade our facilities could be required in the future. We monitor our capital expenditures taking into consideration factors such as trends in the semiconductor market and capacity utilization. These expenditures may increase in the future if we decide to upgrade or expand the capacity of our manufacturing facilities. There is no assurance that future market demand and products required by our customers will meet our expectations. Failure to invest appropriately or in a timely manner could have a material adverse effect on our business, and results of operations.

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

We may need to invest in other companies, in IP and/or in technology developed either by us or by third parties to maintain or improve our position in the market or to complement or expand our existing business. The foregoing may require us to secure additional financing, including through the issuance of debt, equity or both. The timing and the size of any new share or bond offering would depend upon market conditions as well as a variety of factors. In addition, the capital markets may from time to time offer terms of financing that are particularly favorable. We cannot exclude that we may access the capital markets opportunistically to take advantage of market conditions. Any such transaction or any announcement concerning such a transaction could materially impact the market price of our common shares. If we are unable to access capital on acceptable terms, this may adversely affect our business and results of operations.

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

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

Our R&D alliances provide us with a number of important benefits, including the sharing of costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. However, there can be no assurance that our alliances will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. If these alliances terminate before our intended goals are accomplished we may incur additional unforeseen costs, and our business and prospects could be adversely affected. In addition, if we are unable to develop or otherwise access new technologies independently, we may fail to keep pace with the rapid technology advances in the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share in the markets addressed by our products.

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

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

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

Our operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability or lead to significant variability of our operating results from one period to the next. These factors include, among others, capital requirements, inventory management, availability of funding, competition, new product developments, technological changes, manufacturing problems and effective tax rates. In addition, in periods of industry overcapacity or when our key customers encounter difficulties in their end markets, orders are more exposed to cancellations, reductions, price renegotiation or postponements, which in turn reduce our management s ability to forecast the next quarter or full year production levels, revenues and margins. For these reasons and others that we may not yet have identified, our revenues and operating results may differ materially from our expectations or guidance as visibility is reduced. See Item 4. Information on the Company Backlog .

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

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

Our business is dependent upon our ability to retain existing customers. Our existing customers product strategy may change from time to time and we have no certainty that our business, financial position and results of operations will not be affected. Our business is also dependent upon our ability to attract new customers serving fast-growing markets. There can be no assurance that we will be successful in attracting and retaining new customers or be able to identify early on any new market prospects. Our failure to do so could materially adversely affect our business, financial position and results of operations.

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

A substantial portion of our sales is derived from a limited number of customers and distributors. We cannot guarantee that our customers or distributors will continue to book the same level of sales with us that they have in the past, or will not purchase competing products over our products or will continue to succeed in the markets they serve. Many of our key customers and distributors operate in cyclical businesses that are also highly competitive, and their own demands and market positions may vary considerably. In recent years, some of our customers have experienced consolidation and have vertically integrated their businesses. Such consolidations and vertical integrations may impact our business in the sense that our relationships with the new entities could be either reinforced or jeopardized pursuant thereto. If we were unable to maintain or enhance our market share with our key customers or distributors, or if they were to increase product returns or fail to meet payment

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obligations, our results of operations would be materially adversely affected. If customers do not purchase products made specifically for them, we may not be able to resell such products to other customers or require the customers who have ordered these products to pay a cancellation fee.

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

Our operating results can also vary significantly due to impairment of goodwill, other intangible assets and equity investments booked pursuant to acquisitions, joint venture agreements and the purchase of technologies and licenses from third parties. Because the market for our products is characterized by rapidly changing technologies, significant changes in the semiconductor industry, and the potential failure of our business initiatives, our future cash flows may not support the value of goodwill and other intangibles registered in our consolidated balance sheets (Consolidated Balance Sheets). See Item 5. Operating and Financial Review and Prospects Overview Critical Accounting Policies Using Significant Estimates Impairment of goodwill , Intangible assets subject to amortization and Income (loss) on Equity-method Investments .

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

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

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

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

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

We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules or the outcome of tax assessments and audits could have a material adverse effect on our results in any particular quarter. Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated

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tax provisions due to new events. We currently receive certain tax benefits in some countries, and these benefits may not be available in the future due to changes in the local jurisdictions. As a result, our effective tax rate could increase in the coming years. In addition, the acquisition or divestiture of businesses in certain jurisdictions could materially affect our effective tax rate.

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income that is sufficient to utilize loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. The recorded amount of total deferred tax assets could be reduced, resulting in a loss in our consolidated income statement, a decrease in our total assets and, consequently, in our stockholders equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in management s assessment or due to other factors, such as changes in tax laws and regulations.

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

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

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

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

We currently use outside contractors for a portion of our manufacturing activities. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. Prices for these services also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially and, in cases of industry shortages, they can increase significantly further, negatively impacting our gross margin and our results of operations.

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

Our manufacturing processes are highly complex, require advanced and increasingly costly equipment and are continuously being modified or maintained in an effort to improve yields and product performance.

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Impurities or other difficulties in the manufacturing process can lower yields, interrupt production or result in losses of products in process. As system complexity and production changes have increased and sub-micron technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. We have from time to time experienced bottlenecks and production difficulties that have caused delivery delays and quality control problems. We cannot guarantee that we will not experience bottlenecks, production or transition difficulties in the future.

We may be faced with product liability or warranty claims.

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

Our computer systems and networks are subject to attempted security breaches and other cybersecurity incidents, which, if successful, could impact our business.

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

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

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

Compliance with such laws and regulations could adversely affect our manufacturing costs or product sales by requiring us to acquire costly equipment, materials or greenhouse gas allowances, or to incur other significant

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expenses in adapting our manufacturing processes or waste and emission disposal processes. Furthermore, environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. Failure by us to control the use of, or adequately restrict the discharge of, chemicals or hazardous substances could subject us to future liabilities.

Loss of key employees could hurt our competitive position.

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

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

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

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

The STH Shareholders Agreement also permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at any time, thereby reducing the current level of their respective indirect interests in our common shares. Sales of our common shares or the issuance of financial instruments exchangeable into our common shares or any announcements concerning a potential sale by ST Holding could materially impact the market price of our common shares depending on the timing and size of such sale, market conditions as well as a variety of other factors.

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

We have an option agreement (the Option Agreement) with an independent foundation, Stichting Continuiteït ST (the Stichting), whereby we could issue a maximum of 540,000,000 preference shares in the event of actions considered hostile by our Managing Board and Supervisory Board, such as a creeping acquisition or an unsolicited offer for our common shares, which are not supported by our Managing Board and Supervisory Board and which the board of the Stichting determines would be contrary to the interests of our Company, our shareholders and our other stakeholders. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreement Preference Shares .

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

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

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

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

There are inherent limitations on the effectiveness of our controls.

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

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

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

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

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

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

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

Business Overview

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor products used in a wide variety of applications, such as the Internet of Things (IoT), and serving many different end markets. Our key products include automotive, microcontrollers, smart power, digital consumer and MEMS and sensors. We offer a broad and diversified product portfolio and develop products for a wide range of market applications to reduce our dependence on any single customer, product, application or end market. Our product families are comprised of discrete and standard commodity components and differentiated application-specific products (defined as dedicated analog, mixed-signal and digital application-specific integrated circuits (ASIC) and application-specific standard products (ASSP) offerings and semi-custom devices) that are organized under our two product segments, which are: (i) Sense & Power and Automotive Products (SP&A) comprised of Automotive (APG), Industrial & Power Discrete (IPD), Analog & MEMS (AMS) and Other SP&A; an (ii) Embedded Processing Solutions (EPS) comprised of Digital Convergence Group (DCG), Imaging, Bi-CMOS ASIC and Silicon Photonics (IBP), Microcontrollers, Memory & Secure MCU (MMS) and Other EPS.

Our diversified product portfolio is built upon a unique, strong foundation of proprietary and differentiated leading-edge technologies. We use all of the prevalent function-oriented process technologies, including CMOS, bipolar and non-volatile memory technologies. In addition, by combining basic processes, we have developed advanced systems-oriented technologies that enable us to produce differentiated and application-specific products, including our pioneering fully depleted silicon-on-insulator (FD-SOI) technology offering superior performance and power efficiency compared to bulk CMOS, bipolar CMOS technologies (Bi-CMOS) and radio frequency silicon-on-insulator (RF-SOI) for mixed-signal and high-frequency applications, and diffused metal-on silicon oxide semiconductor (DMOS) technology and bipolar, CMOS and DMOS (BCD) technologies for intelligent power applications, MEMS and embedded memory technologies. This broad technology portfolio, a cornerstone of our strategy, enables us to meet the increasing demand for System-on-Chip (SoC) and System-in-Package (SiP) solutions. Complementing this depth and diversity of process and design technology is our broad IP portfolio that we also use to enter into broad patent cross-licensing agreements with other major semiconductor companies.

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

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

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Results of Operations

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

Strategy

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

Our strategy takes into account the evolution of the markets we serve and the environment and opportunities we see for the years to come. It is based on our leadership in our two product segments, SP&A and EPS. Both segments are supported by a Sales & Marketing organization with a particular focus on our major accounts, as well as on expanding our penetration of the mass market. Furthermore, we focus on five growth drivers: (i) Automotive Products, which make driving safer, greener and more entertaining; (ii) Digital Consumer and ASIC Products, which power the augmented digital lifestyle; (iii) MEMS and Sensors, which augment the consumer experience; (iv) Microcontrollers, which make everything smarter and more secure; and (v) Smart Power, which makes more of our energy resources. These product families are expected to experience solid growth rates driven by secular trends and are aligned with our market-leading positions and competitive advantages. Our innovative products in these areas, combined with our competitive technology and flexible and independent manufacturing capabilities, bring us even more opportunities to significantly grow and gain market share.

Product Segments

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

Our product segments are as follows:

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

Automotive (APG);

Industrial & Power Discrete (IPD);

Analog & MEMS (AMS); and

Other SP&A;

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

Digital Convergence Group (DCG);

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

Microcontrollers, Memory & Secure MCU (MMS); and

Other EPS.

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

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

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In the Subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the guidance on disclosures about segments of an enterprise and related information. See Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information .

Sense & Power and Automotive Products (SP&A)

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

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

Automotive (*APG*)

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

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

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

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

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

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

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

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

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

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

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

Industrial and Power Discrete (*IPD*)

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

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

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

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

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

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

Analog & MEMS (*AMS*)

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

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

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

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

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

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

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

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

Embedded Processing Solutions (EPS)

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

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

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

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

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

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

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

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

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

Microcontrollers, Memory & Secure MCU (*MMS*)

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

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

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

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

We offer leading-edge products for secure applications in traditional smartcard applications and embedded security applications. Throughout our 20+ year presence in the smartcard security industry, we have supplied the market s most advanced technologies and solutions, with a continuous focus on innovation and the highest levels of security certification. Our expertise in security is a key to our leadership in the banking, pay-TV, mobile communication, identity, and transport fields. We also actively contribute to the emergence of new applications such as secure mobile transactions on near field communication (NFC) mobile phones, trusted computing, brand protection, etc. Our secure microcontroller product portfolio offers compliance with the latest security standards up to Common Criteria EAL6+, ICAO, and TCG1.2. Our secure microcontrollers cover a complete range of interfaces for both contact and contactless communication, including ISO 7816, ISO 14443 Type A & B, NFC, USB, SPI and I²C.

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

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

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

Alliances with Customers and Industry Partnerships

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

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

Customers and Applications

We design, develop, manufacture and market thousands of products that we sell to thousands of customers. Our major customers include Apple, Bosch, Cisco, Conti, Delta, Hewlett-Packard, Microsoft, Samsung, Seagate and Western Digital. To many of our key customers we provide a wide range of products, including application-specific products, discrete devices, memory products and programmable products. Our broad range portfolio helps foster close relationships with customers, which provides opportunities to supply such customers requirements for multiple products, including discrete devices, programmable products and memory products. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Wintech and WPG Holdings. The semiconductor industry has historically been cyclical and we have responded by emphasizing balance in our product portfolio, in the applications we serve and in the regional markets we address.

Sales, Marketing and Distribution

Our Sales & Marketing organization is organized with the primary objectives of accelerating sales growth and gaining market share, particularly with regards to: strengthening the effectiveness of the development of our global accounts; boosting demand creation through an enhanced focus on geographical coverage; and establishing marketing organizations in our regional sales organizations that are fully aligned with the product lines. The Sales & Marketing organization is organized by a combination of country/area coverage and key accounts coverage.

Regional Sales Organizations

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

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

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(ii) *Americas* In the Americas region, the sales and marketing team is organized into the following major accounts: Global Key Accounts, four New Major Accounts and four geographic sales units consisting of the West Coast, Central, East Coast and Latin America. Our marketing team that support and promote specific products are organized in line with our product lines. We also have an organization that manages our distribution network and supports EMS customers mostly for manufacturing on behalf of our OEM customers.

(iii) *Greater China-South Asia* The Greater China South Asia region comprises four geographic sales units with offices covering China (Hong Kong), India (Greater Noida), Taiwan (Taipei) and ASEAN/Australia & New Zealand (Singapore) including five New Major Accounts and four Regional Key Accounts. It is further supported by a dedicated Distribution and Mass Market coordination function, as well as key product lines.

(iv) *Japan-Korea* The Japan-Korea region comprises three geographic sales units with offices covering East Japan (Tokyo and Nagoya), West Japan (Osaka), Korea (Seoul) and four new major accounts. It is further supported by key product lines, plus a comprehensive Sales Channel Management that provides products and sales support for the regional distribution network. Each geographical sales unit sells each product from our portfolio that fits the applications. Marketing and Application organization provides product support and training for standard products for the region. In addition, five central support functions (business management, field quality, human resources, finance and corporate communications) allow the region to run all of the necessary tasks smoothly.

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

Mass Market and Online Marketing Programs

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

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

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

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

Research and Development

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

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We combine front-end manufacturing and technology R&D under the same organization for our product segments, SP&A and EPS, to ensure a smooth flow of information between the R&D and manufacturing organizations. We leverage significant synergies and shared activities between the two segments to cross-fertilize both businesses. We manage our R&D projects by technology and by product segment. The relevant technology R&D expenses are allocated to the product segments on the basis of the estimated efforts. The total amount of R&D expenses in the past three fiscal years was $1,520 million, $1,816 million and $2,413 million in 2014, 2013 and 2012, respectively.

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

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

Our R&D design centers offer a significant advantage for us in quickly and cost effectively introducing products. In addition, we have advanced R&D centers strategically located around the world, including in France, Italy, China, India, Singapore, the United Kingdom and the United States. Our R&D center in Greater Noida, India provides necessary support to the Group s design activities worldwide and hosts R&D activities focused on software development and core libraries development, with a strong emphasis on system solutions.

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

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

In Italy, our technology R&D development activities occur principally in Agrate and Catania. In Agrate, such activities encompass development, prototyping, pilot and volume production of new technologies with the objective of accelerating process industrialization and time to market for Smart Power (BCD) products, including on SOI, High Voltage CMOS as well as MEMS. In addition, we plan to set up a 300 mm pilot line for manufacturing and R&D for advanced BCD technology. We also run a joint operation under a consortium agreement with Micron Technologies (Micron) in which we and Micron each manage our respective technology R&D programs. In Catania, we develop new technologies for power discretes, including Silicon Carbide (SiC) and Gallium Nitride (GaN) based devices. We also have an Advanced Systems Technology (AST) organization, primarily located in Agrate, which creates system knowledge that supports our SoC development. AST s objective is to develop the advanced architectures that will drive key strategic applications, including health care, wireless and data security. AST s challenge is to combine the expertise and expectations of our customers, industrial and academic partners, our central R&D teams and product segments to create a cohesive, practical vision that defines the hardware, software and system integration knowledge that we will need in the next three to five years and the strategies required to master them.

We play leadership roles in numerous projects running under the European Union s IST (Information Society Technologies) programs. We also participate in certain R&D programs established by the EU, individual countries and local authorities in Europe (primarily in France and Italy). See Item 4. Information on the Company Public Funding .

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Property, Plants and Equipment

We currently operate 13 main manufacturing sites around the world. The table below sets forth certain information with respect to our current manufacturing facilities, products and technologies. Front-end manufacturing facilities are fabs and back-end facilities are assembly, packaging and final testing plants.

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

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

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

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

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

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

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

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

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

Intellectual Property (IP)

IP rights that apply to our various products include patents, copyrights, trade secrets, trademarks and mask work rights. A mask work is the two- or three-dimensional layout of an integrated circuit. We currently own approximately 15,000 patents and pending patent applications, corresponding to over 9,000 patent families (each patent family containing all patents originating from the same invention), including 500 original new patent applications filed in 2014.

Our success depends in part on our ability to obtain patents, licenses and other IP rights covering our products and their design and manufacturing processes. To that end, we intend to continue to seek patents on our innovations in our circuit designs, manufacturing processes, packaging technology and system applications as well as on industry standards and other inventions. The process of seeking patent protection can be long and expensive, and there can be no assurance that patents will issue from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. In addition, effective copyright and trade secret protection may be unavailable or limited in certain countries. Competitors may also develop technologies that are protected by patents and other IP

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rights and therefore such technologies may be unavailable to us or available to us subject to adverse terms and conditions. Management believes that our IP represents valuable assets and intends to protect our investment in technology by enforcing all of our IP rights. We have also set up a dedicated team actively seeking to optimize the value from our IP portfolio by the licensing of our design technology and other IP, including patents. We have used our patent portfolio to enter into several broad patent cross-licenses with several major semiconductor companies enabling us to design, manufacture and sell semiconductor products without fear of infringing patents held by such companies, and intend to continue to use our patent portfolio to enter into such patent cross-licensing agreements with industry participants on favorable terms and conditions. As our sales increase compared to those of our competitors, the strength of our patent portfolio may not be sufficient to guarantee the conclusion or renewal of broad patent cross-licenses on terms that do not affect our results of operations. Furthermore, as a result of litigation, or to address our business needs, we may be required to take a license to third party IP rights upon economically unfavorable terms and conditions, and possibly pay damages for prior use, and/or face an injunction or exclusion order, all of which could have a material adverse effect on our results of operations and ability to compete.

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

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

Backlog

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

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

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

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

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

Competition

Markets for our products are intensely competitive. While only a few companies compete with us in all of our product lines, we face significant competition in each of them. We compete with major international

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semiconductor companies. Smaller niche companies are also increasing their participation in the semiconductor market, and semiconductor foundry companies have expanded significantly, particularly in Asia. Competitors include manufacturers of standard semiconductors, ASICs and fully customized ICs, including both chip and board-level products, as well as customers who develop their own IC products and foundry operations. Some of our competitors are also our customers.

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

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

Organizational Structure and History

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

While STMicroelectronics N.V. is the parent company, we also conduct our operations through service activities from our subsidiaries. We provide certain administrative, human resources, legal, treasury, strategy, manufacturing, marketing and other overhead services to our consolidated subsidiaries pursuant to service agreements for which we recover the cost.

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

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Australia, Sydney	STMicroelectronics PTY Ltd	100
Belgium, Diegem	Proton World International N.V.	100
Brazil, Sao Paulo	South America Comércio de Cartões Inteligentes Ltda	100
Brazil, Sao Paulo	STMicroelectronics Ltda	100
Canada, Ottawa	STMicroelectronics (Canada), Inc.	100
China, Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
China, Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China, Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China, Shenzhen	Shenzhen STS Microelectronics Co. Ltd	60
China, Shenzhen	STMicroelectronics (Shenzhen) Manufacturing Co. Ltd	100
China, Shenzhen	STMicroelectronics (Shenzhen) R&D Co. Ltd	100
Czech Republic, Prague	STMicroelectronics Design and Application s.r.o.	100
Finland, Nummela	STMicroelectronics Finland OY	100
France, Crolles	STMicroelectronics (Crolles 2) SAS	100
France, Grenoble	STMicroelectronics (Grenoble 2) SAS	100
France, Le Mans	STMicroelectronics (Grand Ouest) SAS	100
France, Grenoble	STMicroelectronics (Alps) SAS	100
France, Montrouge	STMicroelectronics S.A.	100
France, Rousset	STMicroelectronics (Rousset) SAS	100
France, Tours	STMicroelectronics (Tours) SAS	100
Germany, Aschheim-Dornach	STMicroelectronics GmbH	100
Germany, Aschheim-Dornach	STMicroelectronics Application GmbH	100
Holland, Amsterdam	STMicroelectronics Finance B.V.	100

Holland, Amsterdam	STMicroelectronics Finance II N.V.	100

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

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

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

Public Funding

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

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specifications regarding objectives and results. Certain specific contracts contain obligations to maintain a minimum level of employment and investment during a certain period of time. There could be penalties if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations. Our funding programs are classified under three general categories: funding for research and development activities, capital investment, and loans. We also benefit from tax credits for R&D activities in several countries (notably in France). See Item 5. Operating and Financial Review and Prospects Results of Operations and Notes to our Consolidated Financial Statements.

The main programs for R&D in which we are involved include: (i) the Eureka CATRENE cooperative R&D program (Cluster for Application and Technology Research in Europe on NanoElectronics); (ii) EU R&D projects with FP7 (Seventh Frame Program) for Information and Communication Technology; (iii) European Joint Technology Initiatives (JTI) such as ENIAC (European Nanoelectronics Initiative Advisory Committee) and ARTEMIS (Embedded Computing Systems Initiative) operated by Joint Undertakings formed by the European Union, some member states and industry; and (iv) national or regional programs for R&D and for industrialization in the electronics industries involving many companies and laboratories. The pan European programs cover a period of several years, while national or regional programs in France and Italy are subject mostly to annual budget appropriation. In 2014, we submitted new large projects supporting, in particular, our digital CMOS power roadmaps, to ECSEL (Electronic Components and Systems for European Leadership), a public-private partnership for electronic components and systems, which started in early 2014 and will run for 7 years. We were awarded 3 projects, two in France and one in Italy.

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

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

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

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

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

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

There can be no assurance that we will receive anticipated funding on a timely basis or that we will continue to benefit from such government support. See Item 3. Key Information Risk Factors Risks Related to Our Operations If we fail to meet the condition and approval requirements applicable to public funding we have received in the past, we may face demands for repayment, which may increase our costs and impact our results of operations .

Suppliers

We use three main critical types of suppliers in our business: equipment suppliers, material suppliers and external silicon foundries and back-end subcontractors.

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

Our manufacturing processes use many materials, including silicon wafer