STMICROELECTRONICS NV
Form 20-F
March 16, 2016
Table of Contents

As filed with the Securities and Exchange Commission on March 16, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

¨ **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, 2015

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

Fax: +41 22 929 29 88

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class:	Name of Each Exchange on Which Registered:
Common shares, nominal value 1.04 per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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

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

878,537,339 common shares at December 31, 2015

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

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
Item 1. Identity of Directors, Senior Management and Advisers	3
Item 2. Offer Statistics and Expected Timetable	3
Item 3. Key Information	3
Item 4. Information on the Company	14
Item 5. Operating and Financial Review and Prospects	26
Item 6. Directors, Senior Management and Employees	55
Item 7. Major Shareholders and Related Party Transactions	73
Item 8. Financial Information	75
Item 9. Listing	75
Item 10. Additional Information	76
Item 11. Quantitative and Qualitative Disclosures About Market Risk	87
Item 12. Description of Securities Other than Equity Securities	90
PART II	
Item 13. Defaults, Dividend Arrearages and Delinquencies	91
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	91
Item 15. Controls and Procedures	91
Item 16A. Audit Committee Financial Expert	92
Item 16B. Code of Ethics	92
Item 16C. Principal Accountant Fees and Services	93
Item 16D. Exemptions from the Listing Standards for Audit Committees	94
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	94
Item 16F. Change in Registrant s Certifying Accountant	94
Item 16G. Corporate Governance	94
PART III	
Item 17. Financial Statements	97
Item 18. Financial Statements	97
Item 19. Exhibits	97

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- uncertain macro-economic and industry trends;
- customer demand and acceptance for the products which we design, manufacture and sell;
- unanticipated events or circumstances, which may either impact our ability to execute the planned reductions in our net operating expenses and/or meet the objectives of our R&D programs, which benefit from public

funding;

financial difficulties with any of our major distributors or significant curtailment of purchases by key customers;

the loading, product mix and 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, and any breaches of our IT systems or those of our customers or suppliers;

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;

Table of Contents

the ability to successfully restructure underperforming business lines and associated restructuring charges and cost savings that differ in amount or timing from our estimates;

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

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

product liability or warranty claims or recalls by our customers for products containing our parts;

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, labor, 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, labor actions or terrorist activities; and

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

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward-looking terminology, such as believes , expects , may , are expected to , should , would be , seeks or anticipates or similar expressions or the negative thereo 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.

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, 2015. 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, 2015, 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.

Table of Contents

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,				
	2015	2014	2013	2012	2011
	(In millions except per share and ratio data)				
Consolidated Statements of Income Data:					
Net sales	$ 6,866	$ 7,335	$ 8,050	$ 8,380	$ 9,630
Other revenues	31	69	32	113	105
Net revenues	6,897	7,404	8,082	8,493	9,735
Cost of sales	(4,565)	(4,906)	(5,468)	(5,710)	(6,161)
Gross profit	2,332	2,498	2,614	2,783	3,574
Operating expenses:					
Selling, general and administrative	(897)	(927)	(1,066)	(1,166)	(1,210)
Research and development	(1,425)	(1,520)	(1,816)	(2,413)	(2,352)
Other income and expenses, net	164	207	95	91	109
Impairment, restructuring charges and other related closure costs	(65)	(90)	(292)	(1,376)	(75)
Total operating expenses	(2,223)	(2,330)	(3,079)	(4,864)	(3,528)
Operating income (loss)	109	168	(465)	(2,081)	46
Other-than-temporary impairment charge and realized gains (losses) on financial assets					318
Interest expense, net	(22)	(18)	(5)	(35)	(25)
Income (loss) on equity-method investments and gain on investment divestiture	2	(43)	(122)	(24)	(28)
Gain (loss) on financial instruments, net		(1)		3	25
Income (loss) before income taxes and noncontrolling interest	89	106	(592)	(2,137)	336
Income tax benefit (expense)	21	23	(37)	(51)	(181)
Net income (loss)	110	129	(629)	(2,188)	155
Net loss (income) attributable to noncontrolling interest	(6)	(1)	129	1,030	495
Net income (loss) attributable to parent company	104	128	(500)	(1,158)	650
Earnings per share (basic) attributable to parent company stockholders	0.12	0.14	(0.56)	(1.31)	0.74
Earnings per share (diluted) attributable to parent company stockholders	0.12	0.14	(0.56)	(1.31)	0.72

Number of shares used in calculating earnings per share (basic)	876.5	886.5	889.5	886.7	883.6
Number of shares used in calculating earnings per share (diluted)	880.6	889.8	889.5	886.7	904.5
Consolidated Balance Sheets Data (end of period):					
Cash and cash equivalents	1,771	2,017	1,836	2,250	1,912
Short-term deposits			1	1	
Marketable securities	335	334	57	238	413
Restricted cash	4			4	8
Total assets	8,195	9,004	9,173	10,434	12,094
Short-term debt	191	202	225	630	733
Long-term debt (excluding current portion)	1,421	1,599	928	671	826
Total parent company stockholders equity	4,632	4,994	5,643	6,225	7,603
Common stock and capital surplus	3,936	3,898	3,737	3,711	3,700
Other Data:					
Dividend per share	0.40	0.40	0.40	0.40	0.40
Capital expenditures, net of proceeds from sales	(467)	(496)	(531)	(476)	(1,258)
Net cash from operating activities	842	715	366	612	880
Depreciation and amortization	736	811	910	1,107	1,279
Debt-to-equity ratio[(1)]	0.35	0.36	0.20	0.21	0.21

(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.

Table of Contents

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 from time to time, as a result of global economic conditions as well as industry-specific factors, such as built-in excess capacity, fluctuations in product supply, product obsolescence and changes in end-customer preferences. Downturns are typically characterized by reduction in overall demand, accelerated erosion of selling prices, reduced revenues and high inventory levels, any of which could result in a significant deterioration of our results of operations. Such macroeconomic trends typically relate to the semiconductor industry as a whole rather than to the individual semiconductor markets to which we sell our products. To the extent that industry downturns are concurrent with the timing of new increases in production capacity or introduction of new advanced technologies in our industry, the negative effects on our business from such industry downturns may also be more severe. 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.

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, and, in turn, to estimate requirements for production capacity. If our markets, major customers or certain product designs or technologies do not perform as well as we have anticipated, we risk unused capacity charges, write-offs of inventories and losses on products, and we could be required 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. Furthermore, the competitive environment of the industry has resulted, and may continue to result, in consolidation among our competitors and vertical integration among our customers, which may lead to erosion of our market share, impact our capacity to compete and require us to restructure our operations.

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 do not meet market requirements based on any of these characteristics, our business, financial condition and results of operations could be materially adversely affected. Our competitors may have a stronger presence in key markets and geographic regions, greater name recognition, larger customer bases and greater financial, research and development, sales and marketing, manufacturing, distribution, technical and other resources than we do. These competitors may be able to adapt more quickly to changes in the business environment, to new or emerging technologies and to changes in customer requirements.

The semiconductor industry is intensely competitive and characterized by the high costs associated with developing marketable products and manufacturing technologies as well as high levels of investment in production capabilities. As a result, the semiconductor industry has experienced, and may continue to experience, significant consolidation among our competitors and vertical integration among our customers. Consolidation among our competitors and

integration among our customers could erode our market share, negatively impact our capacity to compete and require us to restructure our operations.

We, and the semiconductor industry as a whole, may be impacted by changes in global and regional economic conditions and in the political or social environment, including as a result of financial market volatility, military conflict, civil unrest and/or terrorist activities, as well as natural events such as severe weather, health risks or epidemics.

We, and the semiconductor industry as a whole, are significantly impacted by global and regional economic conditions. Uncertainty about worldwide economic conditions poses a risk as consumers and businesses may postpone spending in response to macroeconomic factors effecting spending behavior, such as financial market volatility, lower capital and productivity growth, unemployment, negative financial news, declines in income or

Table of Contents

asset values and/or other factors. Such global and regional economic conditions could have a material adverse effect on demand for our products. We cannot exclude a potential deterioration of economic conditions, which could have a material adverse effect on our business and financial condition.

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

- instability of foreign governments, including the threat of war, military conflict, civil unrest, mass migration and terrorist attacks;
- natural events such as severe weather, earthquakes and 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 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 initiatives to reposition our business, both through divestitures and investments. Our strategies to improve our results of operations and financial condition have 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 or wind down 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, obtain approval by our shareholders 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, obtain the relevant approvals pursuant to our governance process 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. Furthermore, we cannot assure that any strategic repositioning of our business, including executed and possible future acquisitions, dispositions or joint ventures, will be successful and will not result in impairment, restructuring charges and other related closure costs.

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results and financial condition, including: we may be unable to successfully integrate businesses or teams we acquire with our culture and strategies on a timely basis or at all; 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, we may be unable to effectively control the joint venture when management acts independently. There can be no assurance 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 credit rating and we could be required 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.

Our high fixed costs could adversely impact our results.

Our operations are characterized by high fixed or other difficult to reduce costs, including costs related to manufacturing, particularly as we operate our own manufacturing facilities, and the employment of our highly skilled workforce. When demand for our products decreases, competition increases or we fail to forecast demand accurately, we are driven to reduce prices and we are not always able to decrease our total costs in line with resulting revenue declines. As a result, the costs associated with our operations may not be fully absorbed, leading to unused capacity charges, higher average unit costs and lower gross margins, adversely impacting our results.

Table of Contents

Our capital needs are high compared to those competitors who do not produce their own products and we may 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.

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

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 other 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 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, net of hedging, on our net income in the case of an appreciation of the U.S. dollar, or a negative impact, net of hedging, 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.

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, the majority 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. There can be no assurance 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 .

We depend on collaboration with other semiconductor industry companies, research organizations, universities and suppliers to further our R&D efforts, and our business and prospects could be materially adversely affected by the failure or termination of such alliances.

Our ability to compete successfully depends on our ability to introduce innovative new products and technologies to the marketplace on a timely basis. In light of the high levels of investment required for R&D activities, we depend on collaborations with other semiconductor industry companies, research organizations, universities and suppliers to develop or access new technologies.

Such collaboration provides 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 collaboration efforts 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 a particular collaboration terminates before our intended goals are accomplished we may incur additional unforeseen costs, and our business and prospects could be adversely affected. Furthermore, if we are

Table of Contents

unable to develop or otherwise access new technologies, whether independently or in collaboration with another industry participant, 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.

We receive public funding, and a reduction in the amount available to us or demands for repayment could 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 expect to continue to benefit in the future from public funding, mainly from French, Italian and European Union governmental entities. The public funding we receive is subject to periodic review by the relevant authorities and there can be no assurance that we will continue to benefit from such programs at current levels or that sufficient alternative funding will be available if we lose such support. If any of the public funding programs we participate in are curtailed or discontinued and we do not reduce the relevant R&D costs, this could have a material adverse effect on our business. Furthermore, to receive public funding, we enter into agreements which require compliance with extensive regulatory requirements and set forth certain conditions relating to the funded programs. 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. If there are changes in the public funding we receive, this could affect our ability to continue investing in R&D at current levels and we could experience a material adverse effect on our business, financial condition and results of operations.

Our operating results may vary significantly from quarter to quarter and annually and may also 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 capital requirements, inventory management, availability of funding, competition, new product developments, technological changes, manufacturing or supplier issues and effective tax rates. In addition, in periods of industry overcapacity or when our key customers encounter difficulties in their end markets or product ramps, 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.

The demand for our products depends significantly on the demand for our customers end products. Growth of demand in the industries and segments into which our products are sold fluctuates significantly and is driven by a variety of factors, including consumer spending, consumer preferences, the development of new technologies and prevailing economic conditions. Changes in our customers markets and in our customers respective shares in such markets 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. There can be no assurance that we will be successful in attracting and retaining new customers. Our failure to do so could materially adversely affect our business, financial position and results of operations.

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

A substantial portion of our sales is derived from a limited number of customers and distributors. There can be no assurance that our customers or distributors will continue to book the same level of sales with us that they

Table of Contents

have in the past, will continue to succeed in the markets they serve and will not purchase competing products over our products. Many of our key customers and distributors operate in cyclical businesses that are also highly competitive, and their own market positions may vary considerably. In recent years, some of our customers have vertically integrated their businesses. Such vertical integrations may impact our business. Our relationships with the newly formed entities could be either reinforced or jeopardized by the integration. If we are unable to maintain or increase our market share with our key customers or distributors, or if they were to increase product returns or fail to meet payment obligations, our results of operations could be materially adversely affected. Certain of our products are customized to our customers specifications. If customers do not purchase products made specifically for them, we may not be able to recover a cancellation fee from our customers or resell such products to other customers.

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 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) 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 patents and other IP rights to protect our products and our manufacturing processes against misappropriation by others. The process of seeking patent protection can be long and expensive, and there can be no assurance that 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 IP 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 concern 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 third party 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 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 and other IP rights. See Note 22 to our Consolidated Financial Statements. 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 is inherently uncertain and may divert the efforts and attention of our management and other specialized technical personnel. Such 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.

Table of Contents

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. Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. 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 business condition or in management s plans 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 result from these audits, which could result in material adjustments in our tax positions. We book 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 currently be assessed. 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.

As 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 whose prices on the world markets have fluctuated significantly in the past and may fluctuate significantly 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 may increase 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 and third party licensed technology from a limited number of suppliers and providers and, because such equipment and technology are complex, it is difficult to replace one supplier or provider with another or to substitute one piece of equipment or type of technology for another. In addition, suppliers and providers may extend lead times, limit our supply, increase prices or change contractual terms related to certain manufacturing equipment and third party licensed technology, any of which could adversely affect our results. Furthermore, suppliers and technology providers tend to focus their investments on providing the most technologically advanced equipment, materials and technology and may not be in a position to address our requirements for equipment, materials or technology of older generations. Although we work closely with our

suppliers and providers to avoid such shortages, there can be no assurance that we will not encounter these problems in the future. If we are unable to obtain supplies of materials, equipment or technology in a timely manner or at all, or if such materials, equipment or technology prove inadequate, our results of operations could be adversely affected.

If our external silicon foundries or back-end subcontractors fail to perform, this could adversely affect our business prospects.

We currently use external silicon foundries and back-end subcontractors for a portion of our manufacturing activities. If our external silicon foundries or back-end subcontractors are unable to satisfy our demand, or

Table of Contents

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 external silicon foundries and back-end subcontractors, quantities demanded and product and process technology. Such outsourcing costs can vary materially and, in cases of industry shortages, they can increase significantly, negatively impacting our business prospects.

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 modified or maintained in an effort to improve yields and product performance and lower the cost of production. Impurities or other difficulties in the manufacturing process can lower yields, interrupt production or result in scrap. 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. There can be no assurance that that we will not experience bottlenecks or production, transition or other difficulties in the future.

We may experience quality problems from time to time that can result in decreased sales and operating margin and product liability or warranty claims.

We sell complex products that may not in each case comply with specifications or customer requirements or may contain design and manufacturing defects. Although our general practice is to contractually limit our liability to the repair, replacement or refund of defective products, we may face product liability or warranty claims that could result in significant expenses relating to compensation payments, product recalls or other actions to maintain good customer relationships, which could result in decreased sales and operating margin and other material adverse effects on our business. Costs or payments we may make in connection with warranty claims or product recalls may adversely affect our results of operations. There can be no assurance that we will be successful in maintaining our relationships with customers with whom we incur quality problems. Furthermore, if litigation occurs we could incur significant costs and liabilities to defend ourselves against such claims and, if damages are awarded against us, there can be no assurance 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 threats, which, if successful, could adversely impact our business.

We have, from time to time, experienced attempts by others to gain unauthorized access to our computer systems and networks. 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 cyber security, 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 our customers, suppliers and providers of third party licensed technology, 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 our security measures. We continue to increase the amount we allocate to implementing, maintaining and/or updating security systems to protect data and infrastructure and to raising security awareness among those having access to our systems, but these security measures cannot provide absolute security. We may also be adversely affected by security breaches related to our equipment providers and providers of third party licensed technology. 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.

Table of Contents

We may be subject to theft, loss, or misuse of personal data about our employees, customers, or other third parties, which could increase our expenses, damage our reputation, or result in legal or regulatory proceedings.

The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business could result in significantly increased security costs or costs related to defending legal claims. Global privacy legislation, including various EU directives regulating data privacy and security and the transmission of content using the Internet involving residents of the EU, enforcement, and policy activity in this area are rapidly expanding and creating a complex compliance regulatory environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, our failure to comply with local and international privacy or data protection laws and regulations could result in proceedings against us by governmental entities or others.

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 various aspects, including the use, storage, discharge and disposal of chemicals, gases and other hazardous substances used in our operations. 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 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.

Our success depends to a significant extent upon our key 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, 2015, 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

Table of Contents

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 in place with an independent foundation, whereby we could issue preference shares in the event of actions considered hostile by our Managing Board and Supervisory Board and which the board of the independent foundation determines would be contrary to our interests. 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. Accordingly, an issue of preference shares or new shares may make it more difficult for a shareholder to obtain control over our general meeting of shareholders. These anti-takeover provisions could substantially impede the ability of our shareholders to benefit from a change in control and, as a result, may materially adversely affect the market price of our ordinary shares and your ability to realize any potential change of control premium. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Preference Shares.

Any decision to reduce or discontinue paying cash dividends to our shareholders could adversely impact the market price of our common shares.

On an annual basis, our Supervisory Board, upon the proposal of the Managing Board, may propose the distribution of a cash dividend to the general meeting of our shareholders. See Item 8. Dividend Policy. Any reduction or discontinuance by us of the payment of cash dividends at historical levels could cause the market price of our common shares to decline. Moreover, in the event our payment of cash dividends is reduced or discontinued, our failure or inability to resume paying cash dividends at historical levels could adversely impact the market price of our common shares.

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 can be 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 rights of our investors and the responsibilities of members of our

Table of Contents

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 Managing and Supervisory Boards 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. As a result, it may be difficult or impossible for shareholders to effect service within the United States 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 judgments obtained against such persons in U.S. courts, or to enforce in U.S. courts judgments obtained against such persons in courts in jurisdictions outside the United States. 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.

Item 4. Information on the Company

History and Development of the Company

STMicroelectronics N.V. was formed and incorporated in 1987 as a result of 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 also 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, with 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 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 participate in the manufacturing value chain of smartcard products, which include the production and sale of both silicon chips and smartcards.

Our diverse 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,

Table of Contents

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 IP portfolio which we also use to enter into broad patent cross-licensing agreements with other major semiconductor companies.

For our 2015 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 a broad range of customers across different areas. Our strategy takes into account the evolution of the markets we serve and the environment and opportunities we see for the years to come. We focus on developing industry-leading products and solutions for the application areas which are expected to experience solid growth rates driven by long-term trends affecting peoples lives. These trends include population ageing and concentration in cities, ubiquitous connectivity, and the need for more energy efficiency across all applications.

Our products are used in a wide variety of applications, which can be broadly grouped into three areas: automotive systems, industrial systems and consumer connected devices. We enable smarter driving by making vehicles safer, more environmentally friendly and more connected. We help make smarter environments at home, in the city, in workplaces and in factories in which things can be done more efficiently and flexibly, in a more sustainable manner, safer and with a better experience for the people at the center. And we enable creators of smart connected consumer devices to develop and take to market their devices quickly and efficiently. In doing this we ensure that ST is found everywhere microelectronics make a positive and innovative contribution to people s lives. By getting more from technology to get more from life, ST stands for life.augmented.

Product Information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as chips, combine multiple transistors on a single piece of material to form a complete electronic circuit. With our portfolio of semiconductor products, we serve customers across the spectrum of electronics applications with innovative solutions.

We have analog products that can be used to design any system requiring semiconductors, including sensors, signal channel devices, output power stages discrete and/or integrated as well as complete power management blocks. Complemented by a comprehensive range of general purpose and application specific microcontrollers, our 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. We have a portfolio spanning complex power train microcontrollers, audio and infotainment devices and body and convenience dedicated and standard functions as well as a broad offering of components for advanced driver assistance systems (ADAS) and MEMS automotive sensors. 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 stringent automotive environmental conditions.

We also have digital products that are at the heart of electronics systems, including microcontrollers, digital automotive products, ASICs and specialized imaging sensors. Our full set of microcontrollers includes one of the industry s broadest ranges of general-purpose devices serving all market segments, 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.

Table of Contents

On top of the product design R&D spending, 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 groups share common R&D for process technology and manufacturing capacity for some of their products.

During 2015, our products were organized as follows: (i) Sense & Power and Automotive Products (SP&A) segment, comprised of the product lines: Automotive (APG), Industrial & Power Discrete (IPD), Analog & MEMS (AMS) and Other SP&A; and, (ii) Embedded Processing Solutions (EPS) segment, comprised of the product lines: Digital Product Group (DPG), Microcontroller, Memory & Secure MCU (MMS) and Other EPS.

In the first quarter of 2016, we announced that we will discontinue the development of new platforms and standard products for set-top-box and home gateway, a business which was a part of the Digital Product Group (DPG) in 2015 and we changed our organization to align with our strategic focus on Smart Driving and Internet of Things applications. Three new product groups were established: Automotive and Discrete Group (ADG); Microcontrollers and Digital ICs Group (MDG); and Analog and MEMS Group (AMG). This reorganization is effective as of the first quarter of 2016, and as a result, we will report revenue and operating income as follows:

Automotive and Discrete Group (ADG)

Microcontrollers and Digital ICs Group (MDG)

Analog and MEMS Group (AMG)

Others, including the Imaging Division.

Below is a description of our main categories of products. We regularly communicate our product and technology highlights in our quarterly earnings releases filed on Form 6-K with the SEC, and incorporate them herein by reference.

Dedicated Automotive ICs

We are a top automotive semiconductor vendor supplying chips to leading suppliers of carmakers 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, Chassis, ADAS, Body Electronics and Infotainment.

For powertrain, we provide silicon solutions for the full range of engine-management systems: from 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. Thanks to the cooperation with certain leading car makers, our microcontrollers are currently in the electrical engines of leading hybrid cars.

With regards to Chassis, 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 driver assistance systems (ADAS) 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 with our partner Mobileye. We are also working on our first-generation modular offering for the V2X (vehicle-to-vehicle and vehicle-to-infrastructure) chipset with our partner Autotalks.

Today s car body electronics involve 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

Table of Contents

to wipers, with a comprehensive architecture that consists of upgradable hardware and software modules. And 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.

Our car infotainment and navigation portfolio includes complete turnkey solutions for digital radio, navigation and telematics, and wireless connectivity in the car. 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 also includes a family of System-on-Chip solutions 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 2015, these families of products were reported under the APG product line. In 2016, they will be included in the ADG product group.

Industrial and Power Conversion, Discrete and Power Transistor

We develop a broad range of innovative Power, Smart Power and Analog ICs, to serve attractive markets such as those relating to smart grid, cloud computing, automation, portable and power conversion. As a leading supplier of both integrated and discrete power conversion semiconductors, our power management devices enable energy-saving, high-power-density and lower-standby-power design solutions. Our product portfolio includes highly-integrated AC-DC converters, switching DC-DC converters, linear voltage regulators, battery management ICs, LED drivers, photovoltaic ICs, MOSFET and IGBT drivers, motor drivers and more.

Leading-edge power technologies for both high-voltage and low-voltage applications combined with a full package range and innovative die bonding technologies exemplify our innovation in power transistors. Our portfolio includes MOSFETs ranging from -500 to 1500 V, silicon carbide (SiC) MOSFETs featuring the industry s highest temperature rating of 200 °C, IGBTs with breakdown voltages ranging from 350 to 1300 V and a wide range of power bipolar transistors. Our portfolio of protection devices supports all industry requirements for electrical overstress and electrostatic surge protection, lightning surge protection and automotive protection. Our protection devices have passed all certifications, meeting or exceeding international protection standards for electrical hazards on electronics boards found in the demanding automotive, computer, consumer, industrial and telecom markets.

In 2015, these families of products were all reported under the IPD product line. In 2016, the Industrial and Power Conversion families will be included in the AMG group while the Discrete and Power transistor families will be included in the ADG group. As such, we believe the organizational change announced in the first quarter of 2016 will, among others, help boost our presence in the car electrification market thanks to the synergies generated by the new structure.

Analog, MEMS and Sensors

We have a portfolio of high-end analog products that includes MEMS (micro electro-mechanical sensors), many kinds of sensors, actuators, interfaces, low power RF transceivers and analog front-end.

Our sensor and actuator portfolio includes MEMS SENSORS (including accelerometers, gyroscopes, digital compasses, inertial modules, pressure sensors, humidity sensors and microphones), Smart sensors, temperature

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

We also develop a comprehensive range of op amps, comparators and current-sense amplifiers. In addition to our portfolio of mainstream op amps and comparators, we offer specific 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.

Table of Contents

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.

In 2015, these families of products were reported under the AMS product line. In 2016, they will be included in the AMG product group.

Microcontroller, Memory & Secure MCU

We have 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 an ideal choice, both for small projects and for entire platform decisions.

We offer leading 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.

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.

In 2015, these families of products were reported under the MMS product line. In 2016, they will be included in the MDG product group.

Table of Contents

Digital ASICs

We offer digital, including our proprietary FD-SOI technology and mixed-process ASICs for a broad range of applications, including silicon photonics devices, addressing communications infrastructure systems. Our family of embedded MPUs offers high levels of computation power for complex, networked communication, display and control applications, using state-of-the-art architecture, silicon technology and intellectual property. In 2015, these families of products were reported under the DPG product line. In 2016, they will be included in the MDG product group.

Specialized Imaging Sensors

We also have a broad portfolio of imaging solutions, including technology we have developed and patented, such as FlightSense™. Our FlightSense™ technology uses Time-of-Flight principles in order to propose a new generation of high-accuracy proximity and ranging sensors. FlightSense™ technology can be used in a host of application areas such as communication and consumer, home appliance, automotive 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.

In 2015, these families of products were reported under the DPG product line. In 2016, they will be reported separately in Others. In 2015, we announced the discontinuation of our camera module business, focusing Imaging on specialized Imaging sensors. During this transition the Imaging division is associated with technology development under the responsibility of our COO and will be reported in 2016 in the segment Others.

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.

From time to time we collaborate with other semiconductor industry companies, research organizations, universities and suppliers to further our R&D efforts. Such collaboration provides 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.

Customers and Applications

We design, develop, manufacture and market thousands of products that we sell to thousands of customers. We emphasize balance in our product portfolio, in the applications we serve and in the regional markets we address. Our major customers include Apple, Bosch, Cisco, Conti, Delta, Hewlett-Packard, Huawei, 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 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.

Sales, Marketing and Distribution

Our sales and marketing is organized by a combination of country/area coverage and key accounts coverage with the primary objective being to accelerate sales growth and gain 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 regional sales and marketing teams that are fully aligned with our product lines.

During 2015 we had four regional sales organizations: EMEA; Americas; Greater China-South Asia; and Japan-Korea. Our regional sales organizations have a similar structure to enhance coordination in go-to-market activities and are strongly focused on accelerated growth. As of the first quarter of 2016, we have three regional sales organizations: EMEA; Americas; and Asia Pacific. Asia Pacific was created from the merger of the Japan & Korea and Greater China-South Asia regional sales organizations. See Item 6. Directors, Senior Management

Table of Contents

and Employees Recent Corporate Developments. 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.

We also have our Mass Market and Online Marketing Programs organization, which helps to provide consistency and coordination of key activities associated with mass market development by working in close co-operation with the regions and product lines. This organization covers several important responsibilities, such as mass market customer programs, mass market applications, global distribution administration, online marketing and mass market tools enablement.

In addition, we engage distributors and sales representatives to distribute our products around the world. Typically, distributors handle a wide variety of products, including those 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, on the other hand, generally do not offer products that compete directly with our products, but may carry complementary items manufactured by others. Sales 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

Since our creation, we have maintained a firm commitment to R&D. Almost one-fifth of our employees work in R&D for product design/development and technology and, in 2015, we spent approximately 21% of our revenue on R&D. Our innovation in semiconductor technology as well as in hardware and software contribute to our making successful products that create value for us and our customers. Our complete design platforms, including a large selection of IPs and silicon-proven models and design rules, enable the fast development of products designed to meet customer expectations in terms of reliability, quality, competitiveness in price and time-to-market. We contribute to making our customers products more efficient, more appealing, more reliable and safer.

We draw on a rich pool of chip fabrication technologies, including advanced FD-SOI (Fully Depleted Silicon-on-Insulator) CMOS (Complementary Metal Oxide Semiconductor), imaging, embedded non-volatile memories, mixed-signal, analog and MEMS and power processes. We combine front-end manufacturing and technology R&D under the same organization to ensure a smooth flow of information between the R&D and manufacturing organizations. We leverage significant synergies and shared activities between our product groups to cross-fertilize them. Technology R&D expenses are allocated to the relevant product groups on the basis of the

estimated efforts.

We have advanced R&D centers which offer us a significant advantage in quickly and cost effectively introducing products. Furthermore, we have established a strong culture of partnership and through the years have created a network of strategic collaborations with key customers, suppliers, competitors, and leading universities and research institutes around the world. Among such collaborations was the IBM Technology Development Alliance which we exited in 2015. See Item 4. Information on the Company Alliances with Customers and Industry Partnerships . We also play leadership roles in numerous projects running under the European Union s IST (Information Society Technologies) programs and we also participate in certain R&D programs established by the EU, individual countries and local authorities in Europe (primarily in France and Italy). See Item 4. Information on the Company Public Funding .

Table of Contents

We believe that market driven R&D founded on leading edge products and technologies is critical to our success. 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 than their predecessors, with differentiated functionalities. They can enable significant value creation opportunities with their timely appearance on the market. The total amount of our R&D expenses in the past three fiscal years was $1,425 million, $1,520 million and $1,816 million in 2015, 2014 and 2013, respectively. For more information on our R&D expenses, see Item 5. Operating and Financial Review and Prospects Results of Operations Research and Development Expenses .

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 manufacturing on CMOS and Bi-CMOS, Analog/RF technologies
Crolles2, France	Application-specific products and leading edge logic products; non-volatile memories and microcontrollers	Fab: 300 mm research and development and manufacturing on advanced CMOS Bulk and FDSOI, imaging, Analog/RF, embedded non-volatile memories and microcontrollers technologies
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	Non-volatile memories and microcontrollers, application-specific products	200-mm manufacturing on CMOS, embedded non-volatile memories, EEPROM and Analog/RF technologies
Catania, Italy[(1)]	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 (under ramp-up)
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, microcontrollers, CMOS logic, microfluidics, MEMS, Bi-CMOS
		Fab 2: 200-mm BCD and Power MOS (under ramp-up)
Back-end facilities		
Muar, Malaysia	Application-specific and standard products, microcontrollers	Ball Grid Array, Power Automotive, SOIC, QFP
Kirkop, Malta	Application-specific products, MEMS, Embedded Flash for Automotive	Ball Grid Array, QFP, Land Grid Array

Table of Contents

Location	Products	Technologies
Toa Payoh, Singapore	Packaging 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(2)	Non-volatile memories, optical packages, discrete, application-specific and standard products	SOIC, Power
Calamba, Philippines	Application specific products and standard products, MEMS	Ball Grid Array, QFN, Micromodules, Land Grid Array

(1) Fab 1 in Catania will be progressively converted into 200-mm and merged with Fab 2.
(2) Jointly operated with SHIC, a subsidiary of Shenzhen Electronics Group.

At the end of 2015, 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 fabrication facility in Crolles, France is planned to increase its production capacity as required by market demand.

We own all of our manufacturing facilities, but certain facilities (Muar, Malaysia; Shenzhen, China; and 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 2015, 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, 2015, we had approximately $150 million in outstanding commitments for purchases of equipment and other assets for delivery in 2016. In 2015, our capital spending, net of proceeds, was $467 million, below the $496 million registered in 2014. In the 2013-2015 period the ratio of capital investment spending to net revenues was about 6.7%. For more information, see Item 5. Operating and Financial Review and Prospects Financial Outlook: Capital Investment .

Intellectual Property (IP)

Our success depends in part on our ability to obtain patents, licenses and other IP rights to protect our proprietary technologies and processes. IP rights that apply to our various products include patents, copyrights, trade secrets, trademarks and mask work rights. We currently own approximately 15,400 patents and pending patent applications, corresponding to over 9,400 patent families (each patent family containing all patents originating from the same invention), including approximately 500 original new patent applications filed in 2015.

We believe that our IP represents valuable assets. We rely on various intellectual property laws, confidentiality procedures and contractual provisions to protect our IP assets and enforce our IP rights. To optimize the value of our IP assets, we have engaged in licensing our design technology and other IP, including patents. We have also entered into broad-scope cross-licenses and other agreements which enable us to design, manufacture and sell semiconductor

products using the IP rights of third parties and/or operating within the scope of IP rights owned by third parties.

From time to time, we are involved in IP litigation and infringement claims. See Note 22 and Item 3. Key Information Risk Factors . 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.

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

Table of Contents

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 2015 with a backlog lower than we had entering 2014. For 2016, due to market conditions, we entered the year with a backlog lower than what we had entering 2015.

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 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. 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.

The semiconductor industry is intensely competitive and characterized by the high costs associated with developing marketable products and manufacturing technologies as well as high levels of investment in production capabilities. As a result, the semiconductor industry has experienced, and may continue to experience, significant consolidation among our competitors and vertical integration among our customers. Consolidation among our competitors and integration among our customers could negatively impact our capacity to compete and have other adverse effects on our business. See Item 3 Key Information Risk Factors .

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.

Table of Contents

The following table lists our consolidated subsidiaries and our percentage ownership as of December 31, 2015:

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) 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
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, 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

Table of Contents

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
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, 2015:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Brazil, Sao Paulo	Incard do Brazil Ltda	50.0
Switzerland, Geneva	ST-Ericsson SA, in liquidation	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 specifications regarding objectives and results. The approval process for such funding may be quite long, up to several years. Certain specific contracts require compliance with extensive regulatory requirements and set forth certain conditions relating to the funded programs. 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) as they are generally available to all companies. See Item 5. Operating and Financial Review and Prospects Results of Operations and the Notes to our Consolidated Financial Statements.

The main programs for R&D in which we are involved include: (i) the Eureka Cluster for Application and Technology Research in Europe on NanoElectronics (CATRENE) cooperative R&D program (since CATRENE ended in December 2015, a new Eureka program, called the Pan-European program on Nanoelectronics Technology and Applications (PENTA), will start in 2016); (ii) EU R&D projects within Horizon 2020 (the European Union s research and innovation framework); (iii) Electronic Components and Systems for European Leadership (ECSEL) initiative, which combines all electronics related R&D activities and is 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 support of our R&D activities, we signed the Nano2017 program with the French government in 2013, which was approved by the European Union in the second quarter of 2014 and, in our role as Coordinator and Project Leader of Nano2017, we have been allocated an overall funding budget of about 400 million for the period 2013-2017, subject to the conclusion of agreements every year with the public authorities and linked to the achievement of technical parameters and objectives. 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), imagers and photonic sensors and embedded non-volatile memories. These technologies are at the core of our digital portfolio which includes, among others, microcontrollers, imaging, analog and mixed signal, digital automotive and ASICs. We have no visibility whether a new multi-year program for R&D funding in France or in other countries could be adopted beyond 2017, based on our future R&D plan and available instruments. See Item 3 Key Information Risk Factors.

Table of Contents

Suppliers

We use three main critical types of suppliers in our business: equipment suppliers, material suppliers and external silicon foundries and back-end subcontractors. We also purchase third party licensed technology from a limited number of providers.

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

Our manufacturing processes use many materials, including silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases. The prices of many of these materials are volatile due to the specificity of the market. We have therefore adopted a multiple sourcing strategy designed to protect us from the risk of price increases. The same strategy applies to supplies for the materials used by us to avoid potential material disruption of essential materials. Our multiple sourcing strategy , our Financial Risk Monitoring (FRISK) as well as the robustness of our supply chain and strong partnership with suppliers are intended to mitigate these risks.

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

Environmental Matters

We are subject to a variety of environmental, health and safety laws and regulations in the jurisdictions where we operate which govern, among other things, the use, storage, discharge and disposal of chemicals and other hazardous substances, emissions and wastes, as well as the investigation and remediation of soil and ground water contamination. We are also required to obtain environmental permits, licenses and other forms of authorization, or give prior notification, in order to operate.

We adopt a rigorous approach to managing our business operations in an environmentally responsible way. Consistent with our sustainability strategy, we have established proactive environmental policies with respect to the handling of chemicals, emissions, waste disposals and other substances of concern from our manufacturing operations. Company-wide we are certified to be in compliance with quality standard ISO 9001. Across our manufacturing activities and supply chain, we implement the highest standards. The majority of our sites are ISO 14001 certified and EMAS (Eco Management and Audit Scheme) validated. Furthermore, all of our front-end manufacturing sites are ISO 50001 certified.

We believe that in 2015 our activities complied with then-applicable environmental regulations in all material respects. We have engaged outside consultants to audit all of our environmental activities and have created environmental management teams, information systems and training. We have also instituted environmental control procedures for processes used by us as well as our suppliers. In 2015, there were no material environmental claims made against us.

Item 5. Operating and Financial Review and Prospects

Overview

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto included elsewhere in this Form 20-F. The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections Critical Accounting Policies Using Significant Estimates , Business Outlook , Liquidity and Capital Resources and Financial Outlook: Capital Investment . Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in

Table of Contents

addition to the factors set forth below, see Cautionary Note Regarding Forward-Looking Statements and Item 3. Key Information Risk Factors . We assume no obligation to update the forward-looking statements or such risk factors.

Critical Accounting Policies Using Significant Estimates

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

- sales returns and allowances;
- inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory;
- recognition and measurement of loss contingencies;
- valuation at fair value of assets acquired or sold, including intangibles, goodwill, investments and tangible assets;
- annual and trigger-based impairment review of goodwill and intangible assets, as well as an assessment, in each reporting period, of events, which could trigger impairment testing on long-lived assets;
- estimated value of the consideration to be received and used as fair value for asset groups classified as assets held for sale and the assessment of probability of realizing the sale;
- assessment of other-than-temporary impairment charges on financial assets, including equity-method investments;
- recognition and measurement of restructuring charges and other related exit costs;
- assumptions used in assessing the number of awards expected to vest on stock-based compensation plans;
- assumptions used in calculating pension obligations and other long-term employee benefits; and

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

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

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

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

Consistent with standard business practice in the semiconductor industry, price protection is granted to distribution customers on their existing inventory of our products to compensate them for declines in market prices. We accrue a provision for price protection based on a rolling historical price trend computed on a monthly basis as a percentage of gross distributor sales. This historical price trend represents differences in recent months between the invoiced price and the final price to the distributor, adjusted if required, to accommodate for a significant change in the current market price. We record the accrued amounts as a deduction of revenue at the time of our sale to distributors. The ultimate decision to authorize a distributor refund remains fully within our control. The short outstanding inventory time period, our visibility into the standard inventory product pricing

Table of Contents

and our long distributor pricing history, have enabled us to reliably estimate price protection provisions at period-end. If market conditions differ from our assumptions, this could have an impact on future periods. In particular, if market conditions were to deteriorate, net revenues could be reduced due to higher product returns and price reductions at the time these adjustments occur, which could adversely impact our profitability.

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

Our insurance policy relating to product liability only covers physical and other direct damages caused by defective products. We carry limited insurance against immaterial non-consequential damages. We record a provision for warranty costs as a charge against cost of sales based on historical trends of warranty costs incurred as a percentage of sales which we have determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period.

Any potential warranty claims are subject to our determination that we are at fault for damages, and that such claims usually must be submitted within a short period of time following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms expressed or implied by statute or common law. Our contractual terms and conditions typically limit our liability to the sales value of the products that gave rise to the claims.

While the majority of our sales agreements contain standard terms and conditions, we may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. In such cases, following the guidance related to revenue recognition, the arrangement is allocated to the different elements based on vendor-specific objective evidence, third party evidence or our best estimates of the selling price of the separable deliverables. These arrangements generally do not include performance-, cancellation-, termination-, or refund-type provisions.

Trade accounts receivable. We maintain an allowance for doubtful accounts for potential estimated losses resulting from our customers inability to make required payments. We base our estimates on historical collection trends and record an allowance accordingly. Furthermore, we evaluate our customers financial condition periodically and record an allowance for any specific account we consider as doubtful. In 2015, we did not record any new material specific charge related to bankrupt customers. If we receive information that the financial condition of our customers has deteriorated, resulting in an impairment of their ability to make payments, additional allowances could be required.

Business combinations and goodwill. The purchase accounting method applied to business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the identifiable assets acquired and liabilities assumed. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required. At December 31, 2015, the value of goodwill in our Consolidated Balance Sheet amounted to $76 million.

Impairment of goodwill. Goodwill recognized in business combinations is not amortized but is tested for impairment annually in the third quarter, or more frequently if a triggering event indicating a possible impairment exists. Goodwill subject to potential impairment is tested at a reporting unit level, which represents a component of an operating

segment for which discrete financial information is available, after performing a qualitative assessment to determine whether an impairment test is necessary, in cases when we have chosen such option. This impairment test determines whether the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, significant management judgments and estimates are used in forecasting the future discounted cash flows, including: the applicable industry s sales volume forecast and selling price evolution, the reporting unit s market penetration and its revenues evolution, the market acceptance of certain new technologies

Table of Contents

and products, the relevant cost structure, the discount rates applied using a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market, our sales expectations and our costs evaluation, and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may prove to be incorrect, and future adverse changes in market conditions, changes in strategies, lack of performance of major customers or operating results of acquired businesses that are not in line with our estimates may require impairments.

We performed our annual impairment test of goodwill during the third quarter of 2015 and concluded that there was no impairment. Impairment charges could result from new valuations triggered by changes in our product portfolio or strategic alternatives, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the current carrying value.

Intangible assets subject to amortization. Intangible assets subject to amortization include intangible assets purchased from third parties recorded at cost and intangible assets acquired in business combinations recorded at fair value, comprised of technologies and licenses, trademarks, contractual customer relationships and computer software. Intangible assets with finite useful lives are reflected net of any impairment losses and are amortized over their estimated useful life. We evaluate each reporting period whether there is reason to suspect that intangible assets held for use might not be recoverable. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we assess whether the carrying value exceeds the undiscounted cash flows associated with the intangible assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset s carrying value also exceeds its fair value. An impairment charge is recognized for the excess of the carrying amount over the fair value. Significant management judgments and estimates are required to forecast undiscounted cash flows associated with the intangible assets. Our evaluations are based on financial plans updated with the latest available projections of growth in the semiconductor market and our sales expectations. They are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect and that future adverse changes in market conditions or operating results of businesses acquired may not be in line with our estimates and may therefore require us to recognize impairment charges on certain intangible assets.

During 2015, we tested for impairment the dedicated long-lived assets of the DPG reporting unit related to products for which current and future economic performance is weaker than expected. The result was that these intangible assets, composed of acquired technologies, and amounting to $6 million, were fully impaired due to the fact that their projected cash flows, over their remaining useful life, were less than their carrying value. Additionally, we recognized impairments for $7 million and $3 million of acquired technologies in the third and fourth quarter of 2015 respectively, for which we determined that they had no alternative future use.

We will continue to monitor the carrying value of our assets. If market conditions deteriorate, this could result in future non-cash impairment charges against earnings. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or by strategic transactions, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the one underlying the carrying amount.

At December 31, 2015, the value of intangible assets subject to amortization in our Consolidated Balance Sheet amounted to $166 million.

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

We evaluate each reporting period if there is reason to suspect impairment on tangible assets or groups of assets held for use and we perform an impairment review when there is reason to suspect that the carrying value of these long-lived assets might not be recoverable, particularly in case of a restructuring plan. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we assess

Table of Contents

whether the carrying value exceeds the undiscounted cash flows associated with the tangible assets or group of assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset s carrying value also exceeds its fair value. We normally estimate this fair value based on independent market appraisals or the sum of discounted future cash flows, using market assumptions such as the utilization of our fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies. We also evaluate and adjust, if appropriate, the assets useful lives at each Balance Sheet date or when impairment indicators are identified. Assets classified as held for sale are reported as current assets at the lower of their carrying amount and fair value less costs to sell and are not depreciated. Costs to sell include incremental direct costs to transact the sale that we would not have incurred except for the decision to sell. In 2015, no impairment charge was recorded on property, plant and equipment.

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

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

While we perform, on a continuous basis, inventory write-offs of products and semi-finished products, the valuation of inventory requires us to estimate a reserve for obsolete or excess inventory as well as inventory that is not of saleable quality. Reserve for obsolescence is estimated for excess uncommitted inventories based on the previous quarter s sales, order backlog and production plans. To the extent that future negative market conditions generate order backlog cancellations and declining sales, or if future conditions are less favorable than the projected revenue assumptions, we could record additional inventory reserve, which would have a negative impact on our gross margin.

Restructuring charges. We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us, or may require us in the future, to develop formalized plans for exiting any of our existing activities. We recognize the fair value of a liability for costs associated with exiting an activity when we have a present obligation and the amount can be reasonably estimated. Given the significance and timing of the execution of our restructuring activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. This process can require a significant amount of time due to requisite governmental and customer approvals and our capability to transfer technology and know-how to other locations. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or newer initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, we may incur additional charges as well as change estimates of the amounts previously recorded. The potential impact of these changes could be material and could have a material adverse effect on our results of operations or financial condition. In 2015, the restructuring charges and other related closure costs amounted to $49 million before taxes, mainly in connection with our EPS restructuring plan and our manufacturing consolidation plan.

Share-based compensation. We measure the cost of share-based service awards based on the fair value of the shares as of the grant date. Our share-based service awards are granted to senior executives and selected employees. While the awards granted to selected employees are subject to a three-year service period, the awards granted to the senior executives are subject to both a three-year service period and the fulfillment of certain performance conditions, including our financial results when compared to industry performance. In 2015, approximately one-half of the total amount of shares awarded were granted to senior executives and consequently were contingent on the achievement of performance conditions. In order to determine share-based compensation to be recorded for the period, we use significant estimates on the number of awards expected to vest, including the probability of achieving the fixed performance conditions including those relating to industry performance

Table of Contents

compared to our financial results, and our best estimates of award forfeitures and employees service periods. Our assumptions related to industry performance are generally taken with a one quarter lag in line with the availability of market information. In 2015, we recorded a total charge of approximately $38 million relating to our outstanding stock award plans.

Income (*loss*) *on Equity-method Investments*. We record our share in the results of entities that we account for under the equity method. This recognition is based on results reported by these entities, relying on their internal reporting systems to measure financial results. In case of triggering events, such as continuing difficult market conditions, which could lead to continued operating losses and negative cash flows, or in the case of a strategic repositioning by one or more of our partners, we determine whether our investment is temporarily or other-than-temporarily impaired. If impairment is considered to be other-than-temporary, we need to assess the fair value of our investment and record an impairment charge directly in earnings when fair value is lower than the carrying value of the investment. We make this assessment by evaluating the business on the basis of the most recent plans and projections or to the best of our estimates. In 2015, we paid 11.5 million to Enel Green Power in exchange for our full release from any obligation concerning the former 3Sun joint venture and Enel Green Power and we forgave the outstanding 13 million shareholder loan to the 3Sun joint venture. In addition, we recognized a profit of $2 million related to other investments, including $4 million for 3Sun, $1 million for our share of profit in ST-Ericsson SA and a loss of $3 million related to our equity investment in Incard do Brazil Ltda which has been accounted for under the equity method since August 31, 2014. We monitor our equity investments on an ongoing basis and, if required, other-than-temporary impairment charges could negatively impact our future results. As of December 31, 2015, the value in our Consolidated Balance Sheets of our equity investments was $44 million.

Financial assets. We classify our financial assets in the following two categories, trading and available-for-sale. Such classification depends on the purpose for which the investments are acquired. We determine the classification of our financial assets at initial recognition. Unlisted equity securities with no readily determinable fair value are carried at cost; they are neither classified as trading nor as available-for-sale financial assets.

Trading and available-for-sale financial assets are measured at fair value. The fair value of quoted debt and equity securities is based on current market prices. If the market for a financial asset is not active, if no observable market price is obtainable, or if the security is not quoted, we measure fair value by using assumptions and estimates. For unquoted equity securities, these assumptions and estimates include the use of recent arm s-length transactions; for debt securities without available observable market price, we establish fair value by reference to publicly available indexes of securities with the same rating and comparable or similar underlying collaterals or industries exposure, which we believe approximates the amount that would be received from the sale of the asset in an orderly transaction between market participants. In measuring fair value, we make maximum use of market inputs and minimize the use of unobservable inputs. As of December 31, 2015, the value in our Consolidated Balance Sheet of our financial assets was $335 million invested in U.S. Treasury Bonds classified as assets available-for-sale.

Income taxes. We make estimates and judgments in determining income tax for the period, comprising current and deferred income tax. We need to assess the income tax expected to be paid or the tax benefit expected to be received related to the current year taxable profit and loss in each individual tax jurisdiction and recognize deferred income tax for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the Consolidated Financial Statements. Furthermore, we assess all material open income tax positions in all tax jurisdictions to determine any uncertain tax positions, and to record a provision for those that are not more likely than not to be sustained upon examination by the taxing authorities, which could require potential tax claims or assessments in various jurisdictions. In such an event and in case any tax assessment exceeds our provisions, we could be required to record additional charges in our accounts, which could significantly exceed our best estimates and our existing provisions.

We also assess the likelihood of realization of our deferred tax assets originated by our net operating loss carry forwards. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable profit available against loss carry forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies or the possibility to settle uncertain tax positions against available net operating loss carry forwards or similar tax losses and credits. We record a valuation allowance against the deferred tax assets when we consider it is more likely than not that the deferred tax assets will not be realized.

Table of Contents

As of December 31, 2015, we had current deferred tax assets of $91 million and non-current deferred tax assets of $436 million, net of valuation allowances.

We could be required to record further valuation allowances thereby reducing the amount of total deferred tax assets, resulting in an increase of our income tax charge, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in business conditions or in management s plans or due to other factors, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize net operating losses and tax credit carry-forwards in the future. Likewise, a change in the tax rates applicable in the various jurisdictions or unfavorable outcomes of any ongoing tax audits could have a material impact on our future tax provisions in the periods in which these changes could occur.

Patent and other Intellectual Property (IP) litigation or claims. We record a provision when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims to determine whether they need to be adjusted based on current information available to us. Such estimates are difficult to the extent that they are largely dependent on the status of ongoing litigation that may vary based on positions taken by the court with respect to issues submitted, demands of opposing parties, changing laws, discovery of new facts or other matters of fact or law. As of December 31, 2015, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to either probable or possible risks. In the event of litigation that is adversely determined with respect to our interests, or in the event that we need to change our evaluation of a potential third-party claim based on new evidence, facts or communications, unexpected rulings or changes in the law, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize. We are in discussion with several parties with respect to claims against us relating to possible infringement of IP rights. We are also involved in certain legal proceedings concerning such issues. See Item 8. Financial Information Legal Proceedings and Note 22 to our Consolidated Financial Statements.

Other claims. We are subject to the possibility of loss contingencies arising in the ordinary course of business. These include, but are not limited to: warranty costs on our products not covered by insurance, breach of contract claims, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. We are also exposed to numerous legal risks which until now have not resulted in legal disputes and proceedings. These include risks related to product recalls, environment, anti-trust, anti-corruption and competition as well as other compliance regulations. We may also face claims in the event of breaches of law committed by individual employees or third parties. In determining loss contingencies, we consider the likelihood of a loss of an asset or the occurrence of a liability, as well as our ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly re-evaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. As of December 31, 2015, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to either probable or possible risks. In the event we are unable to accurately estimate the amount of such loss in a correct and timely manner, this could have a material adverse effect on our results of operations or financial condition at the time such loss was to materialize. For further details of our legal proceedings refer to Item 8. Financial Information Legal Proceedings and Note 22 to our Consolidated Financial Statements.

Pension and Post-Employment Benefits. Our results of operations and our Consolidated Balance Sheets include amounts for pension obligations and post-employment benefits that are measured using actuarial valuations. At December 31, 2015, our pension and post-employment benefit obligations net of plan assets amounted to $351 million. These valuations are based on key assumptions, including discount rates, expected long-term rates of

return on funds, turnover rates and salary increase rates. These assumptions used in the determination of the net periodic benefit cost are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. Any changes in the pension schemes or in the above assumptions can have an impact on our valuations. The measurement date we use for our plans is December 31.

As a consequence of our decision to downsize our United Kingdom (UK) operations in 2014, we have proposed that the UK pension schemes (the Bristol Scheme and the Marlow Scheme) be merged, which will generate moderate funding savings and provide the Trustees with additional security. The merger of the two schemes is still under discussion with the Trustees and is not expected to materially change our pension liabilities.

Table of Contents

Fiscal Year 2015

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. In 2015, the first quarter ended on March 28, the second quarter ended on June 27, the third quarter ended on September 26 and the fourth quarter ended on December 31. In 2016, the first quarter will end on April 2, the second quarter will end on July 2, the third quarter will end on October 1 and the fourth quarter will end on December 31. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years periods, as illustrated in the below table for the years 2014, 2015 and 2016.

	Q1	Q2	Q3	Q4
			Days	
2014	88	91	91	95
2015	87	91	91	96
2016	93	91	91	91

2015 Business Overview

Our results of operations for each period were as follows:

	Year ended December 31,		Three Months Ended		
			December 31,	September 26,	December 31,
	2015	2014	2015	2015	2014
	(In millions, except per share amounts)		(Unaudited, in millions, except per share amounts)		
Net revenues	$ 6,897	$ 7,404	$ 1,668	$ 1,764	$ 1,829
Gross profit	2,332	2,498	559	613	619
Gross margin as percentage of net revenues.	33.8%	33.7%	33.5%	34.8%	33.8%
Operating income	109	168	25	91	38
Net income attributable to parent company	104	128	2	90	43
Earnings per share	$ 0.12	$ 0.14	$ 0.00	$ 0.10	$ 0.05

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

Based on industry data published by WSTS, semiconductor industry revenues decreased in 2015 on a year-over-year basis by approximately 0.2% for the TAM and 0.7% for the SAM, to reach approximately $335 billion and $150 billion, respectively. In the fourth quarter, the TAM and the SAM decreased on a year-over-year basis by approximately 5% and 3%, respectively. Sequentially, in the fourth quarter of 2015, the TAM and the SAM decreased by approximately 3% and 4%, respectively.

During 2015, we increasingly focused our R&D and Sales & Marketing efforts on two areas: Smart Driving, enabled by car digitalization and electrification, and the Internet of Things, including portable and wearable systems as well as smart home, city, and industry applications. Our products, technologies and system applications competencies are optimized for these areas, which we address with our products for Automotive and Industrial, our microcontrollers and digital ASICs, and our analog and power portfolio as well as MEMS and specialized image sensors. The growth recorded in 2015 by our microcontrollers, and the solid performance of our automotive business despite weaker macroeconomic conditions, have been mainly driven by our sharpened, market-driven investment focus.

In 2015, to a large extent, our performance was limited due to a weak semiconductor market, particularly in the second half of the year and some changes in customer plans. With reference to our revenues performance, we registered in 2015 a decline of 6.8%, impacted by unfavorable currency effects, reduction of legacy ST-Ericsson products revenues and pruning of low margin products in particular related to our imaging module business. Excluding the negative currency effects and the former ST-Ericsson products, our revenues declined by 3.3%. In SP&A, our revenues decreased by approximately 8%, with all product lines contributing to the decrease. Excluding the negative currency effects, SP&A revenues decreased by approximately 5%. EPS revenues were

Table of Contents

down by approximately 5%, mainly due to the declined revenues in legacy set-top box products, imaging modules and the wind-down of the legacy ST-Ericsson products, partially offset by revenue growth in digital ASICs and a strong increase in MMS. Excluding the negative currency effects and legacy ST-Ericsson products, EPS segment revenues decreased by less than 1%.

Our fourth quarter 2015 revenues amounted to $1,668 million, a 5.5% sequential decrease, slightly above the midpoint of our guidance for the quarter. The decrease in revenues was mostly due to a weaker market. On a year-over year basis, our fourth quarter revenues decreased by 8.8% or a 5.5% decrease excluding unfavorable currency effects and legacy ST-Ericsson products. Compared to the served market, our quarterly performance was below the SAM both sequentially and on a year-over-year basis.

Our effective average exchange rate was $1.17 for 1.00 for the full year 2015, compared to $1.34 for 1.00 for the full year 2014. Our effective average exchange rate for the fourth quarter of 2015 was $1.11 for 1.00, compared to $1.16 for 1.00 for the third quarter of 2015 and $1.29 for 1.00 in the fourth quarter of 2014. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see Impact of Changes in Exchange Rates .

Our 2015 gross margin was 33.8% of net revenues, increasing by 10 basis points compared to the prior year, primarily due to favorable currency effects, net of hedging, improved manufacturing efficiencies and a positive product mix, offset to a large extent by declining selling prices and lower licensing revenues.

Our fourth quarter 2015 gross margin was 33.5%, decreasing by 130 basis points on a sequential basis, equal to the midpoint of our guidance for the quarter. The sequential erosion of the gross margin is reflecting higher unused capacity charges and pricing pressure, partially offset by favorable currency effects, net of hedging, improved manufacturing efficiencies and positive product mix. On a year-over-year basis, our fourth quarter gross margin declined by 30 basis points, mainly reflecting lower selling prices and lower licensing revenues, partially offset by favorable currency effects and improved manufacturing efficiencies.

Our operating expenses amounted to $2,322 million in 2015, decreasing by about 5% from $2,447 million in the prior year, primarily due to favorable currency effects, net of hedging, as well as the cost savings following the plans initiated in the prior year. Our fourth quarter 2015 operating expenses experienced a sequential increase of about 6% mainly due to a longer calendar, partially offset by favorable currency effects, net of hedging. On a year-over-year basis, our quarterly operating expenses decreased by approximately 5% mostly due to favorable currency effects, net of hedging, as well as the cost reduction resulting from our savings plans.

Other income and expenses, net, in 2015 decreased to $164 million compared to $207 million in the prior year, which included the catch-up of Nano2017 grants pertaining to 2013. Excluding the impact of this catch-up, other income and expenses, net, increased, mainly due to lower patent claim costs and lower phase-out/start up costs, partially balanced by lower gain on sales of non-current assets.

Our operating income was $109 million in 2015, decreasing from $168 million in the prior year. Excluding the catch-up recorded in 2014 of Nano2017 grants pertaining to 2013, our operating income increased by $38 million, mainly due to favorable currency effects, net of hedging, improved manufacturing efficiencies and savings from the EPS restructuring plan and lower restructuring charges, partially offset by lower sale prices and lower licensing revenues.

Our free cash flow significantly improved from $197 million in 2014 to $327 million in 2015. In the course of 2015, we have paid dividends to shareholders totaling $350 million and used $200 million of cash for long-term debt

repayment.

Business Outlook

In the first quarter, we expect revenues to decrease sequentially by about 3% plus or minus 3.5 percentage points, and the gross margin to be about 33.0% plus or minus 2.0 percentage points. The midpoint of the gross margin outlook continues to be impacted by unused capacity charges as our manufacturing capacity in digital technology is not yet fully utilized.

Over the next years, we believe the main growth contributors to the semiconductor market will be Automotive, Industrial and Internet of Things applications. We are deeply focused on winning in these markets and on capturing the opportunities they represent to fuel our growth.

Table of Contents

This outlook is based on an assumed effective currency exchange rate of approximately $1.10 = 1.00 for the 2016 first quarter and includes the impact of existing hedging contracts. The first quarter will close on April 2, 2016.

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

Other Developments

On January 27, 2016, we announced the discontinuation of the development of new platforms and standard products for set-top-box and home gateway, after an extensive review of external and internal options for the future of our set-top box business. The slower than expected market adoption of leading-edge products and increasing competition on low-end boxes, combined with the required high level of R&D investment, has led this business to generate significant losses in the course of the last years. As a result of this, we announced a global workforce review, including:

- the redeployment of about 600 employees, currently associated with the set-top-box business, to support principally ST s growth ambitions in digital automotive and microcontrollers;

- a global workforce re-alignment that may affect approximately 1,400 employees worldwide, of which about 430 in France through a voluntary departure plan, about 670 in Asia and about 120 in the US. Deployment of the plan by country or site will be subject to applicable legislation and will depend on local negotiations. In 2016, the workforce re-alignment is anticipated to affect about 1,000 employees, out of which about 150 in France.

Annualized savings are estimated at $170 million upon completion and restructuring costs at about $170 million.

On January 27, 2016, we also announced the change to our organization, to align with our strategic focus on Smart Driving and on Internet of Things applications. Three product Groups have been established, reporting to the President & CEO: Automotive and Discrete Group (ADG), led by Marco Monti; Microcontrollers and Digital ICs Group (MDG), led by Claude Dardanne, and Analog and MEMS Group (AMG), led by Benedetto Vigna. Technology and Manufacturing is under the responsibility of Jean-Marc Chery. Jean-Marc will keep his role of Chief Operating Officer (COO).

On December 14, 2015, we announced our collaboration with Semtech to scale LoRa® Technology to meet high-volume demands of Internet of Things applications.

On August 20, 2015, we published our IFRS 2015 Semi Annual Accounts for the six-month period ended June 27, 2015 on our website and filed them with the AFM (Autoriteit Financiële Markten), the Netherlands Authority for the Financial Markets.

On July 9, 2015, we announced, together with the French Institute of Materials, Microelectronics and Nanosciences in Provence, the official launch of a new joint research laboratory, The Radiation Effects and Electrical Reliability (REER) Joint Laboratory, to develop the next generations of high-reliability, ultra-miniaturized electronic components. The REER Joint Laboratory is a multi-site research establishment that will bring together teams from the IM2NP Institute, based in Marseille and Toulon, and specialist engineers from the ST facility in Crolles.

On June 3, 2015 we announced the publication of our 2014 Sustainability Report.

On May 27, 2015 all of the proposed resolutions were adopted at our Annual General Meeting of Shareholders, held in Amsterdam. The main resolutions were:

The adoption of our statutory Annual Accounts for the year ended December 31, 2014, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union;

The distribution of a cash dividend of US$0.40 per outstanding share of the common stock, to be distributed in quarterly installments of US$0.10 in each of the second, third and fourth quarters of 2015 and first quarter of 2016 to shareholders of record in the month of each quarterly payment;

Table of Contents

The appointment of Mr. Nicolas Dufourcq as a new member of the Supervisory Board, for a three-year term expiring at the 2018 AGM, in replacement of Mr. Jean d Arthuys whose mandate terminated as of the 2015 AGM;

The reappointment of Ms. Martine Verluyten as a member of the Supervisory Board, for a three-year term expiring at the 2018 AGM; and

The appointment of Ernst & Young Accountants LLP as the external auditor for the 2016-2019 financial years, as required by the new Dutch law which currently imposes an eight-year audit firm rotation period.

On March 24, 2015, our Supervisory Board resolved that our dividend distributions, more recently decided on a semi-annual basis, will now be decided on an annual basis at our Annual General Meeting of Shareholders.

During the first quarter of 2015, we agreed with IBM to end our participation in the IBM Technology Development Alliance at the end of the second quarter of 2015.

On March 6, 2015, we closed the agreement signed on July 22, 2014 with Enel Green Power to transfer our equity stake in 3Sun. As a result, ST paid 11.5 million to Enel Green Power in exchange for our full release from any obligations concerning the 3Sun joint venture and Enel Green Power. In addition, ST forgave its 13 million outstanding shareholder loan to the 3Sun joint venture.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

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

During 2015, our product segments were as follows:

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

Automotive (APG);

Industrial & Power Discrete (IPD);

Analog, MEMS and Sensors (AMS); and

Other SP&A.

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

Digital Products Group (DPG), combining the former Digital Convergence Group (DCG) and Imaging, BI-CMOS and Silicon Photonics (IBP);

Microcontroller, Memory & Secure MCU (MMS); and

Other EPS.

Effective the first quarter of 2016, we changed our organization to align with our strategic focus on Smart Driving and on Internet of Things applications and we will report revenue and operating income based on the following reporting segments:

Automotive and Discrete Group (ADG);

Microcontrollers and Digital ICs Group (MDG);

Analog and MEMS Group (AMG);

Others, including the Imaging Division.

Table of Contents

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

For the computation of the segments internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative (SG&A) expenses and a part of research and development (R&D) expenses. In compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. As of the first quarter of 2015, our internal policy regarding unallocated costs was amended to allocate unused capacity charges to our product lines. Comparative numbers have been restated accordingly. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold. Finally, R&D grants are allocated to our product lines proportionally to the incurred R&D expenses on the sponsored projects.

Wafer costs are transferred to the product groups profit and loss based on actual cost. From time to time, on specific technologies, wafer costs are transferred to product groups based on market price to promote the utilization of the fabs.

Annual Results of Operations

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

	Year Ended December 31,					
	2015		2014		2013	
	$ million	% of net revenues	$ million	% of net revenues	$ million	% of net revenues
Net sales	$ 6,866	99.6%	$ 7,335	99.1%	$ 8,050	99.6%
Other revenues	31	0.4	69	0.9	32	0.4
Net revenues	**6,897**	**100**	**7,404**	**100**	**8,082**	**100**
Cost of sales	(4,565)	(66.2)	(4,906)	(66.3)	(5,468)	(67.7)
Gross profit	**2,332**	**33.8**	**2,498**	**33.7**	**2,614**	**32.3**
Selling, general and administrative	(897)	(13.0)	(927)	(12.5)	(1,066)	(13.2)
Research and development	(1,425)	(20.7)	(1,520)	(20.5)	(1,816)	(22.5)
Other income and expenses, net	164	2.4	207	2.8	95	1.2
Impairment, restructuring charges and other related closure costs	(65)	(0.9)	(90)	(1.2)	(292)	(3.6)
Operating income (loss)	**109**	**1.6**	**168**	**2.3**	**(465)**	**(5.8)**
Interest expense, net						