STMicroelectronics N.V.

Annual Report 2009

Statement of Management Board

The Managing Board hereby declares that, to the best of its knowledge, the statutory financial statements prepared in accordance with IFRS and Title 9 of Part 2 of the Netherlands Civil Code provide a true and fair view of the assets, liabilities, financial position and profit or loss of STMicroelectronics N.V. and the undertakings included in the consolidation taken as a whole and the Director's report includes a true and fair review concerning the position as per the statement of financial position date, the development and performance of STMicroelectronics N.V. and the undertakings included in the consolidation taken as a whole, together with the principal risk and uncertainties they face.

Carlo Bozotti,

Sole member of the Managing Board,
President and Chief Executive Officer

This 2009 statutory annual report has been approved and duly signed on April 16 2010 for presentation to the STMicroelectronics N.V. 2010 Annual General Meeting of shareholders by:

THE MANAGING BOARD
Carlo Bozotti (President and Chief Executive Officer)

THE SUPERVISORY BOARD

Antonino Turicchi (Chairman)

Gérald Arbola (Vice Chairman)

Raymond Bingham

Douglas Dunn

Didier Lamouche

Didier Lombard

Alessandro Ovi

Bruno Steve

Tom de Waard

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Glossary

ACCI	Automotive, Consumer, Computer and Communication Infrastructure
fADSL	As symmetrical digital subscriber line
APM	Analog, Power and Micro-Electro-Mechanical Systems
ARS	Auction Rate Securities
ARTEMIS	Advanced Research & Technology for Embedded Intelligence and Systems
ASD	Application-specific discrete technology
ASIC	Application-specific integrated circuit
ASSP	Application-specific standard product
BCD	Bipolar, CMOS and DMOS process technology
BiCMOS	Bipolar and CMOS process technology
CAD	Computer aided design
CATRENE	Cluster for Application and Technology Research in Europe on NanoElectronics
CDP	Cassa Depositi e Prestiti S.p.A
CEA	Commissariat à l'Energie Atomique
CMOS	Complementary metal-on silicon oxide semiconductor
CODEC	Audio coding and decoding functions
CPE	Customer premises equipment
DMOS	Diffused metal-on silicon oxide semiconductor
DRAMs	Dynamic random access memory
DSL	Digital subscriber line
DSP	Digital signal processor
EMAS	Eco-Management and Audit Scheme, the voluntary European Community scheme for companies performing industrial activities for the evaluation and improvement of environmental performance
EEPROM	Electrically erasable programmable read-only memory
ENIAC	European Nanoelectronics Initiative
EPROM	Erasable programmable read-only memory
EWS	Electrical wafer sorting
Fab	Manufacturing plant that makes semiconductor devices
FINRA	Financial Industry Regulatory Authority
FT1CI	Holding company controlled by France Telecom and CEA Industries, both from France

G-bit	Gigabit
GPRS	Global packet radio service
GPS	Global positioning system
GSM	Global system for mobile communications
GSM/GPRS	European standard for mobile phones
HED	Home Entertainment and Displays
HCMOS	High-speed complementary metal-on silicon oxide semiconductor
IC	Integrated circuit
IFRS	International Financial Reporting Standards
IGBT	Insulated gate bipolar transistors
IMS	Industrial and Multi-segment Sector
IP	Intellectual Property
IPAD	Integrated passive and active devices
ISDA	International Semiconductor Development Alliance
ISO	International Organization for Standardization
K-bit	Kilobit
LAN	Local area network
M-bit	Megabit
MEMS	Micro-electro-mechanical system
MOS	Metal-on silicon oxide semiconductor process technology
MOSFET	Metal-on silicon oxide semiconductor field effect transistor
MPEG	Motion picture experts group
NYSE	New York Stock Exchange
ODM	Original design manufacturer
OEM	Original equipment manufacturer
OTP	One-time programmable
PDA	Personal digital assistant
PFC	Power factor corrector
PROM	Programmable read-only memory
PSE	Principles for Sustainable Excellence
PSM	Programmable system memories
R&D	Research & Development
RAM	Random access memory
RF	Radio frequency

RISC	Reduced instruction set computing
ROM	Read-only memory
SAM	Serviceable available market
SEC	Securities and Exchange Commission
SCR	Silicon controlled rectifier
SiP	System-in-Package
SLIC	Subscriber line interface card
SMPS	Switch-mode power supply
SoC	System-on-chip
SOX	PHLX Semiconductor Sector Index
SRAM	Static random access memory
SNVM	Serial nonvolatile memories
STH	ST Holding
TAM	Total available market
USB	Universal serial bus
VIPpower(TM)	Vertical integration power
VLSI	Very large scale integration
XDSL	Digital subscriber line

Message from the President and CEO on the 2009 financial year

Dear Shareholder,

2009 will be remembered in the history of STMicroelectronics as a very difficult year that we ended on a high note thanks to a positive finish. The pattern was similar to that of the semiconductor market as a whole, with its unprecedented steep downturn in demand in the early part of the year, followed by a sharp reversal in the second part of the year.

As a consequence, ST's manufacturing organizations had to go through dramatic swings in fab loading, as equipment utilization dropped from the healthy levels of close to 90% as we entered Q4 2008 to as low as 35% at the beginning of Q2 last year. Then fab loading rose again, as the recovery, led by Asian markets, started to gain momentum.

Indeed, we managed to ride the roller coaster of the global electronic industry by re-adjusting our output to the rapidly changing market conditions as quickly and flexibly as possible. In the negative part of the cycle, this included some temporary stoppages of production which came on top of the structural cost reduction programs our Company has launched and is now completing.

The significant fab under-loading of the first part of the year also brought, as a direct consequence, some important operating inefficiencies, while the drop in demand led to higher-than-normal price pressure. Unused capacity charges negatively impacted full year 2009 gross margin by approximately four percentage points in addition to the severe impact of an unprecedented volume discontinuity on fab operations and efficiency. Furthermore, the Company's bottom line was negatively impacted by important restructuring charges and by the early phase of the integration of ST-Ericsson before synergies could occur. Within this environment, the Company could not help but post a net loss of 1.14 dollars per share.

However, as I said, we finished the year on some positive notes. After hitting the bottom around the end of Q1 2009 we started to grow sequentially at a very significant rate. We grew 20% sequentially in Q2, 14% in Q3 and 14% in Q4. As a result, in Q4 we were back to an annual billing run rate well above 10 billion dollars. Moreover, for the total year, we gained share in the markets we serve.

With the increase in revenues, in the fourth quarter of the year came also a significant turnaround in the financial results for the Company. In fact, despite an unfavorable currency environment, after a few quarters, we were back to operating profitability before restructuring in the fourth quarter. Of course we are not yet satisfied with that performance, and we are constantly working on improving our financial parameters, but this was an encouraging first step as we were emerging from the crisis. Indeed this achievement was reinforced by our net operating cash flow reaching 8.6% of revenues, again in the fourth quarter.

Our long term vision is to step up to double-digit figures in terms of operating income and in terms of free-cash-flow, and to consistently provide a return on net assets between 12% and 18%.

Indeed, we are encouraged by the progress we've made throughout the year.

We protected and then we enhanced our cash position, improving our net financial position by almost 1 billion dollars, so that we ended the year with a net cash balance of 517 million dollars, which compares to a negative 409 million dollars at year end 2008.

We took aggressive actions to generate cash by accelerating our cash conversion cycle, resulting in a reduction in inventory of 553 million dollars and record inventory turns in Q4, above five times.

As planned, we executed on our asset-lighter strategy by reducing capital expenditures to 451 million dollars, which was just about half of the expenditure in 2008 and translated into a capital expenditure to sales ratio of 5.3%

We also made excellent progress in lowering our cost base, achieving 75% of the one billion dollar cost savings plan that we and ST-Ericsson will complete in 2010.

Finally, we repurchased one third of our outstanding convertible bonds without the need for refinancing and we closed the year with some 2.9 billion dollars in total financial resources.

Moving on to products, I am pleased to report that we have continued the systematic improvement of our product portfolio throughout 2009, and have launched new waves of innovative products which strengthen our offering, particularly in those areas we have referred to in the past as the two main pillars of our Vision.

These pillars are Power Applications - which help address the world's urgent need to reduce energy consumption – and Multimedia Convergence – which we define as information and exciting entertainment anytime, anywhere, on any device. In both those areas, as you know, we have chosen to be the undisputed global leader, leveraging ST's unique portfolio, solid customer relationships, and expertise. Furthermore, in the area of multimedia convergence, together with Ericsson, we created a new world leader for wireless semiconductors. ST-Ericsson combines the wireless business of NXP, the wireless semiconductor division of ST and the mobile platforms division of Ericsson, and is a key supplier to four of the top five handset manufacturers worldwide.

Beyond these strategic areas, we believe that healthcare is an important opportunity and have made excellent progress in serving that market.

Behind all the new products and applications that the Company has been developing, behind the many hundreds of new devices we introduce every year, there is our unwavering commitment to innovation. We will build on the momentum we have created with our product and technology innovation as we deliver the benefits of these achievements to our customers.

Turning to 2010, we have five major priorities for ST:

- Priority number 1 is the recovery of profitability at ST-Ericsson by extracting the value of products and synergies resulting from the outcome of such an impressive series of mergers.
- Priority number 2 is to quickly ramp-up additional capacity with the double aim of serving the demand of our customers and improving our manufacturing cost as a result of higher production volumes. The major programs here will see growth of capacity in advanced CMOS technology in our 300 mm fab in Crolles, France, and in smart-power technology in Italy, as well as a further capacity increase at our Singapore plant. At the same time, we also plan to expand procurement of wafers from silicon foundries from Asia.
- Priority number 3 is the share of the market we serve. This market perimeter has been a long-term choice for us, consistent with our vision, our asset lighter and high-value product strategy. It is estimated that this served market will have a growth at least in the high teens in 2010. We believe we are well positioned to outperform it, and we are focusing on a wide range of initiatives to reach that goal.
- Priority number 4, we want to obtain more value from our products by dramatically increasing our sales from new innovative products and this, of course, will be the direct consequence of our R&D efforts in 2009.

I want to mention some of these important new products:

- In the area of MEMs we have two new families: gyroscopes and active microphones
- We have important families of 32-bit microcontrollers for industrial, automotive and security applications
- New complex digital ASICs for computer peripherals and communication infrastructure
- A new generation of set-top-box products focusing on 3D graphics applications and low power consumption
- A new platform for high definition and high quality digital and internet TV applications, code-named Freeman and which we have just launched at the CES show in Las Vegas
- In wireless, ST-Ericsson, via its T3G subsidiary in China, is partnering with world-leading mobile phone makers to bring advanced TD-SCDMA-based 3G solutions, and is the leader in this fast-growing Chinese market. In addition, the company's U8500 platform has been selected by leading manufacturers to underpin a new generation of smartphones.
- And, of course, a wave of new products in the areas of advanced analog, power and smart-power for all applications.

2010 is also going to be a year of radical innovation in technology with the introduction, among other things, of the 32nm platform that we are co-developing within the International Semiconductor Development Alliance (ISDA).

- Priority number 5, but not in order of importance, concerns our Corporate Responsibility initiative. In this field, the Company is engaged both in some ongoing internal programs and in delivering through our products some valid contributions in crucial areas related to corporate responsibility issues.

Internally, we are focusing on energy consumption reduction and we will go on with our roadmap to decrease the energy consumption per unit of product by 5% per year. We also will continue with our important program to support our employees in terms of health, and in fact last year 20,000 ST employees had a medical check-up supported by our company. This program will continue in 2010.

But we also want to be good citizens of our planet by introducing innovative products that contribute to meeting the sustainable development challenges that the world is facing today.

To conclude, I believe that in the past year we have proven that we can successfully execute our plans under very challenging conditions. I am also convinced that we have emerged from the crisis in a much stronger position for ST compared with the position we had when we entered the crisis. And this statement is supported by several facts, which I have just outlined, but out of which I would like to highlight two fundamental conditions for our future success:

- first of all, last year, while we had strong cost-reduction measures in manufacturing, we decided to protect our efforts in R&D, and of course this is going to pay off this year with – once again – the introduction of an important wave of new products.
- and, second, we were able to achieve a close to one billion dollar swing in our net financial position.

Looking into the future, we see that the world is changing. Connectedness to people and information is becoming globally pervasive and vital to all, accelerating the development of emerging economies and making the use of mobile terminals ubiquitous. Furthermore, the

increasing scarcity of natural resources in the world and the challenges created by climate change are making it increasingly urgent to significantly reduce energy consumption.

ST is well positioned to benefit from this change in the global picture. The added value we can offer to our customers and our contribution to society as a whole are growing in importance. We have the right strategy, the most innovative products and technologies, strong partnerships with the most influential forces in our industry, relationships of trust with our customers and a highly skilled and motivated team of employees. In short, we have all the ingredients for our continued success, and we are excited about the future.

Carlo Bozotti

Sole member of the Managing Board

President and CEO

Corporate Overview

Introduction

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

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

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

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

History & development of STMicroelectronics

STMicroelectronics N.V. was formed and incorporated in 1987 and resulted from the combination of the semiconductor business of SGS Microelettronica (then owned by Società Finanziaria Telefonica (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by the former Thomson-CSF, now Thales, a French corporation). We completed our initial public offering in December 1994 with simultaneous listings on Euronext Paris and the New York Stock Exchange (“NYSE”). In 1998, we listed our shares on the Borsa Italiana. Until 1998, we operated as SGS-Thomson Microelectronics N.V. Our length of life is indefinite. We are organized under the laws of the Netherlands. We have our corporate legal seat and our head offices at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol Airport, the Netherlands. We are registered with the Dutch trade register under number 33194537. Our telephone number at Schiphol Airport is +31-20-654-3210. Our headquarters and operational offices are located at 39 Chemin du Champ des Filles, 1228 Plan-Les-Ouates, Geneva, Switzerland. Our main telephone number there is +41-22-929-2929. Our agent for service of process in the United States related to our registration under the U.S. Securities Exchange Act of 1934, as amended, is Corporation Service Company (CSC), 80 State Street, Albany, New York, 12207. Our operations are also conducted through our various subsidiaries, which are organized and operated according to the laws of their country of incorporation, and consolidated by STMicroelectronics N.V.

Strategy & objectives

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

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

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

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

1. *Broad, balanced market exposure.*

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

2. *Product innovation.*

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

3. *Customer-based initiatives.*

We have a strategy based on four tenets, which we believe will help us gain market share. First, we work with our key customers to identify evolving needs and new applications in order to develop innovative products and product features. We have formal alliances with certain strategic customers that allow us and our customers to exchange information and which give our customers access to our process technologies and manufacturing infrastructure. Secondly, we are targeting new major key accounts, where we can leverage our position as a supplier of application-specific products with a broad range product portfolio to better address the requirements of large users of semiconductor products with whom our market share has been historically quite low. Thirdly, we have targeted the mass market, or those customers outside of our traditional top 50 customers, who require system-level solutions for multiple market segments. Finally, we have focused on two regions as key ingredients in our future sales growth. The first is Greater China and South Asia and the second is Japan and Korea. We have launched important marketing initiatives in both regions.

4. *Global integrated manufacturing infrastructure.*

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

5. *Reduced asset intensity*.

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

6. *Research and development ("R&D") leadership in process technologies.*

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

7. *Integrated presence in key regional markets.*

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

8. *Product quality excellence.*

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

9. *Sustainable Excellence and Compliance*.

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

10. *Creating Shareholder Value.*

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

Organization

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

We have also recently created two joint ventures with Ericsson ("JVS" and "JVD"), which operate as independent JV companies and are currently governed by a fully balanced Board and an independent management team. Our Consolidated Financial Statements include "JVS and related affiliates", responsible for the full commercial operation of the combined businesses, namely sales and marketing. Its parent company is ST-Ericsson Holding AG ("JVS"), which is owned 50% plus a controlling share by us. The other JV is focused on fundamental R&D activities. Its parent company is ST-Ericsson AT Holding AG ("JVD"), which is owned 50% plus a controlling share by Ericsson and is therefore accounted for by us under the equity method.

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

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

Starting August 2, 2008, a new segment was created to report wireless operations. Moreover, as of February 3, 2009, we added the Mobile Platforms ("MP") product line to Wireless. As of January 1, 2010 we reorganized the Wireless segment.

The organization during 2009 was as follows:

- Automotive, Consumer, Computer and Communication Infrastructure ("ACCI"), comprised of four product lines:
  - Automotive Products Group ("APG");
  - Computer and Communication Infrastructure ("CCI");
  - Home Entertainment & Displays ("HED"); and
  - Imaging ("IMG").
- Industrial and Multi segment Sector ("IMS"), comprised of:
  - Analog, Power and Micro-Electro-Mechanical Systems ("APM"); and
  - Microcontrollers, non-Flash, non-volatile Memory and Smart Card products ("MMS").
- Wireless, comprised of:
  - Cellular Systems ("CS");
  - Connectivity & Peripherals ("C&P");
  - Mobile Platforms ("MP");
  - Wireless Multi Media ("WMM");

    in which, since February 3, 2009, we report the portion of sales and operating results of ST-Ericsson JVS as consolidated in our revenue and operating results; and
  - Other Wireless, in which we report manufacturing margin, R&D revenues and other items related to the wireless business but outside the ST-Ericsson JVS.

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

- 2G, EDGE, TD-SCDMA & Connectivity;
- 3G Multimedia & Platforms;
- LTE & 3G Modem Solutions;

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

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

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

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

Principal subsidiaries and equity investments

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

Legal Seat	Name	Percentage Ownership (direct or indirect)
Australia – Sydney	STMicroelectronics PTY Ltd	100
Belgium – Zaventem	ST-Ericsson Belgium N.V.	50
Belgium – Zaventem	Proton World International N.V.	100
Brazil – Sao Paolo	STMicroelectronics Ltda	100
Brazil – Sao Paulo	Incard do Brazil Ltda	50
Canada – Ottawa	STMicroelectronics (Canada), Inc.	100
Canada – Thorn hill	Genesis Microchip (Canada) Co.	100
China – Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
China – Beijing	Beijing T3G Technology Co. Ltd	50
China – Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China – Shanghai	STMicroelectronics (Shanghai) R&D Co. Ltd	100
China – Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China – Shanghai	Shanghai NF Trading Ltd	50
China – Shanghai	Shanghai NF Semiconductors Technology Ltd	50
China – Shenzhen	Shenzhen STS Microelectronics Co. Ltd	60
China – Shenzhen	STMicroelectronics (Shenzhen) Co. Ltd	100
China – Shenzhen	STMicroelectronics (Shenzhen) Manufacturing Co. Ltd	100
China – Shenzhen	STMicroelectronics (Shenzhen) R&D Co. Ltd	100
Czech Republic – Prague	STMicroelectronics Design and Application s.r.o.	100
Czech Republic – Prague	STN Wireless Sro	50
Finland – Helsinki	ST-Ericsson R&D OY	50
Finland – Lohja	ST-Ericsson OY	50
France – Crolles	STMicroelectronics (Crolles 2) SAS	100
France – Grenoble	STMicroelectronics (Grenoble 2) SAS	100
France – Grenoble	ST-Ericsson (Grenoble) SAS	50
France – Montrouge	STMicroelectronics S.A.	100
France – Paris	ST-Ericsson (France) SAS	50
France – Rousset	STMicroelectronics (Rousset) SAS	100
France – Tours	STMicroelectronics (Tours) SAS	100

Legal Seat	Name	Percentage Ownership (direct or indirect)
Germany – Grasbrunn	STMicroelectronics GmbH	100
Germany – Grasbrunn	STMicroelectronics Design and Application GmbH	100
Germany – Grasbrunn	ST-NXP Wireless GmbH i.L.	50
Holland – Amsterdam	STMicroelectronics Finance B.V.	100
Holland – Amsterdam Luchthaven	ST-Ericsson Wireless N.V.	50
Holland – Eindhoven	ST-Ericsson B.V.	50
Holland – Eindhoven	ST-Ericsson Holding B.V.	50
Hong Kong – Hong Kong	STMicroelectronics LTD	100
India – Bangalore	NF Wireless India Pvt Ltd	50
India – New Delhi	STMicroelectronics Marketing Pvt Ltd	100
India – Noida	STMicroelectronics Pvt Ltd	100
India – Noida	ST-Ericsson India Pvt Ltd	50
Ireland – Dublin	NXP Falcon Ireland Ltd	50
Israel – Netanya	STMicroelectronics Ltd	100
Italy – Agrate Brianza	ST Incard S.r.l.	100
Italy – Agrate Brianza	ST-Ericsson Srl	50
Italy –- Agrate Brianza	STMicroelectronics S.r.l.	100
Italy – Aosta	DORA S.p.a.	100
Italy – Catania	CO.RI.M.ME.	100
Italy – Naples	STMicroelectronics Services S.r.l.	100
Japan – Tokyo	STMicroelectronics KK	100
Japan – Tokyo	ST-Ericsson KK	50
Korea – Seoul	ST-Ericsson (Korea) Ltd	50
Malaysia –- Kuala Lumpur	STMicroelectronics Marketing SDN BHD	100
Malaysia – Muar	STMicroelectronics SDN BHD	100
Malaysia – Muar	ST-Ericsson SDN.BHD	50
Malta – Kirkop	STMicroelectronics (Malta) Ltd	100
Mexico – Guadalajara	STMicroelectronics Marketing, S. de R.L. de C.V.	100
Mexico – Guadalajara	STMicroelectronics Design and Applications, S. de R.L. de C.V.	100
Morocco – Casablanca	STMicroelectronics S.A.S. (Maroc)	100
Morocco – Rabat	Electronic Holding S.A.	100
Morocco – Rabat	ST-Ericsson (Maroc) SAS	50
Norway –-Grimstad	ST-Ericsson A.S.	50
Philippines – Calamba	STMicroelectronics, Inc..	100

Legal Seat	Name	Percentage Ownership (direct or indirect)
Philippines – Calamba	ST-Ericsson (Philippines) Inc.	50
Philippines – Calamba	Mountain Drive Property, Inc.	20
Singapore – Ang Mo Kio	STMicroelectronics ASIA PACIFIC Pte Ltd	100
Singapore – Ang Mo Kio	STMicroelectronics Pte Ltd	100
Singapore – Ang Mo Kio	ST-Ericsson Asia Pacific Pte Ltd	50
Spain – Madrid	STMicroelectronics Iberia S.A.	100
Sweden – Kista	STMicroelectronics A.B.	100
Sweden – Kista	STMicroelectronics Wireless A.B.	50
Sweden – Stockholm	ST-Ericsson A.B.	50
Switzerland – Geneva	STMicroelectronics S.A.	100
Switzerland – Geneva	INCARD S.A.	100
Switzerland – Geneva	INCARD Sales and Marketing S.A.	100
Switzerland – Geneva	ST-Ericsson S.A.	50
Switzerland – Zurich	ST-Ericsson Holding AG	50
Taiwan – Taipei	ST-Ericsson (Taiwan) Ltd	50
Thailand – Bangkok	STMicroelectronics (Thailand) Ltd	100
Turkey – Istanbul	STMicroelectronics Elektronik Arastirma ve Gelistirme Anonim Sirketi	50
United Kingdom – Bristol	Inmos Limited	100
United Kingdom – Bristol	ST-Ericsson (UK) Ltd	50
United Kingdom – Marlow	STMicroelectronics Limited	100
United Kingdom – Marlow	STMicroelectronics (Research & Development) Limited	100
United Kingdom – Reading	Synad Technologies Limited	100
United Kingdom –- Southampton	NF UK, Ltd	50
United States – Carrollton	STMicroelectronics Inc.	100
United States – Carrollton	ST-Ericsson Inc.	50
United States – Carrollton	Genesis Microchip Inc.,	100
United States – Carrollton	Genesis Microchip (Del) Inc.	100
United States –- Carrollton	Genesis Microchip LLC	100
United States –- Carrollton	Genesis Microchip Limited Partnership	100
United States –- Carrollton	Sage Inc.	100
United States –- Carrollton	Faroudja Inc.	100
United States –- Carrollton	Faroudja Laboratories Inc.	100
United States – Wilmington	STMicroelectronics (North America) Holding, Inc.	100
United States – Wilsonville	The Portland Group, Inc.	100

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

Legal Seat	Name	Percentage ownership (direct or indirect)
The Netherlands –- Amsterdam	Numonyx Holdings B.V.	48.6
Switzerland – Zurich	ST-Ericsson AT Holding AG	49.9
Singapore – The Curie	Veredus Laboratories Pte Ltd	41.2
South Korea –- Yongin-si	ATLab Inc.	8.1
Italy – Caivano	INGAM Srl	20

In February 2010, we entered into a definitive agreement with Micron Technology Inc., in which Micron will acquire Numonyx Holdings B.V. in an all-stock transaction. We are awaiting antitrust approval in order to close the transaction.

Number of employees

The tables below set forth the breakdown of employees, including the employees of the consolidated entities of ST Ericsson JVS, by main category of activity and geographic area for the past three years.

	At December 31,		
	2009	2008	2007
France	10,960	10,790	10,560
Italy	8,290	8,200	10,090
Rest of Europe	3,200	2,320	1,730
United States	2,000	3,250	3,120
Mediterranean (Malta, Morocco, Tunisia)	4,630	5,840	6,990
Asia	22,480	21,410	19,690
Total	51,560	51,810	52,180

	At December 31,		
	2009	2008	2007
Research and Development	12,330	11,900	10,570
Marketing and Sales	2,640	2,670	2,870
Manufacturing	31,300	32,290	33,520
Administration and General Services	2,560	2,470	2,570
Divisional Functions	2,730	2,480	2,650
Total	51,560	51,810	52,180

Our future success, particularly in a period of strong increased demand, will partly depend on our ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and management personnel. Unions are represented at several of our manufacturing facilities. We use temporary employees, if required, during production spikes and, in Europe, during summer vacations. We have not experienced any significant strikes or work stoppages in recent years. Management believes that our relations with employees are good.

Our Product Segments

ACCI

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

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

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

Automotive Products Group

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

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

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

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

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

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

Computer and Communications Infrastructure

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

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

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

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

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

Home Entertainment and Displays Group

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

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

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

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

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

Imaging Division

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

IMS

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

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

APM

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

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

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

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

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

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

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

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

MMS

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

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

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

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

Wireless

The wireless segment resulted from the combination of our wireless business with NXP's to create ST-NXP Wireless as of August 2, 2008. Subsequently, we combined that business with the EMP business to form a joint venture, ST-Ericsson, which began operations on February 3, 2009.

Wireless is responsible for the design, development and manufacture of semiconductors and platforms for mobile applications. In addition, this segment spearheads our ongoing efforts to maintain and develop innovative solutions for our mobile customers while consolidating our world leadership position in wireless. This segment is organized into five groups: Wireless Multi Media ("WMM"); Connectivity & Peripherals ("C&P"); Cellular Systems ("CS"); Mobile Platforms ("MP"), in which, since February 3, 2009, we report the portion of sales and operating results of ST-Ericsson as consolidated in the our revenue and operating results; and, Other Wireless, in which we report manufacturing margin, R&D revenues and other items related to wireless business activities occurring outside of ST-Ericsson.

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

Sales & marketing

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

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

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

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

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

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

As of January 1, 2010, our regions in Asia are consolidated into two: Greater China and South Asia; and Japan and Korea.

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

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

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

Research & Development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property, Plants & Equipment

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

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

Location	Products	Technologies
Calamba, Philippines(2).....	Application Specific Products and standard products	

(1) Jointly operated with SHIC, a subsidiary of Shenzhen Electronics Group.
(2) Operated by ST but contributed to the ST-Ericsson joint venture.

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

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

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

We have historically subcontracted a portion of total manufacturing volumes to external suppliers. In 2009, we reduced our capital spending to $451 million, from $984 million registered in 2008, and we maintained our ratio of capital investment spending to revenues at 5.3%, in line with our goal of keeping this ratio in the range of 5 to about 7%. Such a level of capital spending is also designed to reduce our dependence on economic cycles, which affects the loading of our fabs, and decrease the effects of depreciation on our financial performance while optimizing opportunities between internal and external front-end production.

At December 31, 2009, we had approximately $267 million in outstanding commitments for purchases of equipment and other assets for delivery in 2010.

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

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

In addition, as is common in the semiconductor industry, we have from time to time experienced difficulty in ramping up production at new facilities or effecting transitions to new manufacturing processes and, consequently, have suffered delays in product deliveries or reduced yields. There can be no assurance that we will not experience manufacturing problems in achieving acceptable yields, product delivery delays or interruptions in production in the future as a result of, among other things, capacity constraints, production bottlenecks, construction delays, equipment failure or maintenance, ramping up production at new facilities, upgrading or expanding existing facilities, changing our process technologies, or contamination or fires, storms, earthquakes or other acts of nature, any of which could result in a loss of future revenues.

In addition, the development of larger fabrication facilities that require state-of-the-art sub-micron technology and larger-sized wafers has increased the potential for losses associated with production difficulties, imperfections or other causes of defects. In the event of an incident leading to an interruption of production at a fab, we may not be able to shift production to other facilities on a timely basis, or our customers may decide to purchase products from other suppliers, and, in either case, the loss of revenues and the impact on our relationship with our customers could be significant. Our operating results can also be adversely affected by the increase in our fixed costs and operating expenses related to increases in production capacity if revenues do not increase commensurately. Finally, in periods of high demand, we increase our reliance on external contractors for foundry and back-end service. Any failure to perform by such subcontractors could impact our relationship with our customers and could materially affect our results of operations.

Various

Customers and Applications

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

Telecommunications				
Customers:	Alcatel-Lucent	Finisar	Motorola	Samsung
	Cisco	Huawei	Nokia	Sharp
	Ericsson	LG Electronics	Research in Motion	Sony Ericsson
Applications:	Camera modules/mobile imaging		Application processor & integrated modem	
	Entry platforms (mobile handsets)		Telephone terminals	
	Central office switching systems		Connectivity	
	Thin modems		Connected devices	
	Infrastructure			
Computer Peripherals				
Customers:	Agilent	Delta	Microsoft	Seagate
	Apple	Hewlett-Packard	Samsung	Western Digital
	Dell	Hitachi		Eastman Kodak
Applications:	Data storage		Power management	
	Microfluidics / print-head cartridges		Printers	
Automotive				
Customers:	Bosch	Denso	Kostal	Pioneer
	Continental	Harman	Lear	Valeo
	Delphi	Hella	Marelli	Sirius Satellite Radio
Applications:	Airbags		GPS multimedia	
	Anti-lock braking systems		Radio/satellite radio	
	Body and chassis electronics		Telematics	
	Engine management systems		Vehicle stability control	
Consumer				
Customers:	ADB	Garmin	Sagem Communications	Technicolor
	AOC	Pace	Samsung	Nintendo
	Echostar	LG Electronics	Cisco/SA	
Applications:	Audio processing		High Definition DVD	
	Digital TVs		Imaging	
	Display Port		Set-top boxes	
	Internet TV		Multimedia player	

Industrial/Other Applications				
Customers:	Medtronic	Gemalto	Safran	Philips
	Autostrade	General Electric	Nagra	Siemens
	Delta	Nintendo	Vodafone	Taiwan-Liteon
	Emerson			
Applications:	Battery chargers		MEMS	
	Smartcard ICs		Motor controllers	
	Intelligent power switches		Power supplies	
	Industrial automation / control systems		Switch mode power supplies	
	Lighting systems			

In 2009, our largest customer, the Nokia group of companies, represented approximately 16.1% of our net revenues, compared to approximately 17.5% in 2008 and 21.1% in 2007. No other single customer accounted for more than 10% of our net revenues. There can be no assurance that such customers or distributors, or any other customers, will continue to place orders with us in the future at the same levels as in prior periods.

Intellectual Property (IP)

IP rights that apply to our various products include patents, copyrights, trade secrets, trademarks and mask work rights. A mask work is the two or three-dimensional layout of an integrated circuit. Including patents owned by ST-Ericsson ("JVS"), we currently own over 18,600 patents and pending patent applications which have been registered in several countries around the world and correspond to more than 9,600 patent families (each patent family containing all patents originating from the same invention). We filed 736 new patent applications around the world in 2009 (including patent applications owned by ST-Ericsson, "JVS").

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

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

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

Public Funding

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

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

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

In 2009, we entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the “Nano2012” Research and Development program, which confirmed our position as the Coordinator and Project Leader and allocated to us €340 million (about $450 million) in grants for the period 2008-2012. Nano2012 is designed to promote development of advanced CMOS (32nm and below) technologies for system-on-chip semiconductor products in the Grenoble-Crolles region of France, in cooperation with the ISDA.

The main programs for R&D in which we are involved include:

(i) the CATRENE cooperative R&D program, which is the successor of MEDEA+ (which ended in 2008);

(ii) EU R&D projects with FP6 and FP7 (Sixth and Seventh Frame Program) for Information Technology;

(iii) European industry initiatives such as ENIAC and ARTEMIS (Embedded Computing Systems Initiative); and

(iv) national or regional programs for R&D and for industrialization in the electronics industries involving many companies and laboratories. The pan-European programs cover a period of several years, while national or regional programs in France and Italy are subject mostly to annual budget appropriation.

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

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

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

In France, support for R&D is given by ANR (Agence Nationale de la Recherche), by OSEO (the agency taking over the missions and budgets of the AII Agency for Industrial Innovation), by the Ministry of Industry ("FCE") and local public authorities. Specific support for microelectronics is provided through FCE to over 30 companies with activities in the semiconductor industry. The amount of support under French programs is decided annually and subject to budget appropriation. We also benefit from tax credits for R&D activities in several countries (notably in France). R&D tax credits consist of tax benefits granted to companies on a open and non-discriminatory base for their research activities.

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

Government support for capital expenditures funding has been used to support our capital investment. Although receipt of these funds is not directly reflected in our results of operations, the resulting lower amounts recorded in property, plant and equipment costs reduce the level of depreciation recognized by us. In Italy the new “Tremonti-ter” allows business income tax reduction excluding from taxation of business income an amount equal to 50 percent of the value of investments in a detailed list of new machinery and new equipment, made from July 1, 2009 through June 30, 2010.

As a third category of government funding, we receive some loans, mainly related to large capital investment projects, at preferential interest rates.

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

Suppliers

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

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

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

Finally, we also use external subcontractors to outsource wafer manufacturing and assembly and testing of finished products.

Sustainable Excellence

STMicroelectronics is committed to reporting on Corporate Responsibility. For this reason, we publish a separate Corporate Responsibility report. The 2009 CR report will be published in the middle of 2010. The below overview is a condensed version of the extended CR report.

Environmental Matters

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

Consistent with our PSE, we have established proactive environmental policies with respect to the handling of chemicals, gases, emissions and waste disposals from our manufacturing operations, and we have not suffered material environmental claims in the past. We believe that our activities comply with presently applicable environmental regulations in all material respects. We have engaged outside consultants to audit all of our environmental activities and created environmental management teams, information systems and training. We have also instituted environmental control procedures for processes used by us as well as our suppliers. As a company, we have been certified to be in compliance with the quality standard ISO9001:2008 and with the technical specification ISO/TS16949:2009.

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

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

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

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

Related Party Transactions

We have demonstrated a consistent commitment to the principles of good corporate governance evidenced by our early adoption of policies on important issues such as “conflicts of interest.” Pursuant to our Supervisory Board Charter, the Supervisory Board is responsible for handling and deciding on potential reported conflicts of interests between the Company on the one hand and members of the Supervisory Board and Managing Board on the other hand.

One of the members of our Supervisory Board is managing director of Areva SA, which is a controlled subsidiary of CEA, one of the members of our Supervisory Board is the Chairman of France Telecom and a member of the Board of Directors of Technicolor (formerly known as Thomson), another is the non-executive Chairman of the Board of Directors of ARM Holdings PLC (“ARM”), two of our Supervisory Board members are non-executive directors of Soitec, one of our Supervisory Board members is the CEO of Groupe Bull, one of the members of the Supervisory Board is also a member of the Supervisory Board of BESI and one of the members of our Supervisory Board is a director of Oracle Corporation (“Oracle”) and Flextronics International. France Telecom and its subsidiaries Equant and Orange, as well as Oracle’s new subsidiary PeopleSoft supply certain services to our Company. We have a long-term joint R&D partnership agreement with LETI, a wholly-owned subsidiary of CEA. We have certain licensing agreements with ARM, and have conducted transactions with Soitec and BESI as well as with Technicolor, Flextronics and a subsidiary of Groupe Bull.

For the years ended, December 31, 2009 December 31, 2008 and December 31, 2007, our related party transactions were primarily with our significant shareholders, or their subsidiaries and companies in which our management perform similar policymaking functions. These include, but are not limited to: Areva, ARM, BESI, France Telecom, Equant, Orange, Finmeccanica, CDP, Flextronics, Oracle, SOITEL, and Technicolor. In addition, our CEO, Carlo Bozotti is Chairman of the Supervisory Board of Numonyx, the flash memory joint venture we set up with Intel and Francisco Partners effective March 30, 2008. Mr. Turicchi also serves on the Supervisory Board of Numonyx. We believe that each of the aforementioned arrangements and transactions are negotiated without any personal, direct or indirect involvement of our Supervisory Board Members, and are made on an arms-length basis in line with market practices and conditions. Therefore, STMicroelectronics is in compliance with best practice provisions II.3.2 up to and including II.3.4 and III.6.1 up to and including III.6.3 of the Dutch Corporate Governance code. Best practice provision III.6.4 of the Dutch Corporate Governance Code has also been observed

Each of the aforementioned arrangements and transactions with related parties are negotiated without the personal involvement of our Supervisory Board members and we believe that they are made on an arms-length basis in line with market practices and conditions. The Managing Board reports such transactions periodically to the Supervisory Board, and the Supervisory Board has approved the transactions stated above.

Competition

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

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

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

Industry Background

The Semiconductor Market

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

Although cyclical changes in production capacity in the semiconductor industry and demand for electronic systems have resulted in pronounced cyclical changes in the level of semiconductor sales and fluctuations in prices and margins for semiconductor products from time to time, the semiconductor industry has experienced substantial growth over the long term. Factors that contribute to long-term growth include the development of new semiconductor applications, increased semiconductor content as a percentage of total system cost, emerging strategic partnerships and growth in the electronic systems industry, in particular, the Asia Pacific region.

Semiconductor Classifications

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

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

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

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

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

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

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

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

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

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

- Logic devices process digital data to control the operation of electronic systems. The largest segment of the logic market includes microprocessors, microcontrollers and DSPs. Microprocessors are the central processing units of computer systems. Microcontrollers are complete computer systems contained on single ICs that are programmed to specific customer requirements. microcontrollers control the operation of electronic and electromechanical systems by processing input data from electronic sensors and generating electronic control signals. They are used in a wide variety of consumer, communications, automotive, industrial and computer products. DSPs are parallel processors used for high complexity, high-speed real-time computations in a wide variety of applications.

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

Report of the Managing Board

Summary

ST's fourth quarter financial results reflect a positive finish to a very difficult year for ST, the semiconductor industry and the global economy. The Company's stronger than forecasted quarterly sequential revenue performance was thanks to growth in all regions and market segments, with all segments, except Telecom, posting double-digit growth.

Despite the challenging economic environment, we made significant progress over the course of 2009 by successfully delivering on key actions announced earlier in the year. First, we protected and then enhanced our cash position, improving our net financial position by $926 million to end the year with a net cash position of $517 million. Second, we made excellent progress in lowering our cost base with a $1 billion savings plan to be completed by about mid-2010. As a result, we improved our financial performance along the year having generated in the fourth quarter, as anticipated, some points of operating margin before restructuring and net operating cash flow equal to 8.6% of sales despite an unfavorable currency environment.

2009 has been a year of severe market conditions, leading to an accounting loss for ST of $ 1.22 billion. However, we are encouraged by the progress that was made throughout the year, and 2010 will be a year of great opportunities for ST. The efforts to strengthen the product portfolio will allow us to grow organically and to participate in new markets. The completion of the major restructuring program will continue to substantially improve ST´s cost structure and competitiveness.

Total revenues, as reported, for the full year 2009 were $8.51 billion compared to 2008 revenues of $9.84 billion, which included $299 million in Flash revenues that were deconsolidated on March 30, 2008.

Gross margin for the full year 2009 was 26.3% of total revenues, lower than the 33.1% reported in 2008, due to industry conditions that resulted in significant fab under-loading, operating inefficiencies and above normal price pressure. Unused capacity charges negatively impacted full year 2009 gross margin by approximately 4 percentage points in addition to the severe impact of an unprecedented volume discontinuity on fab operations and efficiency.

Combined SG&A and R&D expenses in 2009 were $3,278 million compared to $3,078 million in 2008, reflecting the expansion of the Company's activities through M&A and now in the ST-Ericsson JVS, as fully consolidated by ST.

Share of loss of associates was $95 million, the increase compared to 2008 was mainly related to our investment in Numonyx and ST-Ericsson JVD. Additionally, we registered an impairment of $211 million on our investment in Numonyx, compared to $494 million in 2008. In 2009, we booked $221 million as income for losses attributable to non-controlling interests, but consolidated in ST's financial results.

In 2009 we reported a net loss of $1,224 million, compared to a net loss of $518 in 2008. The net loss attributable to the Equity holders of STMicroelectronics was $1,003 million, or $1.14 per share, compared to $519 million, or $0.58 per share, in 2008.

In 2009, the effective average exchange rate for the Company was approximately $1.37 to €1.00, compared to $1.49 to €1.00 for 2008.

Consolidated Profit & Loss Statement

In US dollars	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In millions except per share and ratio data)				
Consolidated Statements of Income Data:					
Sales	**8,465**	9,792	9,966	9,838	8,876
Other revenues	**45**	50	35	16	6
Total revenues	**8,510**	9,842	10,001	9,854	8,882
Cost of sales	**(6,268)**	(6,585)	(6,698)	(6,373)	(5,882)
Gross profit	**2,242**	3,257	3,303	3,481	3,000
Operating expenses:					
Selling, general and administrative	**(1,199)**	(1,219)	(1,099)	(1,083)	(1,069)
Research and development	**(2,079)**	(1,859)	(1,569)	(1,388)	(1,411)
Other income	**279**	131	184	138	104
Other expenses	**(78)**	(66)	(58)	(92)	(132)
Impairment on assets held for sale, restructuring charges and other related closure costs	**(25)**	(105)	(1,167)	(68)	(98)
Total operating expenses	**(3,102)**	(3,118)	(3,709)	(2,493)	(2,606)
Operating income (loss)	**(860)**	139	(406)	988	394
Impairment and realized loss on available-for-sale investments	**(140)**	(138)	(46)	—	—
Finance income	**76**	145	155	143	53
Finance costs	**(63)**	(121)	(105)	(96)	(57)
Share of gain (loss) of associates	**(95)**	(60)	10	(7)	(3)
Impairment on investments in associates	**(211)**	(494)	-	-	-
Gain (loss) on convertible debt repurchase	**(7)**	—	—	—	—
Income (loss) before income tax	**(1,300)**	(529)	(392)	1,028	387
Income tax benefit (expense)	**76**	11	(41)	(62)	(39)
Net result	**(1,224)**	(518)	(433)	966	348
Net result attributable to the owners of STMicroelectronics	**(1,003)**	(519)	(439)	964	347
Net result attributable to non-controlling interests	**(221)**	1	6	2	1
Earnings (loss) per share (basic) attributable to equity holders of the parent	**(1.14)**	(0.58)	(0.49)	1.08	0.39
Earnings (loss) per share (diluted) attributable to equity holders of the parent	**(1.14)**	(0.58)	(0.49)	1.07	0.37

Results by Product Segment

The following table provides a breakdown of revenues and operating results by product segment. Unused capacity charges are reflected in the segment “Others”.

In Million US$ & %	**Full Year 2009**		**Full Year 2008**	
Product Segment	**Net Revenues**	**Operating Income (Loss)**	**Net Revenues**	**Operating Income (Loss)**
ACCI	3,198	(91)	4,129	136
IMS	2,641	113	3,329	482
Wireless	2,585	(356)	2,030	(65)
FMG (Flash Memories Group)	0	0	299	16
Others	86	(526)	55	(430)
TOTAL	**8,510**	**(860)**	**9,842**	**139**

Net revenues by location of order shipment and by market segment

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

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

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

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

2009 Business Overview

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

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

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

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

Our quarterly revenues continuously recovered on a sequential basis during 2009 after the bottom registered in the first quarter, driven by a significant increase in demand by our customers across all of our served market segments and regions.

In 2009, our effective exchange rate was $1.37 for €1.00, which reflects actual exchange rate levels and the impact of cash flow hedging contracts, compared to an effective exchange rate of $1.49 for €1.00 in 2008.

Our 2009 gross margin dropped about 7 percentage points on a year-over-year basis to 26.3%, due to lower sales volume and pressure on average selling prices because of the difficult market conditions in the industry, as well as underutilization charges associated with the significant loading reduction of all of our manufacturing sites. In addition to the severe impact of an unprecedented volume discontinuity on fab operations and efficiency, unused capacity charges negatively impacted full year 2009 gross margin by approximately 4 percentage points. The loading reduction also resulted in part from our decision to cut inventory levels in order to protect our cash resources in face of the turmoil in the financial markets. The aforementioned negative impact of such charges was partially offset by the more favorable U.S. dollar exchange rate and the contribution of an improved product portfolio mix following the wireless business integration.

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

In 2009, we continued certain ongoing restructuring initiatives and implemented new programs to streamline our cost structure, in particular after the consolidation of the new wireless activities. This resulted in total impairment and restructuring charges of $291 million, which included a cost of $136 million in cost of sales related to our manufacturing programs, a cost of $24 million and $106 million in the selling, general and administrative and research and development expenses, respectively, related to our headcount reduction plans and $25 million in connection with the impairment of certain assets held for sale. In 2008, we reported additional charges of $216 million in connection with the closing of the FMG transaction.

Our other income improved significantly in 2009, supported by additional funds granted to our R&D programs through new contracts signed with the French government covering the period 2008 through 2012. Total funding recognized in 2009 was approximately $201 million, including the recognition of contracts signed in 2009 but also related to 2008 projects, and was significantly higher than the $83 million registered in the prior year period. Other expenses were approximately in line with the prior year and were mainly including start-up and phase-out costs and patent litigation costs.

Our operating result in 2009 was a loss of $860 million compared to a profit of $139 million in 2008. As indicated above, our operating loss was largely negatively impacted by the material drop in our revenues and unused capacity charges, which exceeded the benefits of the strengthening U.S. dollar exchange rate and higher amounts of R&D funding.

The 2009 amount of impairment and realized loss on available-for-sale investments is related to an impairment of $72 million and a realized loss of $68 million, both linked to the portfolio of ARS purchased on our account by Credit Suisse contrary to our instruction. See “Liquidity and Capital Resources” below.

Finance income and finance cost were both lower in 2009 compared to 2008 due to lower interest income and cost resulting from significantly lower U.S. dollar and Euro denominated interest rates registered in the financial markets compared to 2008 and to the improved financial position.

In 2009, we booked a $211 million impairment on investments in associates, entirely related to Numonyx, as well as $95 million as a share of loss of associates, mainly Numonyx and ST-Ericsson JVD.

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

- sharp drop in demand as a result of the global economic downturn;
- negative pricing trend;
- manufacturing inefficiencies experienced in our fabs due to the disruption in their operations throughout the year;
- unused capacity charges arising from the underutilization of our fabs;
- loss recorded in relation to our equity investments, although mitigated compared to the prior year;
- additional impairment and other restructuring charges related to our ongoing and newly adopted plans, although lower compared to the prior year;
- the additional R&D expenses inherited from the integrated wireless businesses, while the synergy plans are being implemented; and
- losses on financial assets, pending the payment by Credit Suisse of the amount due pursuant to the FINRA arbitration award that is favorable to us.

The aforementioned factors were partially offset by the following elements:

- favorable currency impact;
- improved product portfolio mix, after deconsolidating Flash and integrating the wireless businesses;
- additional funding for our R&D projects;
- the cost savings resulting to date from the restructuring programs that are in progress; and
- non-controlling interest related to the 50% ownership of ST-Ericsson JVS losses, which counterbalanced the negative operating results in the wireless segment.

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

Our focus on strong capital management is clearly evidenced from our cash flow and financial position metrics. We took aggressive actions to generate cash by accelerating our cash conversion cycle, resulting in a $566 million reduction in inventory. We reduced the ratio of our capital expenditures to sales to 5.3%, in line with our asset lighter strategy. Between December 2009 and January 2010 we repurchased approximately one-third of our outstanding 2016 convertible bonds with no need of refinancing. We closed the year with $2.9 billion in cash, restricted cash and marketable securities and with a net cash position of $517 million as of December 31, 2009, significantly improving from a net debt of $409 million at December 31, 2008.

Recent Corporate Developments & Material Contracts

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

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

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

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

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

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

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

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

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

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

In December 2009, we began a program to repurchase a portion of our outstanding Zero Coupon Senior Convertible Bonds due 2016 ("2016 Bonds"). At December 31, 2009, 98 thousand bonds had been repurchased for a total cash consideration of $103 million. Financial intermediaries, acting as agents for us, repurchased the bonds in off market transactions. On January 14, 2010, we completed our program, repurchasing over 200 thousand additional 2016 Bonds for a total cash consideration of $212 million. In all, the repurchased bonds represented approximately 30.6% of the total amount originally issued and were equivalent to 13,070,129 shares. The repurchased bonds have been cancelled in accordance with their terms.

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

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

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

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

ST-NXP

On April 10, 2008, we entered into an agreement with NXP B.V. to combine our respective key wireless operations to form a joint venture company, ST-NXP Wireless, which started operations on August 2, 2008. The agreement governs the terms on which we received an 80% stake in the joint venture and paid NXP $1,518 million net of cash received, including a control premium that was funded from outstanding cash. The consideration also included a contribution in kind, measured at fair value, corresponding to a 20% interest in the wireless business. Coincidentally with the closing of our agreement with Ericsson to combine ST-NXP with EMP, we purchased NXP's 20% stake in ST-NXP in the first quarter of 2009 for $92 million.

ST-Ericsson

On August 19, 2008, we entered into a Framework Agreement with Telefonaktiebolaget L.M. Ericsson to create ST-Ericsson, which began operations on February 1, 2009. The agreement governs the terms on which Ericsson contributed certain businesses and $1.1 billion net to the joint venture, out of which $0.7 billion was paid to us, and we contributed ST-NXP Wireless, following our purchase of NXP's 20% stake.

Business Outlook

STMicroelectronics started the first quarter of 2010 with a solid backlog and has been working to serve our customers' demand.

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

We have emerged from the recession in a stronger financial position. Our balance sheet is among the strongest in the semiconductor industry, with healthy receivables, appropriate inventory levels and a solid net cash position. Two of our three product segments have returned to profitability in the fourth quarter of 2009 and are expected to improve their level of operating margin performance as we move through 2010. We also expect ST-Ericsson to complete its cost realignment plan during the year. Overall, we are confident that all product segments will contribute to further improvement in our operating results.

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

Financial Outlook

While we are reconfirming our target to have capital expenditures to remain in the range of 5 to about 7% of revenues, we expect a moderate increase compared to the $451 million spent in 2009 in order to keep pace with the sharp increase in customer demand.

The most significant of our 2010 capital expenditure projects are expected to be:

A. For the front-end facilities:

   (i) The increase of up to 3,200 wafers per week in the capacity of our 300-mm fab in Crolles, and costs related to the preparation for an additional increase to 3600 wafers per week;

   (ii) The establishment of a 32nm R&D capability in Crolles;

   (iii) The completion of the program for front-end fabs, targeting the increased capacity in the Ang-Mo-Kio (Singapore) 150mm to 18,000 wafers per day;

   (iv) Selective programs of robustness / mix change in our 200-mm fabs, mainly by installing tools transferred from internal sources;

   (v) The strengthening of proprietary technologies in our 200-mm fab in Agrate; and

   (vi) Quality, safety, security, maintenance both in 6” and 8” front end fabs;

B. For the back-end facilities, the capital expenditures will mainly be dedicated to the capacity increase:

   (i) Growth of our manufacturing presence in China (Longgang and Shenzhen) and the Philippines (Calamba);

   (ii) Further consolidation of our presence in Malaysia (Muar); and

   (iii) Specific investments in the areas of quality, environment, energy saving and

C. An overall capacity increase in wafers probing (EWS) for all product groups.

We will continue to monitor our level of capital spending by taking into consideration factors such as trends in the semiconductor industry, capacity utilization and announced additions. We expect to have significant capital requirements in the coming years and in addition we intend to continue to devote a substantial portion of our net revenues to R&D. We plan to fund our capital requirements from cash provided by operating activities, available funds and available support from third parties, and may have recourse to borrowings under available credit lines and, to the extent necessary or attractive based on market conditions prevailing at the time, the issuing of debt, convertible bonds or additional equity securities. A substantial deterioration of our economic results and consequently of our profitability could generate a deterioration of the cash generated by our operating activities. Therefore, there can be no assurance that, in future periods, we will generate the same level of cash as in the previous years to fund our capital expenditures plans for expending/upgrading our production facilities, our working capital requirements, our R&D and industrialization costs.

On February 23, 2011, holders will be able to call for the redemption of our 2016 convertible bonds, which we believe is likely to occur, in view of current market prices, for an amount of $728 million. Furthermore, there could be possible financial needs for temporary bridge financing by the parent companies of the ST-Ericsson joint venture, the amount of which cannot be estimated at this stage.

Market risk – about financial instruments

We place our cash and cash equivalents, or a part of it, with high credit quality financial institutions with at least single “A” long-term rating from two of the major rating agencies, meaning at least A3 from Moody’s Investor Service and A- from Standard & Poor’s or Fitch Ratings, invested as term deposits, treasury bills and FRN marketable securities and, as such we are exposed to the fluctuations of the market interest rates on our placement and our cash, which can have an impact on our accounts. We manage the credit risks associated with financial instruments through credit approvals, investment limits and centralized monitoring procedures but do not normally require collateral or other security from the parties to the financial instruments.

In accounting for the financial instruments we follow the provisions of IFRS 7. For further details please refer to the Notes to the Consolidated Financial Statements.

Market risk – about changes in Exchange Rates

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

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

In summary, as our reporting currency is the U.S. dollar, currency exchange rate fluctuations affect our results of operations: if the U.S. dollar weakens, our results are negatively impacted since we receive a limited part of our revenues, and more importantly, we incur a significant part of our costs, in currencies other than the U.S. dollar. Our results are favorably impacted when the dollar strengthens. As described below, our effective average U.S. dollar exchange rate strengthened during 2009, particularly against the Euro, causing us to report lower expenses and favorably affecting both our gross margin and operating income. Our consolidated statements of income for 2009 included income and expense items translated at the average U.S. dollar exchange rate for the period.

Our principal strategy to reduce the risks associated with exchange rate fluctuations has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of raw materials, purchases and services from our suppliers denominated in U.S. dollars, thereby reducing the potential exchange rate impact of certain variable costs relative to revenues. Moreover, in order to further reduce the exposure to U.S. dollar exchange fluctuations, we have hedged certain line items on our consolidated statements of income, in particular cash flow hedging with respect to a portion of the costs of goods sold and a fair value hedging for most of the R&D expenses and certain selling and general and administrative expenses, located in the Euro zone. Our effective average exchange rate of the Euro to the U.S. dollar was $1.37 for €1.00 in 2009 compared to $1.49 for €1.00 in 2008. These effective exchange rates reflect the actual exchange rates combined with the impact of cash flow hedging contracts that matured in the period.

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

Our cash flow hedging policy is not intended to cover the full exposure and is based on hedging a declining percentage of exposure quarter after quarter. In addition, in order to mitigate potential exchange rate risks on our commercial transactions, we purchase and enter into forward foreign currency exchange contracts and currency options to cover foreign currency exposure in payables or receivables at our affiliates. We may in the future purchase or sell similar types of instruments. Furthermore, we may not predict in a timely fashion the amount of future transactions in the volatile industry environment. Consequently, our results of operations have been and may continue to be impacted by fluctuations in exchange rates.
Our treasury strategies to reduce exchange rate risks are intended to mitigate the impact of exchange rate fluctuations. No assurance may be given that our hedging activities will sufficiently protect us against declines in the value of the U.S. dollar. Furthermore, if the value of the U.S. dollar increases, we may record losses in connection with the loss in value of the remaining hedging instruments at the time.

The assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. Income and expenses, as well as cash flows, are translated at the average exchange rate for the period. The financial position impact of such translation adjustments has been, and may be expected to be, significant from period to period since a large part of our assets and liabilities are accounted for in Euros as their functional currency. Adjustments resulting from the translation are recorded directly in shareholders' equity, and are shown as "Other reserves" in the consolidated statements of changes in equity. At December 31, 2009, our outstanding indebtedness was denominated mainly in U.S. dollars and in Euros.

Market risk - about changes in Interest Rates

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

Our interest income, net, as reported on our consolidated statements of income, is the balance between interest income received from our cash and cash equivalent and marketable securities investments and interest expense paid on our long-term debt. Our interest income is dependent upon fluctuations in interest rates, mainly in U.S. dollars and Euros, since we invest primarily on a short-term basis; any increase or decrease in the short-term market interest rates would mean an equivalent increase or decrease in our interest income. As of December 31, 2009, approximately 40% of our long-term debt was at fixed interest rates. Our interest expenses are associated with our long-term Zero Coupon 2016 Convertible Bonds, our 2013 Floating Rate Senior Bond, which is fixed quarterly at a rate of EURIBOR plus 40bps, and European Investment Bank Floating Rate Loans totaling $672 million at LIBOR plus variable spreads. To manage the interest rate mismatch, in the second quarter of 2006, we entered into cancellable swaps to hedge a portion of the fixed rate obligations on our outstanding long-term debt with floating rate derivative instruments.

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

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

Liquidity and Capital Resources

Treasury activities are regulated by our policies, which define procedures, objectives and controls. The policies focus on the management of our financial risk in terms of exposure to currency rates and interest rates. Most treasury activities are centralized, with any local treasury activities subject to oversight from our head treasury office. The majority of our cash and cash equivalents are held in U.S. dollars and Euros and are placed with financial institutions rated "A" or better. Part of our liquidity is also held in Euros to naturally hedge intercompany payables and financial debt in the same currency and is placed with financial institutions rated at least single A long-term rating, meaning at least A3 from Moody's Investor Service and A- from Standard & Poor's or Fitch Ratings. Marginal amounts are held in other currencies.

As of December 31, 2009, our total liquidity and capital resources were comprised of $1,588 million in cash and cash equivalents, $1,032 million in marketable securities included in other current financial assets, $250 million as restricted cash and $42 million in ARS, invested by Credit Suisse contrary to our instruction, both items included in other non-current financial assets. Our total capital resources were $2,912 million as of December 31, 2009, a significant increase compared to $2,132 million at December 2008. Such increase was originated by the proceeds from the ST-Ericsson business combination and from operating cash flow. Please refer to the "Net financial position" table below.

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

Due to regulatory and withholding tax issues, we could not directly provide the Hynix joint venture with the $250 million long-term financing as originally planned. As a result, in 2006, we entered into a ten-year term debt guarantee agreement with an external financial institution through which we guaranteed the repayment of the loan by the joint venture to the bank. The guarantee agreement includes our placing up to $250 million in cash in a deposit account with a yield of 6.06%. The guarantee deposit will be used by the bank in case of repayment failure from the joint venture (which is now known as the Numonyx-Hynix joint venture), with $250 million as the maximum potential amount of future payments we, as the guarantor, could be required to make. In the event of default and failure to repay the loan from the joint venture, the bank will exercise our rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the joint venture's assets. The $250 million, which has been on deposit since 2007, was included in "Other non-current financial assets" on the consolidated statement of financial position at December 31, 2009. The debt guarantee resulted in the recognition of a $17 million liability, corresponding to the fair value of the guarantee at inception of the transaction and reported on the line "Other non-current liabilities" in the consolidated statement of financial position at December 31, 2009, since we retained the deposit, as an asset, and the related guarantee at the formation of Numonyx. At December 31, 2009, the guarantee was not exercised. To the best of our knowledge, at December 31, 2009, the joint venture was current on its debt obligations, was not in default of any debt covenants and did not expect to be in default on these obligations in the near future. Our current maximum exposure to loss as a result of our involvement with the joint venture is limited to our indirect investment through Numonyx and the debt guarantee commitments. Under the terms of the recently signed agreement to sell Numonyx to Micron, we will continue to retain the $250 million deposit with DBS Bank Ltd. in Singapore, which is intended to guarantee the Hynix-Numonyx joint venture's debt financing for such amount. Under the terms of the joint venture agreement with Hynix, upon the closing of the sale of Numonyx, Hynix and Numonyx have certain rights to buy or sell or cause the other party to buy or sell their interests in the Hynix JV. We have entered into an agreement with Micron and Numonyx that provides that, in the event that Hynix exercises its right to purchase Numonyx' interest in the Hynix joint venture following the closing of the Numonyx transaction, Numonyx will take over all or part of our obligations under the guarantee.

As of December 31, 2009, we had Auction Rate Securities, purchased by Credit Suisse contrary to our instruction, representing interests in collateralized debt obligations with a par value of $261 million, that were carried on our consolidated statement of financial position as available-for-sale financial assets for $42 million, including the positive revaluation of $15 million in other reserves in equity. Following the continued failure of auctions for these securities, which began in August 2007, we first registered a decline in the value of these Auction Rate Securities as an impairment charge against net income for $46 million during the fourth quarter of 2007. Since the initial failure of the auctions in August 2007, the market for these securities has completely frozen without any observable secondary market trades, and consequently, during 2008 and 2009, the portfolio experienced a further estimated decline in fair value charged to our Income Statement of $127 million and $72 million, respectively. The reduction in estimated fair value was recorded as an impairment charge against net income.

The investments made in the aforementioned Auction Rate Securities were made without our authorization and, in 2008, we launched a legal action against Credit Suisse. On February 16, 2009, the arbitration panel of FINRA awarded us approximately $406 million comprising compensatory damages, as well as interest and attorneys' fees, and authorized us to retain an interest award of approximately $27 million, out of which $25 million has already been paid, as well as to obtain interest at the rate of 4.64% on the par value of the portfolio from December 31, 2008 until the award is paid in full. The FINRA award was upheld by the US District Court of the Southern District of New York, by a decision made public on March 23rd, 2010. In December 2009, Credit Suisse, because of its contingent interest in certain securities held by us and issued by Deutsche Bank, requested that we either tender the securities or accept that the amount that would be received by us pursuant to such tender ($75 million) be deducted from the sum to be collected by us if and when the FINRA award is confirmed and enforced. Pursuant to legal advice, and while reserving our legal rights, we participated in the tender offer. As a result, we sold ARS with a face value of $154 million, collected $75 million and registered $68 million as realized losses on financial assets. Such amount comes in addition to the $245 million impairment that had been taken as of September 30, 2009 with respect to the portfolio of ARS purchased on our account by Credit Suisse contrary to our instruction. These amounts should be recovered upon collection of the award.

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

Liquidity

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

During 2009, the evolution of our cash flow produced an increase in our cash and cash equivalents of $599 million, generated by net cash from both operating and investing activities, the latter including the proceeds from the ST-Ericsson business combination.

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

	Year Ended December 31,	
	2009	2008
	(in millions)	
Net cash from (used in) operating activities	$1,209	$1,943
Net cash from (used in) investing activities	(103)	(2,639)
Net cash from (used in) in financing activities	(493)	(87)
Effect of change in exchange rates	(14)	(83)
Net cash increase (decrease)	$599	$(866)

Net cash from (used in) operating activities.

The net cash from operating activities in 2009 was significantly lower compared to previous periods reflecting the deterioration of the operating result associated with the difficult market environment. However, in response to the financial market crisis, we focused on strong capital management by taking aggressive actions to generate cash by accelerating our cash conversion cycle, resulting in a significant reduction in inventory and reflecting the accelerated collection of States receivables, mainly certain R&D tax credits.

As a result, our net cash from operating activities decreased from $1,943 million in 2008 to $1,209 million in 2009. Depreciation and amortization was $1,629 million in 2009, equivalent *to prior year period.*

Net cash from (used in) investing activities.

Investing activities generated cash in 2009 primarily due to the net proceeds of $1,155 million, received from Ericsson in relation to the creation of ST-Ericsson. Payments for the purchase of tangible assets totaled $451 million, a significant reduction from the $984 million registered in the equivalent prior year period. Furthermore, in 2009, we made payments of $1,730 million for the purchases of marketable securities, while we collected $1,446 million upon the sales of marketable securities largely due to their maturity dates.

Net cash from (used in) financing activities.

Net cash used in financing activities was $493 million in 2009 compared to the $87 million used in 2008. The 2009 amount included $158 million as dividends paid to shareholders, $134 million as repayment at maturity of long-term debt, $103 million related to the repurchase of the 2016 Bonds and $92 million of purchase of equity from non-controlling interests related to the acquisition of NXP's 20% stake in ST-NXP Wireless. There were no proceeds from long-term debt in 2009, while the corresponding amount in 2008 was $663 million.

Net operating cash flow.

We also present net operating cash flow defined as net cash from (used in) operating activities plus (minus) net cash from (used in) investing activities, excluding payment for purchases of and proceeds from the sale of marketable securities (both current and non-current), short-term deposits and restricted cash. We believe net operating cash flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operating activities. Net operating cash flow does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. In addition, our definition of net operating cash flow may differ from definitions used by other companies. Net operating cash flow is determined as follows from our audited Consolidated Statement of Cash Flows:

	Year ended December 31,	
	2009	**2008**
	(in millions)	
Net cash from (used in) operating activities	$1,209	$1,943
Net cash from (used in) investing activities	(103)	(2,639)
Payment for purchase and proceeds from sale of marketable securities (current and non-current), short-term deposits and restricted cash, net	258	(351)
Net operating cash flow	**$1,364**	**$(1,047)**

We had favorable net operating cash flow of $1,364 million in 2009, significantly higher compared to net negative operating cash flow of $(1,047) million in 2008, mainly as a result of the $1,137 million, net of related fees, received from EMP as part of the creation of the ST-Ericsson joint venture. Excluding the effects of business combinations, net operating cash flow was favorable by $227 million in 2009, decreasing compared to favorable net operating cash flow of $648 million in 2008, because of the deterioration in our operating results which negatively impacted the net cash from operating activities.

Capital Resources

Net financial position

Our net financial position represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, net of bank overdrafts, current marketable securities included in the other current financial assets, non-current marketable securities and restricted cash, both included in other non-current financial assets, short-term deposits and our total financial debt includes the current portion of long-term debt and long-term debt, as represented in our consolidated balance sheet. We believe that the net financial position measure provides useful information for investors because it gives evidence of our global position either in terms of net indebtedness or net cash by measuring our capital resources based on cash, cash equivalents and marketable securities and the total level of our financial indebtedness. Our net financial position has been determined as follows from our Consolidated Statement of Financial Position at December 31, 2009:

	Year Ended December 31,	
	2009	**2008**
	(in millions)	
Cash and cash equivalents, net of bank overdrafts	$1,588	$989
Other current financial assets (1)	1,032	651
Other non-current financial assets (2)	292	492
Total financial resources	2,912	2,132
Current portion of long-term debt	(201)	(138)
Long-term debt (3)	(2,194)	(2,403)
Total financial debt	(2,395)	(2,541)
Net financial position	**$517**	**$(409)**

(1) This item is computed using the statement of financial position amount of $1, 068 million excluding the derivatives of $36 million.

(2) This item is computed using the statement of financial position amount of $510 excluding the long-term note of Numonyx, available for sale listed and unquoted shares and other non-current financial assets, totaling $218 million.

(3) The total long term debt amount differs from the one disclosed in our consolidated financial statements prepared under US GAAP due to the debt bi-furcating accounted for under IFRS and differences in accounting for financial leasing.

Our net financial position as of December 31, 2009 resulted in a net cash position of $517 million, representing a solid improvement compared to the net debt of $409 million at December 31, 2008, due to the proceeds from the ST-Ericsson business combination and favorable net operating cash flow. In the same period, both our cash position and our current marketable securities portfolio increased significantly to $1,588 million and $1,032 million, respectively, while total financial debt decreased by $146 million.

At December 31, 2009, the aggregate amount of our long-term debt, including the current portion, was $2,395 million, which included $753 million of our 2016 Convertible Bonds, $720 million of our 2013 Senior Bonds (corresponding to €500 million at issuance) and $672 million in European Investment Bank loans (the "EIB Loans"). The EIB Loans represent two committed credit facilities as part of R&D funding programs. The first, for €245 million for R&D in France was fully drawn in U.S. dollars for a total amount of $341 million, of which $49 million had been paid back at December 31, 2009. The second, signed on July 21, 2008, for €250 million for R&D projects in Italy, was fully drawn in U.S. dollars for $380 million at December 31, 2009. Additionally, we had unutilized committed medium term credit facilities with core relationship banks totaling $500 million. Furthermore, the aggregate amount of our total available short-term credit facilities, excluding foreign exchange credit facilities, was approximately $759 million at December 31, 2009. In addition, as the parent companies, we and Ericsson have granted ST-Ericsson a $25 million committed facility and $25 million unutilized committed lines, respectively. The withdrawal of that line is subject to approval of the parent companies at STE's Board of Directors. We also maintain uncommitted foreign exchange facilities totaling $714 million at December 31, 2009. At December 31, 2009, the amounts available under the short-term lines of credit were not reduced by any borrowing.

Our long-term capital market financing instruments contain standard covenants, but do not impose minimum financial ratios or similar obligations on us. Upon a change of control, the holders of our 2016 Convertible Bonds and 2013 Senior Bonds may require us to repurchase all or a portion of such holder's bonds.

Two-year comparison

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

Total Revenues

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

In 2009, our net revenues decreased significantly due to the difficult market environment experienced overall by the semiconductor industry. Our revenues performance was basically in line with the SAM's decline. The majority of our market segments was negatively impacted by these difficult conditions and registered declining rates, except for Telecom, which benefited from the additional contribution of the NXP and EMP wireless businesses integrated in August 2008 and February 2009, respectively. Such a negative trend in our revenues was driven by the large drop in units sold since average selling prices basically remained flat as a result of an improved product mix.

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

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

Gross profit

	Year Ended December 31,		
	2009	2008	% Variation
	(audited, in millions)		
Cost of sales	$(6,268)	$(6,585)	4.8%
Gross profit	$2,242	$3,257	(31.2)%
Gross margin (as a percentage of net revenues)	26.3%	33.1%	-

Our gross profit in 2009 was largely penalized by unused capacity charges of $322 million, due to the significant underloading of our wafer fabs planned in response to dropping demand and coupled with our substantial reduction in inventory, as well as the associated manufacturing inefficiencies. Consequently, our gross margin was largely below the previous year's result, totaling 26.3%, or a drop of 6.8 percentage points, with unused capacity charges estimated to account for approximately 4 percentage points. Our cost of sales included $136 million charges related to our ongoing restructuring manufacturing programs, compared to $202 million in 2008.

The amortization of previously capitalized development expenses was $252 million in 2009, increasing compared to $135 million in 2008.

On the other hand, gross profit and gross margin in 2009 benefited from the positive impact of the strengthening U.S. dollar.

Selling, general and administrative expenses

	Year Ended December 31,		
	2009	2008	% Variation
	(audited, in millions)		
Selling, general and administrative expenses	$(1,199)	$(1,219)	1.6%
As a percentage of net revenues	(14.1)%	(12.4)%	-

Our selling, general and administrative expenses decreased by 1.6% in spite of additional activities related to the integration of the NXP and EMP businesses, mainly due to the favorable impact of the strengthening U.S. dollar exchange rate and savings from the progression of cost restructuring plans. As a percentage of revenues, they increased to 14.1% compared to the prior year, due primarily to the sharp decline in our revenues. The 2009 amount included $24 million of restructuring charges related to our ongoing headcount reduction plans, compared to $31 million in 2008. The 2009 amount also included $19 million of share-based compensation charges compared to $37 million in 2008.

Research and development expenses

	Year Ended December 31,		
	2009	2008	% Variation
	(audited, in millions)		
Research and development expenses	$(2,079)	$(1,859)	(11.8)%
As a percentage of net revenues	(24.4)%	(18.9)%	-

On a year-over-year basis, our R&D expenses increased in line with the expansion of our activities, including, primarily, the integration of the businesses from NXP and Ericsson. Our 2009 R&D expenses also benefited from a stronger U.S. dollar exchange rate and savings from the progression of cost restructuring plans for both us and ST-Ericsson. In 2009 we had capitalized the development expenses for an amount of $438 million, compared to $273 in 2008, such increase of the capitalized amount is also associated with the integrated wireless businesses. The 2009 amount included $106 million of restructuring charges related to our ongoing headcount reduction plans, compared to $33 million in 2008. The 2009 amount also included $11 million of share-based compensation charges compared to $24 million in 2008. Furthermore, there was $55 million related to amortization charges generated by recently integrated intangibles, while the year ago period included $23 million of such amortization charges and $97 million as IP R&D. R&D expenses in 2009 were net of research tax credits, which amounted to $110 million, decreasing $7 million compared to the year-ago period.

Other income

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Research and development funding	$201	$83
Foreign exchange forward contracts	59	(3)
Settlement of patent litigation	16	-
Net foreign exchange gain	-	20
Gain on sale of other non-current assets	3	4
Change in fair value of interest swap	-	15
Other	-	12
Total other income	**$279**	**$131**
As a percentage of net revenues	3.2%	1.3%

Other income mainly included items such as R&D funding and foreign exchange forward contracts. R&D funding income was associated with our R&D projects, which, upon project approval, qualifies as funding pursuant to contracts with local government agencies in locations where we pursue our activities. In 2009, the balance of these factors resulted in an income of $201 million, a significant improvement compared to the equivalent period in 2008, resulting from the booking of new funding for an R&D program in France and the catch-up of 2008 projects signed in 2009.

Other expenses

	Year Ended December 31,	
	2009	**2008**
	(audited, in millions)	
Start-up/Phase-out costs	(39)	(17)
Patent litigation costs	(21)	(24)
Change in fair value of interest swap	(8)	-
Net foreign exchange loss	(5)	-
Write-off of ST-NXP wireless call option	-	(24)
Other	(5)	(1)
Total other expenses	**$(78)**	**$(66)**
As a percentage of net revenues	(0.9)%	(0.7)%

Other expenses mainly included items such as phase-out/start up costs and patent litigation costs. The higher level of phase-out costs in 2009 as compared to 2008 was associated with the closure of our facilities in Carrollton (Texas) and Ain Sebaa (Morocco).

Impairment on assets held for sale and related costs

	Year Ended December 31,	
	2009	**2008**
	(audited, in millions)	
Impairment on assets held for sale and other related costs	$(25)	$(105)

In 2009 we recorded a $25 million as impairment charges on the fair value of Carrollton and Phoenix assets.

Operating profit (loss)

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Operating profit (loss)	$(860)	$139
As a percentage of net revenues	(10.1)%	1.4%

Our operating results were largely impacted by the strong decline in revenues, which also triggered the recognition of significant underutilization charges. As a result, we registered an operating loss of $860 million, as compared to operating profit of $139 million in 2008.

Impairment and realized loss on available-for-sale investments

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Impairment and realized loss on available-for-sale investments	$(140)	$(138)

The 2009 amount is related to an impairment of $72 million and a realized loss of $68 million, both linked to the portfolio of Auction Rate Securities (“ARS”) purchased on our account by Credit Suisse contrary to our instruction. See “Liquidity and Capital Resources.”

Finance income

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Finance income	$76	$145

We recorded finance income of $76 million, which decreased compared to previous periods as a result of significantly lower U.S. dollar and Euro denominated interest rates, despite a higher amount of cash and cash equivalents.

Finance costs

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Finance costs	$(63)	$(121)

We recorded finance costs of $63 million, which decreased compared to previous periods as a result of significantly lower U.S. dollar and Euro denominated interest rates and stronger net financial position. The favorable impact of lower interest rates on our financial liabilities at floating rate resulted in a lower average cost of debt of 1.18%.

Share of loss of associates

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Share of loss in associates	$(95)	$(60)

The 2009 amount represented a loss of $95 million, which includes our net proportional share of the loss reported by Numonyx, a loss related to our proportionate share in ST-Ericsson JVD as a loss pick-up including an amortization of basis difference and minor losses related to other investments.

In 2008, our share of loss of associates included our minority interest in the joint venture with Hynix Semiconductor in China, which was transferred to Numonyx on March 30, 2008.

Impairment on investment in associates

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Impairment on investments in associates	$(211)	$(494)

The 2009 amount represented a loss of $211 million, fully relating to an additional impairment loss booked in the first quarter of 2009 on our Numonyx equity investment.

Loss on convertible debt repurchase

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Loss on convertible debt repurchase	$(7)	$-

The $7 million loss on convertible debt repurchase is related to the repurchase of bonds in December 2009. Please see “Capital Resources”.

Income tax benefit

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Income tax benefit	$76	$11

In 2009, we registered an income tax benefit of $76 million, reflecting the actual tax benefit estimated on our loss before income taxes in each of our jurisdictions.. This benefit was net of valuation allowances on our deferred tax asset associated with our estimates of the net operating loss recoverability in certain jurisdictions and provisions for probable tax claims.

Net loss (income) attributable to non-controlling interest

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Net loss (income) attributable to non-controlling interest	$221	$(1)
As a percentage of net revenues	2.6%	(0.01)%

In 2009, we booked $221 million income, which primarily represented the share of the loss attributable to non-controlling interest that included the 20% owned by NXP in the ST-NXP joint venture for the month of January 2009 and the 50% owned by Ericsson in the consolidated ST-Ericsson Holding AG as of February 2009. This amount reflected their share in the joint venture’s losses.

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

Net loss attributable to parent company

	Year Ended December 31,	
	2009	2008
	(audited, in millions)	
Net loss attributable to parent company	$(1,003)	$(519)
As a percentage of net revenues	(11.8)%	(5.3)%

In 2009, we reported a loss of $1,003 million because of adverse economic conditions, which negatively impacted our operations and certain non-operating charges. In 2008, we had a net loss of $519 million.

Loss per share was $(1.14) in 2009 compared to $(0.58) in 2008.

Risk management and internal control

Risks Related to the Semiconductor Industry which Impact Us

Below we discuss the main risks factors related to the semiconductor industry and specifically related to our operations, which may affect the result and performance of STMicroelectronics and the ability of management to predict the future.

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

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

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

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

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

- delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of overall economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives or new product development;
- closure or underloading of wafer fabrication plants (“fabs”);
- decreased valuations of our equity investments;
- increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by the economic downturn; and
- impairment of goodwill or other assets.

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

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

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

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

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

- price;
- technical performance;
- product features;
- product system compatibility;
- product design and technology;
- timely introduction of new products;
- product availability;
- manufacturing yields; and
- sales and technical support.

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

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

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

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

Even after obtaining a product design win from one of our customers, we may still experience delays in generating revenue from our products as a result of our customers’ or our lengthy development and design cycle. In addition, a delay or cancellation of a customer’s plans could significantly adversely affect our financial results, as we may have incurred significant expense and generated no revenue at the time of such delay or cancellation. Finally, if our customers fail to successfully market and sell their own products, it could materially adversely affect our business, financial condition and results of operations as the demand for our products falls.

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

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

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

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

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

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

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

Risks Related to Our Operations

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

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

In 2008, we divested our Flash Memory activities by combining our business with that of Intel and creating Numonyx, an independent semiconductor company in the area of Flash memories. On February 10, 2010, we announced that, together with our partners Intel Corporation and Francisco Partners, we have entered into a definitive agreement with Micron, pursuant to which it will acquire Numonyx in an all-stock transaction. There is no assurance when, or if, this transaction will close. Furthermore, there is no guaranty that the transaction will close pursuant to the terms currently planned.

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

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

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

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

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

- diversion of management's attention;
- insufficient IP rights or potential inaccuracies in the ownership of key IP;
- assumption of potential liabilities, disclosed or undisclosed, associated with the business acquired, which liabilities may exceed the amount of indemnification available from the seller;
- potential inaccuracies in the financials of the business acquired;
- that the businesses acquired will not maintain the quality of products and services that we have historically provided;
- whether we are able to attract and retain qualified management for the acquired business;
- whether we are able to retain customers of the acquired entity; and
- management, reporting and forecasting related to a 50-50 joint venture that is fully consolidated in our results.

Other risks associated with our divestiture activities include:

- diversion of management's attention;
- loss of activities and technologies that may have complemented our remaining businesses or operations;
- loss of important services provided by key employees that are assigned to divested activities; and
- social issues or restructuring costs linked to divestitures and closures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We continue to believe that we can maintain proprietary R&D for derivative technology investments and share R&D business models, which are based on cooperation and alliances, for core R&D process technology if we receive adequate support from state funding, as in the case of the Crolles Nano 2012 frame agreement signed by us with the French government in 2009, which includes certain conditions of employment and manufacturing capacity to be met by 2012. This, coupled with manufacturing and foundry partnerships, provides us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. In addition, it contributes to the fast acceleration of semiconductor process technology development while allowing us to lower our development and manufacturing costs. However, there can be no assurance that alliances will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. Certain companies develop their own process technologies, which may be more advanced than the technologies we develop through our cooperative alliances. Furthermore, if these alliances terminate before our intended goals are accomplished we may lose our investment, or incur additional unforeseen costs, and our business, results of operations and prospects could be materially adversely affected. In addition, if we are unable to develop or otherwise access new technologies independently, we may fail to keep pace with the rapid technology advances in the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share in the market addressed by our products.

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

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

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

- performance of our key customers in the markets they serve;
- order cancellations or reschedulings by customers;
- excess inventory held by customers leading to reduced bookings or product returns by key customers;
- manufacturing capacity and utilization rates;
- restructuring and impairment charges;
- losses on equity investments;
- fluctuations in currency exchange rates, particularly between the U.S. dollar and other currencies in jurisdictions where we have activities;
- IP developments;
- changes in distribution and sales arrangements;
- failure to win new design projects;
- manufacturing performance and yields;
- product liability or warranty claims;
- litigation;
- acquisitions or divestitures;
- problems in obtaining adequate raw materials or production equipment on a timely basis;
- property loss or damage or interruptions to our business, including as a result of fire, natural disasters or other disturbances at our facilities or those of our customers and suppliers that may exceed the amounts recoverable under our insurance policies;

- changes in the market value or yield of the financial instruments in which we invest our liquidity; and
- a substantial part of our business is run through joint ventures whose management acts independently pursuant to the joint ventures' rule of governance.

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

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

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

- spending levels of the market segment participants;
- reduced demand resulting from a drop in consumer confidence and/or a deterioration of general economic conditions;
- development of new consumer products or applications requiring high semiconductor content;
- evolving industry standards; and
- the rate of adoption of new or alternative technologies.

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

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

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

adversely affect our business, financial position and results of operations.

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

A substantial portion of our sales is derived from several large customers, some of whom have entered into strategic alliances with us. We cannot guarantee that our largest customers will continue to book the same level of sales with us that they have in the past and will not solicit alternative suppliers. Many of our key customers operate in cyclical businesses that are also highly competitive, and their own demands and market positions may vary considerably. In recent years, certain customers of the semiconductor industry have experienced consolidation. Such consolidations may affect our business in the sense that our relationships with the new entities could be either reinforced or jeopardized pursuant thereto. Our customers have in the past, and may in the future, vary order levels significantly from period to period, request postponements to scheduled delivery dates or modify their bookings. We cannot guarantee that we will be able to maintain or enhance our market share with our key customers or distributors. If we were to lose important design wins for our products with our key customers, or if any key customer or distributors were to reduce or change its bookings, seek alternate suppliers, increase its product returns or become unable or fail to meet its payment obligations, our business financial condition and results of operations could be materially adversely affected. Some of our customers have recently faced financial difficulties and liquidity constraints, which have made them unable to fulfill their contractual obligations, or could make them unable to fulfill such obligations in the future. If customers do not purchase products made specifically for them, we may not be able to resell such products to other customers or require the customers who have ordered these products to pay a cancellation fee. Furthermore, developing industry trends, including customers' use of outsourcing and new and revised supply chain models, may reduce our ability to forecast the purchase date for our products and evolving customer demand, thereby affecting our revenues and working capital requirements. For example, pursuant to industry developments, some of our products are required to be delivered on consignment to customer sites with recognition of revenue delayed until such moment, which must occur within a defined period of time, when the customer chooses to take delivery of our products from our consignment stock.

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

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

We last performed our annual impairment testing in the third quarter of 2009, while the value generated by all of our product segments exceeded the carrying value of their assets. While we recorded specific impairment charges related to the carrying value of certain marketable securities and equity investments during the period, a minor impairment charge was indicated by such analyses on the net value of our assets subject to testing. However, many of the factors used in assessing fair values for such assets are outside of our control and the estimates used in such analyses are subject to change. Due to the ongoing uncertainty of the current market conditions, which may continue to negatively affect our market value, we will continue to monitor the carrying value of our assets. If market and economic conditions further deteriorate, this could result in future non-cash impairment charges against income. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic transactions, including ST-Ericsson, especially if it is unable to complete its ongoing restructuring plans or successfully compete, and possible further impairment charges relating to our investment in Numonyx (in the event its sale to Micron is not finalized), particularly, in the event of a downward shift in expected revenues or operating cash flow.

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

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

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

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

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

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

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

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

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

We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other IP rights. Competitors with whom we do not have patent cross license agreements may also develop technologies that are protected by patents and other IP rights and which may be unavailable to us or only made available on unfavorable terms and conditions. We may therefore become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. We are currently involved in several lawsuits, including litigation before the U.S. International Trade Commission. Such lawsuits may have a material adverse effect on our business if we do not prevail. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third party IP and/or face an injunction.

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

We may be faced with product liability or warranty claims.

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

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

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

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

Loss of key employees could hurt our competitive position.

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

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

We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules or the outcome of tax assessments and audits could have a material adverse effect on our results in any particular quarter. Our tax rate is variable and depends on changes in the level of operating profits within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. We currently receive certain tax benefits in some countries, and these benefits may not be available in the future due to changes in the local jurisdictions. As a result, our effective tax rate could increase in the coming years.

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

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

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

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

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

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

Our reporting under two different accounting standards filed with the relevant regulatory authorities, also now in interim periods, could result in confusion if recipients of the information do not properly distinguish between the information reported using U.S. GAAP and the information reported using IFRS, particularly when viewing our profitability and operating margins under one or the other set of accounting standards. Given this risk, and the complexity of maintaining and reviewing two sets of accounts, we are considering reporting primarily under IFRS at some point in the future.

If our internal control over financial reporting fails to meet the requirements, it may have a materially adverse effect on our stock price.

The Managing Board is responsible for ensuring that STMicroelectronics complies with all applicable legislation and regulations. As such, under the guidance of the Executive Vice President and Chief Financial Officer, who reports to the Managing Board, the Managing Board has established and implemented our internal risk management and control systems. The effectiveness of our internal controls and procedures is evaluated regularly, and changes to such internal controls and procedures, as well as any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to affect our ability to record, process or summarize and report financial information are disclosed to our auditors and to the Audit Committee of our Supervisory Board.

We rely on ST-Ericsson's CEO and CFO certification of internal control at ST-Ericsson and their affiliates that are an integral part of our Consolidated Financial Statements but act as independent companies under the 50-50% governance structure of their two parents.

In short, our internal risk management and control system cannot provide absolute assurance, but aims at a reasonable level of assurance, that the realization of strategic and operational objectives is monitored, the financial reporting is reliable and, where relevant, applicable laws and regulations are complied with.

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

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

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

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

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

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

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

We have also been informed that the shareholders' agreement among ST Holding's shareholders (the "STH Shareholders' Agreement"), to which we are not a party, governs relations between our current indirect shareholders Areva Group ("Areva"), Cassa Depositi e Prestiti S.p.A. ("CDP") and Commissariat à l'Energie Atomique ("CEA"), each of which is ultimately controlled by the French or Italian government. The STH Shareholders' Agreement includes provisions requiring the unanimous approval by shareholders of ST Holding before ST Holding can make any decision with respect to certain actions to be taken by us. Furthermore, as permitted by our Articles of Association, the Supervisory Board has specified selected actions by the Managing Board that require the approval of the Supervisory Board. These requirements for the prior approval of various actions to be taken by us and our subsidiaries may give rise to a conflict of interest between our interests and investors' interests, on the one hand, and the interests of the individual shareholders approving such actions, on the other, and may affect the ability of our Managing Board to respond as may be necessary in the rapidly changing environment of the semiconductor industry. Our ability to issue new shares or other securities may be limited by the existing shareholders' desire to maintain their proportionate shareholding at a certain minimum level and our ability to buy back shares may be limited by our existing shareholders due to a Dutch law that may require shareholders that own 30% or more of our voting rights to launch a tender offer for our outstanding shares. Dutch law, however, requires members of our Supervisory Board to act independently in supervising our management and to comply with applicable corporate governance standards.

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

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

No preference shares have been issued to date. The effect of the preference shares may be to create a level playing field as well as to deter potential acquirers from effecting an unsolicited acquisition resulting in a change of control or otherwise taking actions considered hostile by our Managing Board and Supervisory Board. In addition, any issuance of additional capital within the limits of our authorized share capital, as approved by our shareholders, is subject to the requirements of our Articles of Association.

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

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

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

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

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

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

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

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

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

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

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

Internal control

The Managing Board is responsible for ensuring that STMicroelectronics complies with all applicable legislation and regulations. As such, under the guidance of the Executive Vice President and Chief Financial Officer, who reports to the Managing Board, the Managing Board has established and implemented our internal risk management and control systems. These controls and procedures are based on the identification of external and internal risks factors that could influence our operations and financial objectives and contain a system of monitoring, reporting and operational reviews.

The effectiveness of our internal controls and procedures is evaluated regularly, and changes to such internal controls and procedures, as well as any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to affect our ability to record, process or summarize and report financial information are disclosed to our auditors and to the Audit Committee of our Supervisory Board. Likewise any fraud, whether or not material, that involves management or other employees who have a significant role in our internal control over financial reporting are disclosed to our auditors, and to the Audit Committee of our Supervisory Board.

In the various areas of business risk management we have established corporate policies and procedures which set forth principles, business rules of behavior and conduct which are considered to be consistent with proper business management, in line with our mission and strategic objectives. We rely on ST-Ericsson's CEO and CFO certification of internal control at ST-Ericsson and their affiliates that are an integral part of our perimeter of consolidation but act as independent companies under the 50-50% governance structure of their two parents.

We have adopted 'Corporate Standard Operating Procedures' to describe the operational flow of actions to perform a task or activity, or to implement a policy within a given functional field. We have over one hundred standard operating procedures which cover a wide range of activities such as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets and segregation of duties, which are deployed throughout our organization, and which may be completed as and when required by local operating procedures.

We have an internal audit organization, which performs general scope internal audits covering various areas, such as information technology, logistics and inventory management, human resources and payroll, internal control systems, security, purchasing, treasury, etc. The audit plans for our internal audit organization are reviewed at least once a year by the Audit Committee of our Supervisory Board.

In short, our internal risk management and control system cannot provide absolute assurance, but aims at a reasonable level of assurance, that realization of strategic and operational objectives is monitored, the financial reporting is reliable and where relevant applicable laws and regulations are complied with.

The Managing Board believes that the internal risk management and control systems in place provide a reasonable level of assurance that the financial reporting of STMicroelectronics and its subsidiaries does not include material misstatements. In relation to the financial reporting of STMicroelectronics and its subsidiaries, these systems operated properly during 2009 and there are no indications that, in relation to the reporting of STMicroelectronics and its subsidiaries, these systems will not operate properly in 2010.

Our internal risk management and control systems, including the structure and operation thereof, were discussed and evaluated on several occasions with the Audit Committee and the Supervisory Board during 2009 (in accordance with best practice provision III.1.8 of the Dutch Governance Code).

Changes in Internal Control over Financial Reporting

Other than for our wireless business, there were no changes in our internal control over financial reporting that occurred during the period covered by the annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During 2009, our wireless business merged with EMP into a new JV Company owned 50% plus + 1 share by us and governed by a Board of Directors comprised of 8 members, half designated by us and half by Ericsson. The design and operation of ST-Ericsson's internal control is under the responsibility of ST-Ericsson's CEO and CFO, on whose certification we rely.

Risk Management and Insurance

We cover our industrial and business risks through insurance contracts with top ranking insurance carriers, to the extent reasonably permissible by the insurance market, which does not provide insurance coverage for certain risks and imposes certain limits, terms and conditions on coverage that it does provide.

Risks may be covered either through local policies or through corporate policies negotiated on a worldwide level for the ST Group of Companies. Corporate policies are negotiated when the risks are recurrent in several of our affiliated companies.

Currently we have four corporate policies covering the following risks:

- Property damage and business interruption;
- General liability and product liability;
- Directors and officers liability; and
- Transportation risks.

Our policies generally cover a twelve-month period although may be subscribed for a longer period if conditions for a longer term arrangement are deemed beneficial to us. Such policies are subject to certain terms and conditions, exclusions and limitations, generally in line with prevailing conditions, exclusions and limitations, in the insurance market. Pursuant to such conditions, risks such as terrorism, earthquake, fire, floods and loss of production, may not be fully insured and we may not, in the event of a claim under a policy, receive an indemnification from our insurers commensurate with the full amount of the damage we have incurred. Furthermore, our product liability insurance covers physical and direct damages, which may be caused by our products, however, immaterial, non-consequential damages resulting from failure to deliver or delivery of defective products are generally not covered because such risks are considered to occur in the ordinary course of business and cannot be insured. We may decide to subscribe for excess coverage in addition to the coverage provided by our standard policies. If we suffer damage or incur a claim, which is not covered by one of our corporate insurance policies, this may have a material adverse effect on our results of operations.

We also perform annual assessments through an external consultant of our risk exposure in the field of property damage/business interruption in our production sites, to assess potential losses, and actual risk exposure. Such assessments are provided to our underwriters. We do not own or operate any insurance captive, which acts an insurer for our own risks, although we may consider such an option in the future.

Cautionary note regarding forward-looking statements

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

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

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

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

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

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

- our ability to successfully integrate the acquisitions we pursue without incurring additional significant impairment and restructuring charges, in particular the successful integration and operation of the ST-Ericsson joint venture, as well as the completion as planned of ongoing restructuring initiatives undertaken by ST-Ericsson management

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

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

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

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

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

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

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

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

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

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward-looking terminology, such as “believes”, “expects”, “may”, “are expected to”, “should”, “would be”, “seeks” or “anticipates” or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in our annual report 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 our annual report to reflect subsequent events or circumstances.

Report of the Supervisory Board

The supervision of the policies and actions of the Managing Board is entrusted to the Supervisory Board, which, in the two-tier corporate structure under Dutch law, is a separate body and fully independent of the Managing Board. In fulfilling their duties under Dutch law, the Supervisory Board members serve the best interests of all STMicroelectronics's shareholders and other stakeholders, as well as those of STMicroelectronics's business.

The Supervisory Board supervises and advises the Managing Board in performing its management tasks and setting the direction of STMicroelectronics's affairs and business. The members of the Supervisory Board are carefully selected based on their combined expertise, their knowledge of STMicroelectronics and its affairs, and of the business in which STMicroelectronics operates. The Supervisory Board is empowered to recommend to the general meeting of shareholders persons to be appointed as members of the Supervisory Board or of the Managing Board.

The Supervisory Board, advised and assisted by its various committees, including the Strategic Committee, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee which all report to it, supervises the structure and management of systems of internal business controls, risk management, strategy and the financial reporting process. In addition, it determines the remuneration of the sole member of the Managing Board within the remuneration policy adopted by the general meeting of shareholders.

The Supervisory Board has established the following independence criteria for its members: Supervisory Board members must have no material relationship with STMicroelectronics or any of STMicroelectronics's consolidated subsidiaries, or STMicroelectronics's management. A "material relationship" can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others, but does not include a relationship with direct or indirect shareholders. Annex A to the Supervisory Board Charter, as posted on our website, contains examples of persons which would not be considered independent in any case.

The Supervisory Board also adopted specific bars to independence. On that basis, the Supervisory Board concluded, in its business judgment, that all members qualify as independent based on the criteria set forth above.

The Supervisory Board is pleased to report to STMicroelectronics's shareholders the various activities of the Supervisory Board and the Supervisory Board Committees in 2009.

Composition of the Supervisory Board and its committees

Directors and Senior Management

The management of STMicroelectronics is entrusted to the Managing Board under the supervision of the Supervisory Board.

Supervisory Board

Our Supervisory Board consists of such number of members as is resolved by our annual shareholders' meeting upon a non-binding proposal of our Supervisory Board, with a minimum of six members. Decisions by our annual shareholders' meeting concerning the number and the identity of our Supervisory Board members are taken by a simple majority of the votes cast at a meeting, provided quorum conditions are met (15% of our issued and outstanding share capital present or represented). If a quorum is not present, a further meeting can be convened which shall be entitled, irrespective of the share capital represented, to pass a resolution by a simple majority.

Our Supervisory Board currently has the following nine members:

Name	Position	Year Appointed[1]	Term Expires	Age
Antonino Turicchi	Chairman	2008[2]	2011	44
Gérald Arbola	Vice-Chairman	2004	2011	61
Raymond Bingham	Member	2007	2010	64
Douglas Dunn	Member	2001	2012	65
Didier Lamouche	Member	2006	2012	50
Didier Lombard	Member	2004	2011	68
Alessandro Ovi	Member	2007[3]	2010	66
Bruno Steve	Member	1989	2011	68
Tom de Waard	Member	1998	2011	63

(1) As a member of the Supervisory Board.
(2) Mr. Turicchi was also a Supervisory Board member from 2005-2007.
(3) Mr. Ovi was also a Supervisory Board member from 1994-2005.

At our annual shareholders' meeting in 2010, the mandates of Messrs. Bingham and Ovi will expire. The mandates of Messrs. Arbola, de Waard, Lombard, Steve and Turicchi will expire at our annual shareholders' meeting in 2011 and the mandates of Messrs. Dunn and Lamouche will expire at our annual shareholders meeting in 2012.

Resolutions of our Supervisory Board require the approval of at least three-quarters of its members in office. Our Supervisory Board must meet upon request by two or more of its members or by our Managing Board. Our Supervisory Board has established procedures for the preparation of Supervisory Board resolutions and the calendar for Supervisory Board meetings. Our Supervisory Board meets at least five times a year, including once per quarter to approve our quarterly and annual accounts and their release. Our Supervisory Board has adopted a Supervisory Board Charter setting forth its duties, responsibilities and operations, as mentioned below. This charter is available on our website at http://www.st.com/stonline/company/governance/index.htm.

Pursuant to Dutch law, there is no mandatory retirement age for members of our Supervisory Board. Members of the Supervisory Board may be suspended or dismissed by our annual shareholders' meeting. Our Supervisory Board may make a proposal to our annual shareholders' meeting for the suspension or dismissal of one or more of its members. The members of our Supervisory Board receive compensation as authorized by our annual shareholders' meeting. Each member of our Supervisory Board must resign no later than three years after appointment, as described in our Articles of Association, but may be reappointed following the expiration of his term of office.

Biographies

Antonino Turicchi was re-appointed as a member of our Supervisory Board at our 2008 annual shareholders' meeting on May 14, 2008. He was also appointed Chairman of our Supervisory Board at that time. Mr. Turicchi is the Chairman of our Supervisory Board's Strategic Committee, as well as its Compensation Committee, and also serves on the Nominating and Corporate Governance Committee. Mr. Turicchi was the General Manager of Cassa Depositi e Prestiti from June 2002 until January 2009, and has been a member of the Supervisory Board of Numonyx since March 2008. Since 1994, Mr. Turicchi has held positions with the Italian Ministry of the Treasury (now known as the Ministry of the Economy and Finance). In 1999, he was promoted as the director responsible for conducting securitization operations and managing financial operations as part of the treasury's debt management functions. Between 1999 and June 2002, Mr. Turicchi was also a member of the board of Mediocredito del Friuli; from 1998 until 2000, he served on the board of Mediocredito di Roma; and from 2000 until 2003, he served on the board of EUR S.p.A. He also served as deputy chairman of Infrastrutture S.p.A. from December 2002 to January 2006 and he was previously a member of our Supervisory Board from March 2005 to April 2007. Mr Turicchi has the Italian nationality.

Gérald Arbola was appointed to our Supervisory Board at our 2004 annual shareholders' meeting and was reelected at our 2005 annual shareholders' meeting. Mr. Arbola was appointed the Vice-Chairman of our Supervisory Board on May 14, 2008. Mr. Arbola previously served as Chairman of our Supervisory Board from March 18, 2005 through May 13, 2008. Mr. Arbola serves on the Supervisory Board's Compensation Committee, Strategic Committee and Nominating and Corporate Governance Committee. Mr. Arbola is now Managing Director of Areva S.A., where he had also served as Chief Financial Officer, and is a member of the Executive Board of Areva since his appointment on July 3, 2001, which was renewed on June 29, 2006. Mr. Arbola joined the AREVA NC group (ex Cogema) in 1982 as Director of Planning and Strategy for SGN, then served as Chief Financial Officer at SGN from 1985 to 1989, becoming Executive Vice President of SGN in 1988 and Chief Financial Officer of AREVA NC in 1992. He was appointed as a member of the executive committee in 1999, and also served as Chairman of the Board of SGN in 1997 and 1998. Mr. Arbola is currently a member of the board of directors of AREVA NC, AREVA NP, and Areva T&D Holdings. On July 22, 2008, he was nominated the director of the Suez Environment Company, and he has been co-President of the Areva Foundation since September 2006. Mr. Arbola is a graduate of the Institut d'Etudes Politiques de Paris and holds an advanced degree in economics. He is the Chairman of the Board of Directors of FT1CI and was the Chairman, until his resignation on November 15, 2006, of the Supervisory Board of ST Holding, our largest shareholder. In addition, he has been Director of the CEA since July 24, 2009. Mr Arbola has the French nationality.

Raymond Bingham was appointed to our Supervisory Board at our 2007 annual shareholders' meeting. He serves on the Audit Committee and the Strategic Committee. Since November 2006, Mr. Bingham has been a Managing Director of General Atlantic LLC, a global private equity firm. From August 2005 to October 2006, Mr. Bingham was a private investor. Mr. Bingham was Executive Chairman of the Board of Directors of Cadence Design Systems Inc., a supplier of electronic design automation software and services, from May 2004 to July 2005, and served as a director of Cadence from November 1997 to July 2005. Prior to being Executive Chairman, he served as President and Chief Executive Officer of Cadence from April 1999 to May 2004, and as Executive Vice President and Chief Financial Officer from April 1993 to April 1999. Mr. Bingham also serves as a Director of Oracle Corporation, Flextronics International, Ltd. and Dice Holdings. Mr Bingham has the US nationality.

Tom de Waard has been a member of our Supervisory Board since 1998. Mr. de Waard has been Chairman of the Audit Committee since 1999 and is also Chairman of the Nominating and Corporate Governance Committee. In addition, he serves on our Supervisory Board's Compensation Committee. Mr. de Waard has been a partner of Clifford Chance, a leading international law firm, since March 2000 and was the Managing Partner of Clifford Chance Amsterdam office from May 1, 2002 until May 1, 2005. From January 1, 2005 to January 1, 2007 he was a member of the Management Committee of Clifford Chance. Prior to joining Clifford Chance, he was a partner at Stibbe, where he held several positions since 1971 and gained extensive experience working with major international companies, particularly with respect to corporate finance. He is a member of the Amsterdam bar and was President of the Netherlands Bar Association from 1993 through 1995. He received his law degree from Leiden University in 1971. Mr. de Waard is the chairman of the Supervisory Board of BE Semiconductor Industries N.V. ("BESI") and a member of its audit compensation and nominating committees. In April 2010, Mr. de Waard was appointed to the Supervisory Board of Nuon Energy N.V., a Dutch energy company. Mr. de Waard is a member of the board of the foundation "Stichting Sport en Zaken". Mr De Waard has the Dutch nationality.

Douglas Dunn has been a member of our Supervisory Board since 2001 and has served on the Audit Committee since such time. He also serves on the Strategic Committee. He was formerly President and Chief Executive Officer of ASML Holding N.V. ("ASML"), an equipment supplier in the semiconductor industry, a position from which he retired in 2004. Mr. Dunn was appointed Chairman of the Board of Directors of ARM Holdings plc (United Kingdom) in October 2006. In 2005, Mr. Dunn was appointed to the board of Philips-LG LCD (Korea) (of which he is no longer a board member as of February 29, 2008), TomTom N.V. (Netherlands) and OMI, a privately-held company (Ireland) (which was sold in November 2007 and of which he is no longer a board member), and also serves as a non-executive director on the board of SOITEC (France). He is also a member of the audit committees of SOITEC and TomTom N.V., and a member of the Compensation Committee and Strategic Committee of SOITEC. In May 2009, Mr. Dunn was appointed to the Supervisory Board of BE Semiconductor Industries N.V. ("BESI") and is a member of its Audit and Compensation/Nomination Committees. Mr. Dunn was a member of the Managing Board of Royal Philips Electronics in 1998. From 1996 to 1998 he was Chairman and Chief Executive Officer of Philips Consumer Electronics and from 1993 to 1996 Chairman and Chief Executive Officer of Philips Semiconductors (now NXP Semiconductors). From 1980 to 1993 he was CEO of Plessey Semiconductors. Prior to this, he held several positions with Motorola Semiconductors (now Freescale). Mr Dunn has the UK nationality.

Didier Lamouche has been a member of our Supervisory Board since 2006 and is a member of the Audit Committee. Dr. Lamouche is a graduate of Ecole Centrale de Lyon and holds a PhD in semiconductor technology. He has over 25 years experience in the semiconductor industry. Dr. Lamouche started his career in 1984 in the R&D department of Philips before joining IBM Microelectronics where he held several positions in France and the United States. In 1995, he became Director of Operations of Motorola's Advanced Power IC unit in Toulouse (France). Three years later, in 1998, he joined IBM as General Manager of the largest European semiconductor site in Corbeil (France) to lead its turnaround and transformation into a joint venture between IBM and Infineon: Altis Semiconductor. He managed Altis Semiconductor as CEO for four years. In 2003, Dr. Lamouche rejoined IBM and was the Vice President for Worldwide Semiconductor Operations based in New York (United States) until the end of 2004. Since February 2005, Dr. Lamouche has been the Chairman and CEO of Groupe Bull, a France-based global company operating in the IT sector. He is also a member of the Board of Directors of SOITEC, on whose audit committee he serves, and Atari. Mr Lamouche has the French nationality.

Didier Lombard was first appointed to our Supervisory Board at our 2004 annual shareholders' meeting and was reelected at our 2005 annual shareholders' meeting. He serves on the Compensation, Strategic and Nominating and Corporate Governance Committees of our Supervisory Board. Mr. Lombard has served as Chairman of France Telecom since March 2005. He was also Chief Executive Officer of France Telecom from March 2005 through February 2010. Mr. Lombard began his career in the Research and Development division of France Telecom in 1967. From 1989 to 1990, he served as scientific and technological director at the Ministry of Research and Technology. From 1991 to 1998, he served as General Director for industrial strategies at the French Ministry of Economy, Finances and Industry, and from 1999 to 2003 he served as an Ambassador at large for foreign investments in France and as President of the French Agency for International Investments. From 2003 through February 2005, he served as France Telecom's Senior Executive Vice President in charge of technologies, strategic partnerships and new usages and as a member of France Telecom's Executive Committee. Mr. Lombard also spent several years as Ambassador in charge of foreign investment in France. Mr. Lombard is also a member of the Board of Directors of Thales and Technicolor, one of our customers, as well as a member of the Supervisory Board of Radiall. Mr. Lombard was also a member until his resignation on November 15, 2006 of the Supervisory Board of ST Holding, our largest shareholder. Mr. Lombard is a graduate of the Ecole Polytechnique and the Ecole Nationale Supérieure des Télécommunications. Mr Lombard has the French nationality.

Alessandro Ovi was a member of our Supervisory Board from 1994 until his term expired at our annual general shareholders' meeting on March 18, 2005. He was reappointed to our Supervisory Board at the 2007 annual shareholders' meeting and serves on the Strategic Committee. Mr. Ovi received a doctoral degree in Nuclear Engineering from the Politecnico in Milan and a Master's Degree in Operations Research from the Massachusetts Institute of Technology. He has been Special Advisor to the President of the European Community for five years and has served on the boards of Telecom Italia S.p.A, Finmeccanica S.p.A. and Alitalia S.p.A. Currently, he is also a director, and serves on the audit committee, of ENIA S.p.A. and Telecom Italia Media S.p.A. He is also a director of LandiRenzo Spa. Mr. Ovi is Life Trustee in Carnegie Mellon University and Member of the Board in the Italian Institute of Technology. Until April 2000, he was the Chief Executive Officer of Tecnitel S.p.A., a subsidiary of Telecom Italia Group. Prior to joining Tecnitel S.p.A., Mr. Ovi was the Senior Vice President of International Affairs and Communications at I.R.I. Mr Ovi has the Italian nationality.

Bruno Steve has been a member of our Supervisory Board since 1989 and has previously served as both its Chairman and Vice-Chairman. Mr. Steve currently serves on our Supervisory Board's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. He was with Istituto per la Ricostruzione Industriale-IRI S.p.A. ("I.R.I"), a former shareholder of Finmeccanica, Finmeccanica and other affiliates of I.R.I. in various senior positions for over 17 years. Mr. Steve is currently Chairman of the Statutory Auditors of Selex Galileo S.p.A. He previously served as Chairman of the Statutory Auditors of Selex S.p.A. until December 2009 and as a member of the Statutory Auditors of Pirelli. Until December 1999, he served as Chairman of MEI. He served as the Chief Operating Officer of Finmeccanica from 1988 to July 1997 and Chief Executive Officer from May 1995 to July 1997. He was Senior Vice President of Planning, Finance and Control of I.R.I. from 1984 to 1988. Prior to 1984, Mr. Steve served in several key executive positions at Telecom Italia. He is also a professor at LUISS Guido Carli University in Rome. Mr. Steve was Vice Chairman from May 1999 to March 2002, Chairman from March 2002 to May 2003 and member until his resignation on April 21, 2004 of the Supervisory Board of ST Holding, our largest shareholder. Mr Steve has the Italian nationality.

Meetings and activities of the Supervisory Board

Membership and Attendance.

As of December 31, 2009, the composition of our Supervisory Board's committees was as follows: i) Mr. Tom de Waard is the Chairman of the Audit Committee, and Messrs. Raymond Bingham, Douglas Dunn, Didier Lamouche and Bruno Steve are all voting members; ii) Mr. Antonino Turicchi is the Chairman of the Compensation Committee, and Messrs. Gérald Arbola, Tom de Waard, Didier Lombard and Bruno Steve are members; iii) Mr. Tom de Waard is the Chairman of the Nominating and Corporate Governance Committee, and Messrs. Gérald Arbola, Didier Lombard, Bruno Steve and Antonino Turicchi are members; and, iv) Mr. Antonino Turicchi is the Chairman of the Strategic Committee, and Messrs. Gérald Arbola, Raymond Bingham, Douglas Dunn, Didier Lombard and Alessandro Ovi are members.

Our Supervisory Board held 13 meetings in the course of 2009, including meetings by telephone conference. Some of these meetings were held in the presence of our Managing Board. For Board and Committee attendance, please refer to the table below. The items discussed in the meetings included recurring subjects, such as strategy, operations and finance. In addition to the scheduled meetings, the Chairman and other members of the Supervisory Board had regular contact with the sole member of our Supervisory Board as well as senior executives of the Company throughout the year.

In 2009 our Supervisory Board met and reviewed the performance of the sole member of our Managing Board without the presence of the sole member of our Managing Board and senior executives. At this meeting, the Supervisory Board also evaluated its own functioning and that of its Committees and their members. In doing so, the Chairman of the Supervisory Board had invited each member of the Supervisory Board to provide his comments on these topics to the Chairman. The Chairman then shared the main conclusions drawn from such comments with his fellow Supervisory Board members in a plenary private session of our Supervisory Board. During that session our Supervisory Board unanimously concluded that it was functioning adequately and that our Supervisory Board's composition was well balanced in terms of competence, nationality, age and experience. During that session, our Supervisory Board also expressed its desire to increase its diversity in terms of gender, but also acknowledged that given the particular industries in which the Company is operating, suitable candidates with different gender may be difficult to identify and select.

The profile for our Supervisory Board is included in the Supervisory Board Charter, as posted on our website, and is as follows:

The composition of our Supervisory Board shall be such that the combined experience, expertise and independence of its members enables our Supervisory Board to best carry out the variety of its responsibilities and duties to us and all others involved in us (including our shareholders), consistent with applicable law and regulations (including the rules of any of the stock exchanges (currently the New York Stock Exchange, Euronext Paris and Borsa Milano) on which our common shares are listed). Supervisory Board members are selected on the basis of their specific business, financial, technical and/or legal expertise, prior professional experience, soundness of judgment, ability to make analytical enquiries and willingness to devote the time required to adequately perform their activities as Supervisory Board members.

In composing our Supervisory Board, the following criteria must be observed:

a) each of its members must be capable of assessing the broad outline of the overall policy of us and our business;

b) each of its members must match the criteria as referred to in the previous paragraph and, by way of a member's respective participation in the Supervisory Board (upon (re)appointment and thereafter), the Supervisory Board as a whole must be composed in accordance therewith;

c) each member of the Audit Committee of our Supervisory Board must be "financially literate", and at least one of the members of our Supervisory Board must have relevant expertise in financial administration and accounting for listed companies or other large companies so as to qualify as an "audit committee financial expert" under the NYSE listing standards;

d) the majority of its members must meet the Independence Criteria set forth in Annex A of the Supervisory Board Charter, and our Supervisory Board will affirmatively determine and disclose whether any of its members fail to meet such criteria; and

e) none of its members may maintain more than five memberships on boards of listed companies (including us).

Detailed information on attendance at full Supervisory Board and Supervisory Board Committee meetings during 2009 is as follows:

Number of Meetings Attended in 2009	Full Board	Audit Committee	Compensation Committee	Strategic Committee	Nominating and Corporate Governance Committee
Antonino Turicchi	13	—	3	1	1
Gérald Arbola.....	13	—	3	1	1
Raymond Bingham.....	13	11	—	1	—
Douglas Dunn	13	11	—	1	—
Didier Lamouche	9	11	—	—	—
Didier Lombard.....	11	—	3	1	1
Alessandro Ovi.....	13	—	—	1	—
Bruno Steve	13	9	2	—	—
Tom de Waard	12	11	3	—	1

Audit Committee

The Audit Committee was established in 1996 to assist the Supervisory Board in fulfilling its oversight responsibilities relating to corporate accounting, reporting practices, and the quality and integrity of our financial reports as well as our auditing practices, legal and regulatory related risks, execution of our auditors' recommendations regarding corporate auditing rules and the independence of our external auditors.

The Audit Committee met 11 times during 2009, and, in addition, held several conference calls related to subjects that arose during the year. At many of the Audit Committee's meetings, the committee received presentations on current financial and accounting issues and had the opportunity to interview our CEO, CFO, General Counsel, external and internal auditors. The Audit Committee also met with outside U.S. legal counsel to discuss corporate requirements pursuant to NYSE's corporate governance rules and the Sarbanes-Oxley Act. The Audit Committee also proceeded with its annual review of our internal audit function. The Audit Committee reviewed our annual Consolidated Financial Statements in U.S. GAAP for the year ended December 31, 2009, and the results press release was published on January 27, 2010.

The Audit Committee approved the compensation of our external auditors for 2009 and provisionally approved the scope of their audit, audit-related and non-audit-related services for 2010.

At the end of each quarter, prior to each Supervisory Board meeting to approve our results and quarterly earnings press release, the Audit Committee reviewed our interim financial information and the proposed press release and had the opportunity to raise questions to management and the independent registered public accounting firm. In addition, the Audit Committee reviewed our quarterly "Operating and Financial Review and Prospects" and Consolidated Financial Statements (and notes thereto) before they were filed with the SEC and voluntarily certified by the CEO and the CFO (pursuant to sections 302 and 906 of the Sarbanes-Oxley Act). The Audit Committee also reviewed Operating and Financial Review and Prospects and our Consolidated Financial Statements contained in our 2009 Form 20-F. Furthermore, the Audit Committee monitored our compliance with the European Directive and applicable provisions of Dutch law that require us to prepare a set of accounts pursuant to IFRS in advance of our annual shareholders' meetings, which was held on May 20, 2009. The Audit Committee also monitored the completion of the 2009 Annual Report.

Also in 2009, our Audit Committee reviewed with our external auditors our compliance with Section 404 of the Sarbanes-Oxley Act. In addition, the Audit Committee regularly discussed the progress of the implementation of internal control over financial reporting and reviewed management's conclusions as to the effectiveness of internal control.

As part of each of its quarterly meetings our Audit Committee reviewed our financial results as presented by Management and whistleblowing reports, including independent investigative reports provided by internal audit or outside consultants on such matters.

Compensation Committee

Our Compensation Committee proposes to our Supervisory Board the compensation for our President and Chief Executive Officer and sole member of our Managing Board as well as for our Chief Operating Officer, including the variable portion of such compensation based on performance criteria recommended by our Compensation Committee. It also approves any increase in the incentive component of compensation for our executive officers. The Compensation Committee is also informed of the compensation plans for our executive officers and specifically approves stock-based compensation plans for our executive officers and key employees. The Compensation Committee met 3 times in 2009.

Among its main activities, the Compensation Committee:

(i) agreed, jointly with the CEO, to propose a bonus for the CEO related to fiscal year 2008 equal to 75% of his base salary, given the difficult market conditions and the objectives that had been met;

(ii) recommended the performance criteria which must be met by the CEO in order to benefit from the bonus that was approved by our 2009 Annual General Meeting of Shareholders as part of the Managing Board compensation policy, as well as the performance criteria to be met by our COO to be eligible for his 2009 bonus; and

(iii) proposed performance criteria, which must be met by the CEO as well as all other employees participating in the employees stock award plans to benefit from such awards. In particular, the Compensation Committee recommended the performance targets for the base bonus of our CEO and COO be based on, among other factors, market share, introduction of new products, the budget for the second half of 2009, the Company's share price versus SOX from July 29, 2009 through January 27, 2010, corporate governance and the restructuring program. The Compensation Committee, on behalf and with the approval of the entire Supervisory Board, also set the criteria for a special incentive bonus.

For the 2009 nonvested stock award plan, the Compensation Committee, on behalf and with the approval of the entire Supervisory Board, established the applicable performance criteria, which are based on sales and operating income as compared against a panel of semiconductor companies and cash flow before acquisitions as well as cash restructuring costs, with the target to have it positive for the second half of 2009.

In addition, the Compensation Committee received presentations and discussed our succession planning for key employees.

Strategic Committee

Our Strategic Committee was created to monitor key developments within the semiconductor industry and our overall strategy, and is, in particular, involved in supervising the execution of strategic transactions. The Strategic Committee met only once in 2009, as several of the strategic discussions were extended to involve all Supervisory Board members and occurred at extended Supervisory Board meetings. Among its main activities, the Strategic Committee reviewed prospects and various possible scenarios and opportunities to meet the challenges of the semiconductor market, including the evaluation of possible divestitures and partnerships to invest in new markets.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee was created to establish the selection criteria and appointment procedures for the appointment of members to our Supervisory Board and Managing Board, and to resolve issues relating to corporate governance. The Nominating and Corporate Governance Committee met once during 2009 to discuss modifications to the Supervisory Board Charter for the Company's joint ventures, recent developments in Dutch law regarding Dutch listed companies and preparations for the Annual General Meeting.

Secretariat and Controllers

Our Supervisory Board appoints a Secretary and Vice Secretary as proposed by our Supervisory Board. Furthermore, the Managing Board makes an Executive Secretary available to our Supervisory Board, who is appointed by the Supervisory Board. The Secretary, Vice Secretary and Executive Secretary constitute the Secretariat of the Board. The mission of the Secretariat is primarily to organize meetings, ensure the continuing education and training of our Supervisory Board members and to maintain record-keeping. Messrs. Bertrand Loubert and Luigi Chessa serve as Secretary and Vice Secretary, respectively, for our Supervisory Board, and for each of the Compensation, Nominating and Corporate Governance and Strategic Committees of our Supervisory Board. Mr. Willem Toussaint serves as the Executive Secretary for our Audit Committee.

Our Supervisory Board appoints and dismisses two financial experts ("Controllers"). The mission of the Controllers is primarily to assist our Supervisory Board in evaluating our operational and financial performance, business plan, strategic initiatives and the implementation of Supervisory Board decisions, as well as to review the operational reports provided under the responsibility of the Managing Board. The Controllers generally meet once a month with the management of the Company and report to our Supervisory Board. The current Controllers are Messrs. Christophe Duval and Andrea Novelli, who have served as controllers since our 2005 annual shareholders' meeting.The STH Shareholders' Agreement between our principal indirect shareholders contains provisions with respect to the appointment of the Secretary, Vice Secretary and Controllers.

Remuneration report

Pursuant to the decisions adopted by our shareholders at the annual shareholders' meeting held on May 14, 2008, the aggregate compensation for the members and former members of our Supervisory Board in respect of service in 2009 was €993,875 before any withholding taxes and applicable mandatory social contributions, as set forth in the following table.

Supervisory Board Member	Directors' Fees
Antonino Turicchi	€146,875
Gérald Arbola	€146,875
Raymond Bingham	€98,375
Douglas Dunn	€96,875
Didier Lamouche	€86,250
Didier Lombard	€88,125
Alessandro Ovi	€75,875
Bruno Steve	€97,375
Tom de Waard[(1)]	€157,250
Total	**€993,875**

(1) Compensation, including attendance fees of $2,000 per meeting of our Supervisory Board or committee thereof, was paid to Clifford Chance LLP.

We do not have any service agreements with members of our Supervisory Board.

The total amount paid as compensation in 2009 to our executive officers, including Mr. Carlo Bozotti, the sole member of our Managing Board and our President and CEO as well as executive officers employed by us during 2009, was approximately $15.3 million before any withholding taxes. Such amount also includes the amounts of EIP paid to the executive officers pursuant to a Corporate Executive Incentive Program (the "EIP") that entitles selected executives to a yearly bonus based upon the individual performance of such executives. The maximum bonus awarded under the EIP is based upon a percentage of the executive's salary and is adjusted to reflect our overall performance. The participants in the EIP must satisfy certain personal objectives that are focused, *inter alia,* on return on net assets, customer service, profit, cash flow and market share. The relative charges and non-cash benefits were approximately $10.6 million.

Within such amount, the remuneration of our current sole member of our Managing Board and President and CEO in 2009 was:

Sole Member of Our Managing Board and President and CEO	Salary[2]	Bonus[1]	Non-cash Benefits[3]	Total
Carlo Bozotti	$933,474	$649,755	$884,662	$2,467,891

(1) The bonus paid to the sole member of our Managing Board and President and CEO during the 2009 financial year was approved by the Compensation Committee, and approved by the Supervisory Board in respect of the 2008 financial year, based on fulfillment of a number of pre-defined objectives for 2008.
(2) Our Supervisory Board, upon the recommendation of our Compensation Committee, approved an annual salary for 2009 for our Managing Board and President and CEO of $700,000, with an exchange rate for the salary paid in Euro fixed at €1.00 to $1.20 and an exchange rate for the salary paid in Swiss Francs of approximately CHF 1.00 to $0.90.
(3) Including stock awards, employer social contributions, company car allowance and miscellaneous allowances.

Mr. Bozotti was re-appointed as sole member of our Managing Board and President and Chief Executive Officer of our company by our annual shareholders' meeting on May 14, 2008 for a three-year period. At our annual shareholders' meeting in 2011, the mandate of Mr. Bozotti will expire. In each of the years 2007, 2008 and 2009, Mr. Bozotti was granted, in accordance with the compensation policy approved by the shareholders' meeting, up to 100,000 nonvested Stock Awards. The vesting of such stock awards is conditional upon certain performance criteria, fixed by our Supervisory Board, being achieved as well as Mr. Bozotti's continued service with us.

In 2009, our Supervisory Board approved the terms of Mr. Bozotti's employment by us, which are consistent with the compensation policy approved by our 2005 annual shareholders' meeting. Mr. Bozotti has two employment agreements with us, the first with our Dutch parent company, which relates to his activities as sole member of our Managing Board and representative of the Dutch legal entity, and the second in Switzerland, which relates to his activities as President and CEO, EIP, Pension and other items covered by the compensation policy approved by our shareholders.

Consistent with this compensation policy, the Supervisory Board, upon the recommendation of its compensation committee, set the criteria to be met for Mr. Bozotti for attribution of his 2009 bonus (based on new product introductions, market share and budget targets, as well as corporate governance initiatives). The Supervisory Board, however, has not yet determined the amount of the CEO bonus for 2009.

With regard to Mr. Bozotti's 2008 nonvested stock awards, the Supervisory Board, upon the recommendation of its Compensation Committee, noted that only two out of the three performance criteria linked to sales, operations, income and return on net assets had been met under the Employee stock award Plan and concluded that Mr. Bozotti was entitled to 66,666 stock awards, which vest as defined by the Plan one year, two years and three years, respectively, after the date of the grant, provided Mr. Bozotti is still an employee at such time (subject to the acceleration provisions in the event of a change in control).

With regard to Mr. Bozotti's 2009 stock awards, the Supervisory Board upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. The Supervisory Board, however, has not yet determined whether the performance criteria which condition the vesting (and which, like for all employees benefiting from nonvested share awards, are linked to sales, operations, income and return on net assets) have been met.

During 2009, Mr. Bozotti did not exercise any stock options granted to him, and did not sell any vested stock awards or purchase or sell any of our shares.

Our Supervisory Board has approved the establishment of a complementary pension plan for our top executive management, comprising the CEO, COO and other key executives to be selected by the CEO according to the general criteria of eligibility and service set up by the Supervisory Board upon the proposal of its Compensation Committee. In respect to such plan, we have set up an independent foundation under Swiss law which manages the plan and to which we make contributions. Pursuant to this plan, in 2009 we made a contribution of $0.3 million to the plan of our current President and Chief Executive Officer, $0.6 million to the plan of our Chief Operating Officer, and $0.4 million to the plan for all other beneficiaries. The amount of pension plan payments made for other beneficiaries, such as former employees retired in 2009 and no longer salaried in 2009 were $0.5 million.

We did not extend any loans, overdrafts or warranties to our Supervisory Board members or to the sole member of our Managing Board and President and CEO. Furthermore, we have not guaranteed any debts or concluded any leases with our Supervisory Board members or their families, or the sole member of the Managing Board or his family.

For information regarding stock options and other stock-based compensation granted to members of our Supervisory Board, the Managing Board and our executive officers, please refer to "— Stock Awards and Options" below.

The current members of our Executive Committee and the Managing Board were covered in 2009 under certain group life and medical insurance programs provided by us. The aggregate additional amount set aside by us in 2009 to provide pension, retirement or similar benefits for our Executive Committee and our Managing Board as a group is in addition to the amounts allocated to the complementary pension plan described above and is estimated to have been approximately $3.3 million, which includes statutory employer contributions for state-run retirement, similar benefit programs and other miscellaneous allowances.

Share Ownership

None of the members of our Supervisory Board and Managing Board or our executive officers holds shares or options to acquire shares representing more than 1% of our issued share capital.

Stock Awards and Options

Our stock options and stock award plans are designed to incentivize, attract and retain our executives and key employees by aligning compensation with our performance and the evolution of our share price. We have adopted stock-based compensation plans comprising either stock options or nonvested stock awards that benefit our President and CEO as well as key employees (employee stock options and/or employee nonvested stock award plans) and stock options or vested stock awards that benefit our Supervisory Board members and professionals (Supervisory Board stock options and/or stock award plans).

Pursuant to the shareholders' resolutions adopted by our 2007, 2008 and 2009 annual shareholders' meeting, our Supervisory Board, upon the proposal of the Managing Board and the recommendation of the Compensation Committee, took the following actions:

- amended grants pursuant to the 2005 stock-based compensation plan for Supervisory Board members and professionals at our 2007 annual shareholders' meeting;

- adopted our 2007 nonvested Stock Award Plan for Executives and Key Employees (the "Employee USA Plan") with the goal of enhancing our ability to retain key employees and motivate them to work to create shareholder value and, in addition, approved vesting conditions linked to our future performance and continued service with us;

- approved, for a five year period, our 2008 nonvested Stock Award Plan for Executives and Key Employees, under which directors, managers and selected employees may be granted stock awards upon the fulfillment of restricted criteria, such as those linked to our performance and continued service with us, and

- approved conditions relating to our 2009 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance.

We use our treasury shares to cover the stock awards granted under the Employee USA Plans in 2007, 2008 and 2009. As of December 31, 2009, 3,532,201 stock awards granted in relation to the 2007, 2008 and 2009 plans had vested, leaving 31,985,739 treasury shares outstanding. The 2009 Employee nonvested stock award plan generated an additional charge of $7.8 million in the consolidated statements of income for 2009, which corresponds to the cost per service in the year for all granted shares that are (or are expected to be) vested pursuant to the financial performance criteria being met.

The exercise of stock options and the sale or purchase of shares of our stock by the members of our Supervisory Board, the sole member of our Managing Board and President and CEO, and all our employees are subject to an internal policy which involves, *inter alia,* certain blackout periods.

Employee and Managing Board Stock-Based Compensation Plans

2001 Stock Option Plan.

At the annual shareholders' meeting on April 25, 2001, our shareholders approved resolutions authorizing the Supervisory Board, for a period of five years, to adopt and administer a stock option plan (in the form of five annual tranches) that provided for the granting to our managers and professionals of options to purchase up to a maximum of 60 million common shares (the "2001 Stock Option Plan"). The amount of options granted to the sole member of our Managing Board and President and CEO is determined by our Compensation Committee, upon delegation from our Supervisory Board and, since 2005, has been submitted for approval by our annual shareholders' meeting. The amount of stock options granted to other employees was made by our Compensation Committee on delegation by our Supervisory Board and following the recommendation of the sole member of our Managing Board and President and CEO. In addition, the Supervisory Board delegated to the sole member of our Managing Board and President and CEO the flexibility to grant, each year, up to a determined number of share awards to our employees pursuant to the 2001 Stock Option Plan in special cases or in connection with an acquisition.

In 2005, our shareholders at our annual shareholders' meeting approved a modification to our 2001 Stock Option Plan so as to provide the grant of up to four million nonvested stock awards instead of stock options to our senior executives and certain of our key employees, as well as the grant of up to 100,000 nonvested Stock Awards instead of stock options to our President and CEO. A total of 4,159,915 shares have been awarded pursuant to the modification of such Plan, which include shares that were awarded to employees who subsequently left our Company thereby forfeiting their awards. Certain forfeited share awards were subsequently awarded to other employees.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board, approved the conditions that apply to the vesting of such awards. These conditions related to both our financial performance, pursuant to certain defined criteria in 2005 and during the first quarter of 2006, and the continued presence of the beneficiaries of the nonvested stock awards at the defined vesting dates in 2006, 2007 and 2008. Of the shares awarded, none remain outstanding but nonvested as of December 31, 2009.

2001 Plan (Employees)
April 25, 2001
(outstanding grants)

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7
Date of the grant	27-Apr-01	4-Sep-01	1-Nov-01	2-Jan-02	25-Jan-02	25-Apr-02	26-Jun-02
Total Number of Shares which may be purchased	9,521,100	16,000	61,900	29,400	3,656,103	9,708,390	318,600
Vesting Date	27-Apr-03	4-Sep-03	1-Nov-03	2-Jan-04	25-Jan-03	25-Apr-04	26-Jun-04
Expiration Date	27-Apr-11	4-Sep-11	1-Nov-11	2-Jan-12	25-Jan-12	25-Apr-12	26-Jun-12
Exercise Price	$39.00	$29.70	$29.61	$33.70	$31.09	$31.11	$22.30
Terms of Exercise	32% on	32% on	32% on	32% on	50% on	32% on	32% on
	27-Apr-03	4-Sep-03	1-Nov-03	2-Jan-04	25-Jan-03	25-Apr-04	26-Jun-04
	32% on	32% on	32% on	32% on	50% on	32% on	32% on
	27-Apr-04	4-Sep-04	1-Nov-04	2-Jan-05	25-Jan-04	25-Apr-05	26-Jun-05
	36% on 27-Apr-05	36% on 4-Sep-05	36% on 1-Nov-05	36% on 2-Jan-06		36% on 25-Apr-06	36% on 26-Jun-06
Number of Shares to be acquired with Outstanding Options as of December 31, 2009	7,309,350	0	43,500	19,400	2,709,996	7,661,061	123,706
Held by Managing Board/Executive Officers	323,500	0	0	0	126,300	335,030	0

2001 Plan (Employees) (continued)
April 25, 2001
(outstanding grants)

	Tranche 8	Tranche 9	Tranche 10	Tranche 11	Tranche 12	Tranche 13	Tranche 14	Tranche 15	Tranche 16	Tranche 17
Date of the grant	1-Aug-02	17-Dec-02	14-Mar-03	3-Jun-03	24-Oct-03	2-Jan-04	26-Apr-04	1-Sep-04	31-Jan-05	17-Mar-05
Total Number of Shares which may be purchased	24,500	14,400	11,533,960	306,850	135,500	86,400	12,103,490	175,390	29,200	13,000
Vesting Date	1-Aug-04	17-Dec-04	14-Mar-05	3-Jun-05	24-Oct-05	2-Jan-06	26-Apr-06	1-Sep-06	31-Jan-07	17-Mar-07
Expiration Date	1-Aug-12	17-Dec-12	14-Mar-13	3-Jun-13	24-Oct-13	2-Jan-14	26-Apr-14	1-Sep-14	31-Jan-15	17-Mar-15
Exercise Price	$20.02	$21.59	$19.18	$22.83	$25.90	$27.21	$22.71	$17.08	$16.73	$17.31
Terms of Exercise	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on
	1-Aug-04	17-Dec-04	14-Mar-05	3-Jun-05	24-Oct-05	2-Jan-06	26-Apr-06	1-Sep-06	31-Jan-07	17-Mar-07
	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on
	1-Aug-05	17-Dec-05	14-Mar-06	3-Jun-06	24-Oct-06	2-Jan-07	26-Apr-07	1-Sep-07	31-Jan-08	17-Mar-08
	36% on	36% on	36% on	36% on	36% on	36% on	36% on	36% on	36% on	36% on
	1-Aug-06	17-Dec-06	14-Mar-07	3-Jun-07	24-Oct-07	2-Jan-08	14-Mar-08	1-Sep-08	31-Jan-09	17-Mar-09
Number of Shares to be acquired with Outstanding Options as of December 31, 2009	13,100	14,400	9,298,738	167,950	112,150	11,700	9,886,815	110,666	17,300	6,000
Held by Managing Board/ Executive Officers	0	0	402,200	0	31,000	0	486,400	0	0	0

2006 nonvested Stock Award Plan

In 2006, our shareholders at our annual shareholders' meeting approved the grant of up to five million nonvested stock awards to our senior executives and certain of our key employees, as well as the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,131,640 shares have been awarded under such plan as of December 31, 2009, out of which none remain outstanding as of December 31, 2009.

2007 nonvested Stock Award Plan

In 2007, our shareholders at our annual shareholders' meeting approved the grant of up to six million nonvested stock awards to our senior executives and certain of our key employees, as well as the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,911,840 shares have been awarded under such plan as of December 31, 2009, out of which up to 1,601,328 remain outstanding but nonvested as of December 31, 2009.

2008 nonvested Stock Award Plan—2008 Allocation

In 2008, our shareholders at our annual shareholders' meeting approved the grant of up to six million nonvested stock awards to our senior executives and certain of our key employees, as well as the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,773,705 shares have been awarded under such Plan as of December 31, 2009, out of which up to 1,411,702 remain outstanding but nonvested as of December 31, 2009.

2009 nonvested Stock Award Plan – 2009 Allocation

In 2009, our shareholders at our annual shareholders' meeting approved the grant of up to six million nonvested stock awards to our senior executives and certain of our key employees, as well as the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,583,540 shares have been awarded under such allocation as of December 31, 2009, out of which up to 5,540,740 remain outstanding but nonvested as of December 31, 2009.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board has approved the conditions, which shall apply to the vesting of such awards. These conditions relate both to our financial performance meeting certain defined criteria in 2009, and to the continued presence at the defined vesting dates in 2010, 2011 and 2012 of the beneficiaries of the nonvested stock awards.

Furthermore, the Compensation Committee, on behalf of the entire Supervisory Board and with the approval of the entire Supervisory Board, approved the list of beneficiaries of the unvested stock awards and delegated to our President and Chief Executive Officer the right to grant certain additional unvested stock awards to key employees, in exceptional cases, provided that the total number of unvested stock awards granted to executives and key employees shall not exceed for 2009 six million shares.

The implementation of our Stock-Based Compensation Plan for Employees is subject to periodic proposals from our Managing Board to our Supervisory Board, and recommendations by the Compensation Committee of our Supervisory Board.

Supervisory Board Stock Option Plans

1999 Stock Option Plan for members and professionals of our Supervisory Board.

A plan was adopted in 1999 for a three-year period expiring on December 31, 2001 (the "1999 Stock Option Plan"), providing for the grant of at least the same number of options as were granted during the period from 1996 to 1999.

2002 Stock Option Plan for members and professionals of our Supervisory Board.

A 2002 plan was adopted on March 27, 2002 (the "2002 Stock Option Plan"). Pursuant to this 2002 Plan, the annual shareholders' meeting authorized the grant of 12,000 options per year to each member of our Supervisory Board during the course of his three-year tenure (during the three-year period from 2002-2005), and 6,000 options per year to all of the professionals. Pursuant to the 1999 and 2002 Plans, stock options for the subscription of 819,000 shares were granted to the members of the Supervisory Board and professionals. Options were granted to members and professionals of our Supervisory Board under the 1999, and 2002 Stock Option Plans as shown in the table below:

1999 and 2002 Plans
(for Supervisory Board Members and Professionals)
(outstanding grants)

Date of Annual	May 31, 1999		March 27, 2002		
Shareholders' Meeting	**Tranche 2**	**Tranche 3**	**Tranche 1**	**Tranche 2**	**Tranche 3**
Date of the grant	16-Jun-00	27-Apr-01	25-Apr-02	14-Mar-03	26-Apr-04
Total Number of Shares which may be purchased	103,500	112,500	132,000	132,000	132,000
Vesting Date	16-Jun-01	27-Apr-02	25-May-02	14-Apr-03	26-May-04
Expiration Date	16-Jun-08	27-Apr-11	25-Apr-12	14-Mar-13	26-Apr-14
Exercise Price	$62.01	$39.00	$31.11	$19.18	$22.71
Terms of Exercise	All exercisable after 1 year	All exercisable after 1 year	All exercisable after 1 year	All exercisable after 1 year	All exercisable after 1 year
Number of Shares to be acquired with Outstanding Options as of December 31, 2009	0	90,000	108,000	108,000	132,000

At December 31, 2009, options to purchase a total of 90,000 common shares were outstanding under the 1999 Stock Option Plan and options to purchase 348,000 common shares were outstanding under the 2002 Supervisory Board Stock Option Plan.

2005, 2006 and 2007 Stock-based Compensation for members and professionals of the Supervisory Board.

Our 2005 Annual Shareholders' meeting approved the adoption of a three year stock based compensation plan for Supervisory Board members and Professionals. The plan provided for the grant of a maximum number of 6,000 newly issued shares per year for each member of the Supervisory Board and 3,000 newly issued shares for each of the Professionals of the Supervisory Board at a price of €1.04 per share, corresponding to the nominal value of our share. Pursuant to our 2007 annual shareholders' meeting, the 2005 plan was modified as the maximum number was increased to 15,000 newly issued shares per year for each member of the Supervisory Board and 7,500 newly issued shares per year for each professional of the Supervisory Board for the remaining year of the plan.

In 2005, 66,000 shares were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2008. In 2006, 66,000 shares were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2009. In 2007, 165,000 shares were granted to the beneficiaries under such plan, out of which 45,000 were outstanding as of December 31, 2009.

The table below reflects the grants to the Supervisory Board members and professionals under the 2005 Stock-Based Compensation Plan as of December 31, 2009. See Note 16 to our Consolidated Financial Statements.

	2005	2006	2007
Total number of Shares outstanding	0	0	45,000
Expiration date	25-Oct-15	29-Apr-16	28-Apr-17

2008, 2009 and 2010 Stock-based Compensation for members and professionals of the Supervisory Board.

Our 2008 annual shareholders' meeting approved the adoption of a new three-year stock-based compensation plan for Supervisory Board members and professionals. This plan provides for the grant of a maximum number of 15,000 newly issued shares per year for each member of the Supervisory Board and 7,500 newly issued shares for each of the professionals of the Supervisory Board at a price of €1.04 per share, corresponding to the nominal value of our share. In 2008, 165,000 shares were granted to the beneficiaries under such plan, out of which 95,000 were outstanding as of December 31, 2009. In 2009, 165,000 shares were granted to the beneficiaries under such plan, out of which 157,500 were outstanding as of December 31, 2009.

The table below reflects the grants to the Supervisory Board members and professionals under the 2008 Stock-Based Compensation Plan as of December 31, 2009. See Note 16 to our Consolidated Financial Statements.

	Plan 2008	Plan 2009
Total number of Shares outstanding	95,000	157,500
Expiration date	14-May-18	20-May-19

Corporate Governance

This corporate governance chapter includes the information referred to in the Decree of December 23, 2004 adopting further rules regarding the contents of the annual report, as amended and extended by the Decree of March 20, 2009 (the "Decree"). This corporate governance chapter serves as the declaration as referred to in Section 2a of the Decree.

Introduction

Our commitment to the principles of good corporate governance is evidenced by:

- Our corporate organization under Dutch law that entrusts our management to a Managing Board acting under the supervision and control of a Supervisory Board totally independent from the Managing Board. Members of our Managing Board and of our Supervisory Board are appointed and dismissed by our shareholders.

- Our consistent policies on important issues such as "business ethics" and "conflicts of interest" and comprehensive policies to comply with applicable regulatory requirements concerning financial reporting, insider trading and public disclosures.

- Our compliance with Dutch securities laws, because we are a company incorporated under the laws of the Netherlands, as well as our compliance with American, French and Italian securities laws, applicable to foreign corporations which are listed in these jurisdictions, in addition to our compliance with the corporate, social and financial laws applicable to our subsidiaries in the countries in which we do business.

- Our broad-based activities in the field of corporate social responsibility, encompassing environmental, social, health, safety, educational and other related issues.

- Our implementation of a non-compliance reporting channel (managed by a third party) for issues regarding accounting, internal controls or auditing. A special ombudsperson has been appointed by our Supervisory Board, following the proposal of its Audit Committee, to collect all complaints, whatever their source, regarding accounting, internal accounting controls or auditing matters, as well as the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.

- Our Principles for Sustainable Excellence ("PSE"), which require us to integrate and execute all of our business activities, focusing on our employees, customers, shareholders and global business partners;

- Our Ethics Committee, whose mandate is to provide advice to management and employees about our PSE and other ethical issues; and

- Our Chief Compliance Officer, who reports directly to the Managing Board, acts as Executive Secretary to our Supervisory Board and chairs our Ethics Committee.

As a Dutch company, we are subject to the Dutch Corporate Governance Code as revised by the Dutch Corporate Governance Monitoring Committee on December 10, 2008 (the "Code"). As we have vested interests in various jurisdictions, and are listed on the NYSE, Euronext Paris, the Borsa Italiana in Milan, but not in the Netherlands, our policies and practices are not in every respect consistent with all Dutch "Best Practice" recommendations. However, by explaining the corporate governance practices in our Corporate Governance Charter and in this corporate governance chapter, we have endeavored to comply with the Code. We have summarized our policies and practices in the field of corporate governance in the ST Corporate Governance Charter, including our corporate organization, the remuneration principles which apply to our Managing and Supervisory Boards, our information policy and our corporate policies relating to business ethics and conflicts of interests. Our Corporate Governance Charter was discussed and approved by our 2004 annual shareholders' meeting and is incorporated by reference in this corporate governance chapter. We are committed to informing our shareholders of any significant changes in our corporate governance policies and practices at our annual shareholders' meeting. Along with our Supervisory Board Charter (which includes the charters of our Supervisory Board Committees) and our Code of Business Conduct and Ethics, the current version of our ST Corporate Governance Charter is posted on our website, at http:/www.st.com/stonline/company/governance/index.htm, and these documents are available in print to any shareholder who may request them. As recommended by the Dutch Corporate Governance Monitoring Committee, this corporate governance chapter includes information on the broad outline of our corporate governance structure and our compliance with the Code. We will present this chapter to our 2010 annual shareholders' meeting for discussion as a separate agenda item.

Our Supervisory Board is carefully selected based upon the combined experience and expertise of its members. Certain of our Supervisory Board members, as disclosed in their biographies set forth above, have existing relationships or past relationships with Areva, CEA and/or CDP, who are currently parties to the STH Shareholders' Agreement as well as with ST Holding or ST Holding II, our major shareholder. The interests of our controlling shareholders, which are in turn controlled respectively by the French and Italian governments, may conflict with investors' interests." Such relationships may give rise to potential conflicts of interest. However, in fulfilling their duties under Dutch law, Supervisory Board members serve the best interests of all of our stakeholders and of our business and must act independently in their supervision of our management. Our Supervisory Board has adopted criteria to assess the independence of its members in accordance with corporate governance listing standards of the NYSE.

Our Supervisory Board has on various occasions discussed Dutch corporate governance standards, the implementing rules and corporate governance standards of the SEC and of the NYSE, as well as other corporate governance standards.

The Supervisory Board has determined, based on the evaluations by an ad hoc committee, the following independence criteria for its members: Supervisory Board members must not have any material relationship with STMicroelectronics N.V., or any of our consolidated subsidiaries, or our management. A "material relationship" can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others, but does not include a relationship with direct or indirect shareholders. Annex A to the Supervisory Board Charter, as posted on our website, contains examples of persons which would not be considered independent in any case.

We believe we are fully compliant with all material NYSE corporate governance standards, to the extent possible for a Dutch company listed on Euronext Paris, Borsa Italiana, as well as the NYSE. Because we are a Dutch company, the Audit Committee is an advisory committee to the Supervisory Board, which reports to the Supervisory Board, and our shareholders must approve the selection of our statutory auditors. Our Audit Committee has established a charter outlining its duties and responsibilities with respect to the monitoring of our accounting, auditing, financial reporting and the appointment, retention and oversight of our external auditors. In addition, our Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential anonymous submission by our employees regarding questionable accounting or auditing matters.

Pursuant to our Supervisory Board Charter, the Supervisory Board is responsible for handling and deciding on potential reported conflicts of interests between the Company on the one hand and members of the Supervisory Board and Managing Board on the other hand.

For example, one of the members of our Supervisory Board is managing director of Areva SA, which is a controlled subsidiary of CEA, one of the members of our Supervisory Board is the Chairman of France Telecom and a member of the Board of Directors of Technicolor (formerly known as Thomson), another is the non-executive Chairman of the Board of Directors of ARM, two of our Supervisory Board members are non-executive directors of Soitec, one of our Supervisory Board members is the CEO of Groupe Bull, one of the members of the Supervisory Board is also a member of the Supervisory Board of BESI and one of the members of our Supervisory Board is a director of Oracle and Flextronics International. France Telecom and its subsidiaries Equant and Orange, as well as Oracle's new subsidiary PeopleSoft supply certain services to our Company. We have a long-term joint R&D partnership agreement with LETI, a wholly-owned subsidiary of CEA. We have certain licensing agreements with ARM, and have conducted transactions with Soitec and BESI as well as with Technicolor, Flextronics and a subsidiary of Groupe Bull. We believe that each of these arrangements and transactions are made on an arms-length basis in line with market practices and conditions.

Risk Management and Control Systems

For the statement on the main features of our risk management and control systems and of the group of which the financial data are included in our annual accounts, please refer to the section Risk Management and Internal Control in the Report of the Managing Board.

General Meeting of Shareholders

Our ordinary shareholders' meetings are held at least annually, within six months after the close of each financial year, in Amsterdam, Haarlemmermeer (Schiphol Airport), Rotterdam or The Hague, the Netherlands. Extraordinary shareholders' meetings may be held as often as our Supervisory Board deems necessary, and must be held upon the written request of registered shareholders or other persons entitled to attend shareholders' meetings of at least 10% of the total issued share capital to our Managing Board or our Supervisory Board specifying in detail the business to be dealt with. Such written requests may not be submitted electronically. In the event that the Managing Board or the Supervisory Board does not convene the shareholders' meeting within six weeks of such a request, the aforementioned shareholders or individuals may be authorized by a competent judicial authority.

Notice of shareholders' meetings shall be given by our Managing Board or by our Supervisory Board or by those who according to the law or our Articles of Association are entitled thereto. The notice shall be given in such manner as shall be authorized or required by law (including but not limited to a written notice, a legible and reproducible message sent by electronic means and an announcement published by electronic means), as well as in accordance with the regulations of a stock exchange where our shares are officially listed at our request. In addition, shareholders and other persons entitled to attend the shareholders' meetings that are registered in our share register shall be notified by letter that the meeting is being convened. The notice convening the shareholders' meeting shall be given with due observance of the statutory notice period.

The notice of the shareholders' meeting states the business to be transacted as well as other information prescribed by law and our Articles of Association. The agenda is fixed by the author of the notice of the meeting; however, one or more shareholders or other persons entitled to attend shareholders' meetings representing at least one-tenth of our issued share capital may, provided that the request was made at least five days prior to the date of convocation of the meeting, request that proposals be included on the agenda. Notwithstanding the previous sentence, proposals of persons who are entitled to attend shareholders' meetings will be included on the agenda, if such proposals are made in writing to our Managing Board within a period of sixty days before that meeting by persons who are entitled to attend our shareholders' meetings who, solely or jointly, represent at least 1% of our issued share capital or a market value of at least €50,000,000 unless we determine that such proposal would conflict with our substantial interests. The requests referred to in the previous two sentences may not be submitted electronically. The aforementioned requests must comply with conditions stipulated by our Managing Board, subject to the approval of our Supervisory Board, which shall be posted on our website.

Provided the law does not prescribe a fixed registration date, our Managing Board will establish a registration date, which means that our Managing Board will determine that shareholders and other persons entitled to attend shareholders' meetings are those persons who have such rights at a determined date and, as such, are registered in a register designated by our Managing Board, regardless of who is a shareholder or otherwise a person entitled to attend shareholders' meetings at the time of the meeting if a registration date as referred to in our Articles of Association had not been determined.

Unless otherwise required by our Articles of Association or Dutch law, resolutions of shareholders' meetings require the approval of a majority of the votes cast at a meeting at which at least 15% of the issued and outstanding share capital is present or represented. If a quorum is not present, a further meeting can be convened which shall be entitled, irrespective of the share capital represented, to pass a resolution. We may not vote our shares held in treasury. Blank and invalid votes shall not be counted.

The most important items of our shareholders' meeting are:

- the adoption of our annual accounts;
- the adoption of a dividend;
- the discharge of the members of our Managing Board and Supervisory Board;
- the adoption of the compensation policy of our Managing Board;
- the determination of the compensation of the members of our Supervisory Board;
- the appointment, suspension and dismissal of the sole member of our Managing Board;
- the appointment, suspension and dismissal of the members of our Supervisory Board;
- the appointment of our auditors;
- the authorization to our Managing Board to repurchase shares;
- the issuance of shares and the granting of rights to subscribe for shares (option rights) as well as the delegation of these authorities to our Supervisory Board;
- approving resolutions of our Managing Board as referred to below under "Managing Board";
- resolutions regarding the amendment of our Articles of Association, our liquidation, legal merger and legal demerger.

Managing Board

For information on the identity and functioning of our Managing Board, please refer to the section “Managing Board” below in this corporate governance chapter. For information on the compensation of the sole member of our Managing Board, please refer to the Remuneration Report of our Supervisory Board, included in the Supervisory Board report.

Supervisory Board

For information on the identity of our Supervisory Board and its committees, please refer to the Supervisory Board Report. For information on the functioning of our Supervisory Board Report, please refer to the section “Supervisory Board” below in this corporate governance chapter. For information on the compensation of the members of our Supervisory Board, please refer to the Remuneration Report of our Supervisory Board, included in the Supervisory Board Report.

Information as referred to in Section 1 of the Decree on Article 10 of the Takeover Directive

Capital structure.

Our authorized share capital amounts to € 1,809,600,000, divided into 1,200,000,000 common shares and 540,000,000 preference shares, with a nominal value of € 1.04 per share. As of December 31, 2009, 910,319,305 common shares were issued of which 31,985,739 were repurchased (representing 3.51% of the issued share capital as per December 31, 2009). As of December 31, 2009, no preference shares were issued and outstanding.

Restrictions on the transfer of shares.

We not have restrictions on the transfer of our common and preference shares, provided that Stichting Continuïteit ST, if it holds preference shares, requires the consent of STMicroelectronics to sell or otherwise dispose of preference shares or voting rights attached thereto.

Holdings in us that are subject to a disclosure obligation.

For information on holdings in us that are subject to a disclosure obligation pursuant to Chapter 5.3 of the Dutch Financial Markets Supervision Act ("*Wet op het financieel* toezicht"), please the chapter "Major Shareholders" further on.

Special controlling rights.

We do not have special controlling rights attached to our common or preference shares.

Control of employees share/option schemes.

We do not have any scheme granting rights to employees to subscribe for or acquire shares in our share capital or the share capital of a subsidiary of us where the control is not directly exercised by the employees. However, key employees as determined by our Unvested Share Award Plans are granted share awards (as part of their compensation) with a staggered vested schedule pursuant to our determined criteria. Supervisory board members are granted share awards that vest immediately. For more information on employees share/option schemes, see the Remuneration Report of the Supervisory Board, included in the Supervisory Board Report.

Restrictions on voting rights.

We do not have any restrictions on voting rights nor have we cooperated in the issuance of depositary receipts for shares.

Agreements with shareholders that may give rise to restrictions on the transfer of shares or restrictions of voting rights.

We do not have any agreements with shareholders that may give rise to restrictions on the transfer of shares or restrictions of voting rights. However, please see below under "Shareholders' Agreements" for certain information on shareholders' agreements regarding us to which we are not a party.

Provisions on appointment and dismissal of members of our Managing Board and Supervisory Board and amendment of our Articles of Association.

Please see the information included under "Managing Board" and "Supervisory Board" with respect to the appointment and dismissal of the members of our Managing Board and Supervisory Board.

Our Articles of Association can be amended by our shareholders' meeting, upon the proposal of our Supervisory Board, by a simple majority of the votes cast at a meeting where at least 15% of the issued and outstanding share capital is present or represented. If a quorum is not present, a further meeting can be convened which shall, irrespective of the share capital represented, be entitled to pass a resolution by a simple majority. If the relevant amendment affects the rights of holders of common shares or holders of preference shares, the approval of the meeting of holders of common shares and the meeting of holders of preference shares, respectively, is required.

Authority of the Managing Board regarding the issuance and repurchase of shares.

Our Managing Board does not have the authority to issue shares or grant rights to subscribe for shares pursuant to our Articles of Association. Our Supervisory Board has this authority. Pursuant to a shareholders' resolution adopted at our annual shareholders' meeting held on April 26, 2007, our Supervisory Board has been authorized for a period of five years to resolve to (i) issue any number of common shares and/or preference shares as comprised in our authorized share capital from time to time; (ii) to fix the terms and conditions of share issuance; (iii) to exclude or to limit preemptive rights of existing shareholders; and (iv) to grant rights to subscribe for common shares and/or preference shares, all for a period of five years from the date of such annual shareholders' meeting.

Pursuant to a shareholders' resolution adopted at our annual shareholders' meeting held on May 14, 2008, our Managing Board, subject to the approval of our Supervisory Board, was authorized for a period up to November 13, 2009 (inclusive) to acquire shares subject to the limits of our Articles of Association and the acquisition price conditions set forth in such shareholders' resolution. Furthermore, our Articles of Association provide that we shall be able to acquire shares in our own share capital in order to transfer these shares under employee stock option or stock purchase plans, without an authorization of our shareholders' meeting.

Agreements with the sole member of our Managing Board and other employees regarding distributions upon the termination of their employment contract in connection with a public offer on us.

The employment contract of our President and CEO, Mr. Bozotti, provides that upon a change of control following a takeover bid (i) all unvested stock awards granted to Mr. Bozotti will fully vest and (ii) the bonus payable under our Executive Incentive Plan will be due for the full amount, which is 150% of the executive gross annual salary. Such benefits are not linked to termination of the employment agreement.

Stichting Continuïteit ST – our preference shares

We are a party to an option agreement with Stichting Continuïteit ST dated February 7, 2007 (the "Stichting") regarding our preference shares. Our Managing Board and our Supervisory Board, along with the board of the Stichting, have declared that they are jointly of the opinion that the Stichting is independent of us. The option agreement provides for the issuance of up to a maximum 540,000,000 preference shares. Any such shares would be issued to the Stichting upon its request and in its sole discretion and upon payment of at least 25% of the par value of the preference shares to be issued. The shares would be issuable in the event of actions considered hostile by our Managing Board and our Supervisory Board, such as a creeping acquisition (in such case up to 30% minus one share of our issued and outstanding share capital) or an offer on our common shares, which are unsupported by our Managing Board and our Supervisory Board and which the board of the Stichting determines would be contrary to our interests, our shareholders or other stakeholders. The preference shares may remain outstanding for no longer than two years. No preference shares have been issued to date. The effect of the preference shares may be to create a level-playing field in the event actions which are considered to be hostile by our Managing Board and our Supervisory Board, as described above, occur and which the board of the Stichting determines to be contrary to our interests and our shareholders and other stakeholders.

Code of Ethics

Policy on Business Conduct and Ethics

Since 1987, we have had a corporate policy on Business Conduct and Ethics (the "Policy") for all of our employees, including our chief executive officer and chief financial officer. We have adapted this Policy to reflect recent regulatory changes. The Policy is designed to promote honest and ethical business conduct, to deter wrongdoing and to provide principles to which our employees are expected to adhere and which they are expected to advocate.

The Policy provides that if any officer to whom it applies acts in contravention of its principles, we will take appropriate steps in terms of the procedures in place for fair disciplinary action. This action may, in cases of severe breaches, include dismissal.

Our Policy on Business Conduct and Ethics is posted on our internet website at http://www.st.com. There have been no amendments or waivers, express or implicit, to our Policy since its inception.

Comply or explain

According to the Dutch Corporate Governance Code, as revised by the Dutch Corporate Governance Monitoring Committee on December 10, 2008 (the "Code"), STMicroelectronics is required to publish a list of current exceptions to the Code, and an explanation why STMicroelectronics does not comply ("Comply or Explain"). For more information on the Dutch Corporate Governance Code, please visit the website www.commissiecorporategovernance.nl. STMicroelectronics complies with the Code by applying most of its principles and best practice provisions that are addressed to the Managing Board and/ the Supervisory Board or by explaining why it deviates from such provisions. STMicroelectronics applies such principles and best practice provisions, with the exception of the following best practice provisions:

- Best practice provision II.1.7: Our arrangement for whistleblowers is currently not posted on the STMicroelectronics corporate website, www.st.com, but on the ST Intranet website, where it is available to all employees worldwide. We feel that posting the arrangement for whistleblowers on the intranet site is sufficient and achieves the same goal as posting it on our website.
- Best practice provision II.2.11: The Compensation Policy for our Managing Board, which was approved by our 2005 Annual shareholders Meeting, does not expressly provide a claw back clause. However when applying our Compensation Policy our Supervisory Board, with the support its Compensation Committee will check, inter alia, that no variable remuneration is awarded to our Managing Board on the basis of incorrect financial or other data.
- Best practice provision II.2.12: Our Supervisory Board has not yet published a remuneration report on the company website describing the implementation of the remuneration policy during the past financial year, as the analysis of the variable components of the Managing Board are currently under examination and have not yet been reviewed by the Compensation committee of our Supervisory Board. We intend to complete our analysis and publish this report on our website www.st.com prior to our 2010 Annual General Meeting.
- Best practice provision II.2.13: STMicroelectronics does not specify and value the nonvested remuneration components of the management board. This is currently considered competitively sensitive information.
- Best practice provision II.2.13: STMicroelectronics does not publish this information in detail, as this is currently considered competitively sensitive information.
- Best practice provision III.2.2: STMicroelectronics criteria deviate from the independence criteria in the Dutch Corporate Governance Code but as explained in the enclosed report of our Supervisory Board are in conformity with the STMicroelectronics Corporate Governance Charter as approved by our shareholders' meeting.

- Best practice provision III.3.5: The terms of office of some Supervisory Board members of STMicroelectronics exceeds the maximum term of 12 years as mentioned in the Dutch Corporate Governance Code. However, as stated by the Charter of our Supervisory Board which is published on our website, our Supervisory Board considers that, so as to ensure continuity and quality contributions, it is not in our best interest to limit the number of terms of our Supervisory Board members. Furthermore, our Supervisory Board, based on the recommendation of its Nominating and Corporate Governance Committee, proposes to our shareholders at our shareholders meeting to appoint supervisory board members who are selected on the basis of their specific business, financial technical and / or legal expertise, prior professional experience, soundness of judgment, ability to make analytical enquiries and willingness to devote the time required to adequately perform their activities on behalf of the Supervisory Board. For supervisory board members who are proposed for renewal after expiry of their mandate, the proposed nomination is also made after due consideration regarding the manner in which they have performed their duties in the past.

- Best practice provision III.5.11: Since the creation of our Compensation Committee, the chairman of the Supervisory Board is also the chairman of the compensation committee as this process has worked effectively. To comply with best practice provision III.5.11 in the future, our Supervisory Board intends to appoint its Vice Chairman as Chairman of our Compensation Committee.

- Best practice provision III.7.1: As approved by our shareholders, the remuneration of the Supervisory Board of STMicroelectronics partly consists of shares and or rights to shares and consequently deviates from the Dutch Corporate Governance Code. As provided by our Compensation policy which was approved by our shareholders in 2005, stock options are considered as enabling our Supervisory Board Members to better identify with the interests of STMicroelectronics and its shareholders, and to be conducive to attracting, incentivizing and retaining the best candidates in light of global market practices in the semiconductor industry.

- Best practice provision IV.3.13: The Company has consistently sought approval from its Supervisory Board for all bilateral contracts with shareholders after providing all required evidence that such contracts are conducted on normal and at arms length conditions. To comply with best practice provision IV.3.13, STMicroelectronics intends in the future to publish its policy on bilateral contacts with shareholders on its website.

Managing Board

In accordance with Dutch law, our management is entrusted to the Managing Board under the supervision of our Supervisory Board. Mr. Carlo Bozotti, re-appointed in 2008 for a three-year term to expire at the end of our annual shareholders' meeting in 2011, is currently the sole member of our Managing Board with the function of President and Chief Executive Officer. Mr. Alain Dutheil serves as Chief Operating Officer, reporting to Mr. Bozotti. From February 3rd, 2009, Mr Dutheil also served as President and Chief Executive Officer of ST Ericsson. Since its creation in 1987, our managing board has always been comprised of a sole member. The member of our Managing Board is appointed for a three-year term, as described in our Articles of Association, which may be renewed one or more times in accordance with our Articles of Association upon a non-binding proposal by our Supervisory Board at our shareholders' meeting and adoption by a simple majority of the votes cast at the shareholders' meeting where at least 15% of the issued and outstanding share capital is present or represented. If a quorum is not present, a further meeting can be convened which shall, irrespective of the share capital represented, be entitled to pass a resolution by a simple majority. If our Managing Board were to consist of more than one member, our Supervisory Board would appoint one of the members of our Managing Board to be chairman of our Managing Board for a three-year term, as defined in our Articles of Association (upon approval of at least three-quarters of the members of our Supervisory Board). In such case, resolutions of our Managing Board would require the approval of a majority of its members.

Our shareholders' meeting may suspend or dismiss one or more members of our Managing Board at a meeting at which at least one-half of the outstanding share capital is present or represented. If a quorum is not present, a further meeting shall be convened, to be held within four weeks after the first meeting, which shall be entitled, irrespective of the share capital represented, to pass a resolution with regard to the suspension or dismissal of one or more members of our Managing Board. Such a quorum is not required if a suspension or dismissal is proposed by our Supervisory Board. In that case, a resolution to dismiss or to suspend a member of our Managing Board can be taken by a simple majority of the votes cast at a meeting where at least 15% of our issued and outstanding share capital is present or represented. If a quorum is not present, a further meeting can be convened which shall, irrespective of the share capital represented, be entitled to pass a resolution by a simple majority. Our Supervisory Board may suspend members of our Managing Board, but a shareholders' meeting must be convened within three months after such suspension to confirm or reject the suspension. Our Supervisory Board shall appoint one or more persons who shall, at any time, in the event of absence or inability to act of all the members of our Managing Board, be temporarily responsible for our management.

Under Dutch law, our Managing Board is entrusted with our general management and the representation of the Company. Our Managing Board must seek prior approval from our shareholders' meeting for decisions regarding a significant change in the identity or nature of the Company.

Under our Articles of Association, our Managing Board must obtain prior approval from our Supervisory Board for:

(i) all proposals to be submitted to a vote at a shareholders' meeting;

(ii) the formation of all companies, acquisition or sale of any participation, and conclusion of any cooperation and participation agreement;

(iii) all of our multi-year plans and the budget for the coming year, covering investment policy, policy regarding R&D, as well as commercial policy and objectives, general financial policy, and policy regarding personnel; and

(iv) all acts, decisions or operations covered by the foregoing and constituting a significant change with respect to decisions already taken by our Supervisory Board. In addition, under our Articles of Association, our Supervisory Board and our shareholders' meeting may specify by resolution certain additional actions by our Managing Board that require its prior approval.

In accordance with our Corporate Governance Charter, the sole member of our Managing Board and our Executive Officers may not serve on the board of a public company without the prior approval of our Supervisory Board. We are not aware of any potential conflicts of interests between the private interest or other duties of our sole Management Board member and our Executive Officers and their duties to our Company.

Pursuant to the charter adopted by our Supervisory Board, the following decisions by our Managing Board with regards to the Company and any of our direct or indirect subsidiaries (an "ST Group Company") require prior approval from our Supervisory Board:

(i) any modification of our or any ST Group Company's Articles of Association or other constitutional documents, other than those of wholly-owned subsidiaries;

(ii) any change in our or any ST Group Company's authorized share capital or any issue, acquisition or disposal by us of our own shares, or any ST Group Company's shares, or change in share rights or issue of any instruments granting an interest in our or an ST Group Company's capital or profits other than those of our wholly-owned subsidiaries;

(iii) any liquidation or dissolution of us or any ST Group Company or the disposal of all or a substantial and material part of our business or assets, or those of any ST Group Company, or of any shares in any such ST Group Company;

(iv) any merger, acquisition or joint venture agreement (and, if substantial and material, any agreement relating to IP) or formation of a new company to which we or any ST Group Company is, or is proposed to be, a party, as well as the formation of new companies by us or any ST Group Company (with the understanding that only acquisitions above $25 million per transaction are subject to prior Supervisory Board approval);

(v) approval of our draft consolidated balance sheets and financial statements, as well as our and our subsidiaries' profit distribution policies;

(vi) entering into any agreement that may qualify as a related party transaction, including any agreement between us or any ST Group Company and ST Holding, ST Holding II, FT1CI, Areva, CDP or CEA;

(vii) the key parameters of our 5-year plans and our consolidated annual budgets, as well as any significant modifications to said plans and budgets, or any one of the matters set forth in our Articles of Association and not included in the approved plans or budgets;

(viii) approval of operations of exceptional importance which have to be submitted for Supervisory Board prior approval even if their financing was already provided for in the approved annual budget;

(ix) approval of our quarterly, semiannual and annual Consolidated Financial Statements prepared in accordance with U.S. GAAP and semiannual and annual accounts using IFRS, prior to submission for shareholder adoption; and

(x) the exercise of any shareholder right in an ST joint venture company ("ST Joint Venture Company"), which is a company (i) with respect to which we hold directly or indirectly either a minority equity position in excess of 25% or a majority position without the voting power to adopt extraordinary resolutions or (ii) in which we directly or indirectly participate and such participation has a value of at least one-third of our total assets according to the consolidated balance sheet and notes thereto in our most recently adopted (statutory) annual accounts.

Supervisory Board

Our Supervisory Board advises our Managing Board in performing its management tasks and supervises the policies of our Managing Board and the general course of our affairs and business. In discharging its duties, our Supervisory Board shall be guided by our interests and our business; it shall take into account the relevant interests of all those involved in us (including our shareholders). Our Supervisory Board is responsible for the quality of its own performance.

Our Supervisory Board consists of at least six members, the number to be determined by our shareholders' meeting upon the proposal of our Supervisory Board. Members of our Supervisory Board are appointed by our shareholders' meeting for a three-year term, as defined in our Articles of Association, upon the proposal of our Supervisory Board, by a simple majority of the votes cast at a meeting where at least 15% of the issued and outstanding share capital is present or represented.
Members of our Supervisory Board may be suspended or dismissed by our shareholders' meeting by a simple majority of the votes cast at a meeting where at least 15% of the issued and outstanding share capital is present or represented. Our Supervisory Board may make a proposal to our shareholders' meeting for the suspension or dismissal of one or more of its members.

The responsibilities of our Supervisory Board include (but are not limited to):

- supervising, monitoring, and advising our Managing Board on: (i) our performance, (ii) our strategy and risks inherent to our business activities, (iii) the structure and management of the internal risk management and control systems, and (iv) compliance with legislation and regulations;
- disclosing, complying with and enforcing our corporate governance structure;
- selecting and recommending the appointment of the member(s) of the Managing Board;
- proposing the compensation policy for the member(s) of our Managing Board (such policy to be adopted by our shareholders' meeting), fixing the compensation annually and the contractual terms and conditions of employment of the member(s) of our Managing Board (in accordance with the said compensation policy);
- electing and recommending the appointment of the members of our Supervisory Board and proposing their remuneration;
- evaluating and assessing the functioning of our Managing Board, our Supervisory Board, and their individual members (including the evaluation of our Supervisory Board's profile and the induction, education and training program);
- handling, and deciding on, potential reported conflicts of interest between us on the one hand and members of our Supervisory Board, our Managing Board, our external auditor and our (major) shareholder(s) on the other hand;
- selecting and recommending the appointment of our external auditor upon proposal by the Audit Committee;
- reviewing and approving our whistleblower procedures upon approval by the Audit Committee;
- handling, and deciding on, potential reported conflicts of interest between us on the one hand and members of our Supervisory Board, our Managing Board, our external auditor and our (major) shareholder(s) on the other hand;
- selecting and recommending the appointment of our external auditor upon proposal by the Audit Committee;
- handling, and deciding on, reported alleged irregularities that relate to the functioning of our Managing Board;
- approving decisions by our Managing Board as referred above under "Managing Board";

- supervising the adoption and implementation by our Managing Board on a consolidated basis of strategic pluri-annual plans and annual budgets in line with the decisions of our Supervisory Board;
- on an annual basis, the renewal of the authorization by our Managing Board to issue guarantees to companies whose accounts are consolidated by us, as well as guarantees granted to third parties including nonconsolidated subsidiaries of us;

The Supervisory Board Charter, as posted on our website, contains detailed provisions on the reporting and handling of (potential) conflicts of interest.

For information on the identity of our Supervisory Board, including its committees, as well as the compensation of the members of our Supervisory Board, see the report of our Supervisory Board.

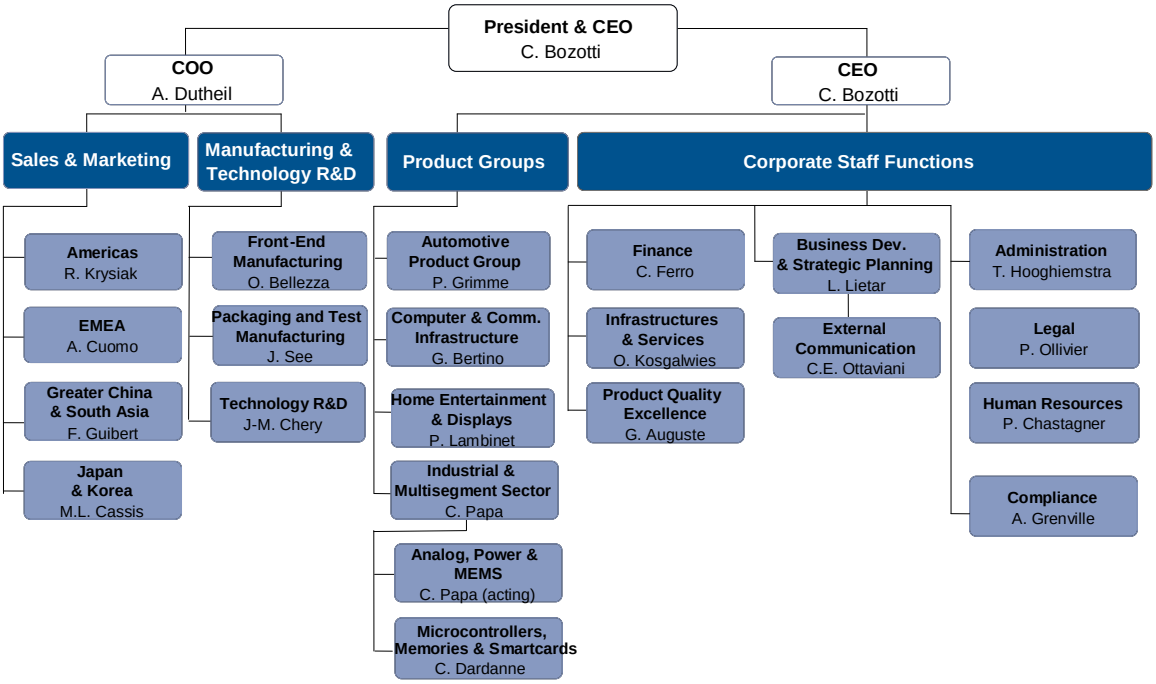
For information on the role and identity of the committees of our Supervisory Board, see the report of our Supervisory Board.

Executive Officers

Our executive officers support our Managing Board in its management of the Company, without prejudice to our Managing Board's ultimate responsibility. New corporate officers during 2009 and the first quarter of 2010 include: Paul Grimme, who joined the Company in September 2009 as Corporate Vice President and General Manager of the Automotive Product Group (APG) following Ugo Carena's retirement; and Tjerk Hooghiemstra, who joined our company in February 2010 in the new position of Executive Vice-President, Chief Administrative Officer. In this role, Mr. Hooghiemstra reports to the President and CEO, Carlo Bozotti. We created this new position with the aim of generating synergies among many staff organizations, by optimizing the functions of Human Resources, Health & Safety, Education, Legal, Internal Communication, Security, and Corporate Responsibility.

From August 2, 2008 through November 1, 2009, our Chief Operating Officer, Alain Dutheil, was also the CEO of ST-NXP Wireless, and acted as CEO of the new ST-Ericsson joint venture following the merger of ST-NXP Wireless with EMP. The current CEO of ST-Ericsson is Gilles Delfassy.

As of February 2010, our organizational chart is as follows:



As a company committed to good governance, the Managing Board hold several corporate meetings on a regular basis. Such meetings, which involve the participation of several of our executive officers, include:

- **Corporate Operation Reviews (COR)**, which meets once per month to review monthly results and short term forecasts and involve the following executive officers/groups: CEO; COO; CFO; Infrastructures and Services; Product Quality Excellence; Manufacturing (Front-End and Back-End); TR&D; Regions; and Product Groups.

- **Corporate Strategic Committee** meetings**,** which occur twice per quarter with the objective of defining the strategic directions of the Company. They are attended by the CEO, COO and the following executive officers: Orio Bellezza; Jean-Marc Chery; Andrea Cuomo; Carlo Ferro; Tjerk Hooghiemstra; Philippe Lambinet; Loic Liétar; and Carmelo Papa.

Our executive officers during 2009 were:

Name	Position	Years with Company	Years in Semiconductor Industry	Age
Carlo Bozotti, Chairman	President and Chief Executive Officer	33	33	57
Alain Dutheil, Vice Chairman	Chief Operating Officer	26	40	64
Georges Auguste	Executive Vice President, Quality, Education and Sustainable Development	23	35	60
Orio Bellezza	Executive Vice President and General Manager, Front-End Manufacturing	26	26	50
Gian Luca Bertino	Corporate Vice President, Computer and Communications Infrastructure	12	23	50
Ugo Carena[1]	Corporate Vice President, Automotive Products Group	12	32	66
Marco Luciano Cassis	Corporate Vice President, Japan Region	22	22	46
Patrice Chastagner	Corporate Vice President, Human Resources	25	25	62
Jean-Marc Chery	Executive Vice President and Chief Technology Officer	25	25	49
Andrea Cuomo	Executive Vice President and General Manager, Sales & Marketing, Europe, Middle East and Africa	26	26	55
Claude Dardanne	Corporate Vice President, General Manager, Microcontrollers, Memories & Smartcards	27	30	57
Carlo Ferro	Executive Vice President, Chief Financial Officer	10	10	49
Alisia Grenville	Corporate Vice President, Chief Compliance Officer	2	2	42
Paul Grimme	Corporate Vice President and General Manager, Automotive Product Group	1	29	50
François Guibert	Corporate Vice President, President, Greater China & South Asia Region	29	32	56
Reza Kazerounian[2]	Corporate Vice President, North America Region	25	25	52

Name	Position	Years with Company	Years in Semiconductor Industry	Age
Otto Kosgalwies	Executive Vice President, Infrastructure and Services	26	26	54
Robert Krysiak	Corporate Vice President and General Manager, Greater China Region	27	27	55
Philippe Lambinet	Executive Vice President, General Manager, Home Entertainment & Displays Group	16	16	52
Loïc Lietar	Corporate Vice President, Corporate Business Development	24	24	47
Pierre Ollivier	Corporate Vice President and General Counsel	20	20	54
Carlo Ottaviani	Corporate Vice President, Communications	45	45	66
Carmelo Papa	Executive Vice President and General Manager, Industiral Multi-segment Sector	27	27	60
Jeffrey See	Executive Vice President, Central Packaging and Test Manufacturing	40	40	64
Thierry Tingaud(43	Corporate Vice President, Emerging Markets Region	25	25	50

(1) Retired in 2009.
(2) As of April 2009, Mr. Kazerounian is no longer with the Company.
(3) Mr. Tingaud left ST in February 2009.

Biographies of our Current Executive Officers

Carlo Bozotti is our President, Chief Executive Officer and the sole member of our Managing Board. As CEO, Mr. Bozotti is the Chairman of our Executive Committee. Prior to taking on this new role at the 2005 annual shareholders' meeting, Mr. Bozotti served as Corporate Vice President, Memories Product Group ("MPG") since August 1998. Mr. Bozotti joined SGS Microelettronica in 1977 after graduating in Electronic Engineering from the University of Pavia. Mr. Bozotti served as Product Manager for the Industrial, Automotive and Telecom products in the Linear Division and as Business Unit Manager for the Monolithic Microsystems Division from 1987 to 1988. He was appointed Director of Corporate Strategic Marketing and Key Accounts for the Headquarters Region in 1988 and became Vice President, Marketing and Sales, Americas Region in 1991. Mr. Bozotti served as Corporate Vice President, MPG from August 1998 through March 2005, after having served as Corporate Vice President, Europe and Headquarters Region from 1994 to 1998. In 2008, Mr. Bozotti was appointed Chairman of the Supervisory Board of Numonyx. As of February 1, 2009, he is Vice Chairman of the Board of Directors of ST-Ericsson.

Alain Dutheil was appointed Chief Operating Officer in 2005, with the endorsement of the Supervisory Board. He is also the Vice Chairman of our Corporate Executive Committee. Prior to his appointment as COO, he served as Corporate Vice President, Strategic Planning and Human Resources from 1994 and 1992, respectively. After graduating in Electrical Engineering from the Ecole Supérieure d'Ingénieurs de Marseille ("ESIM"), Mr. Dutheil joined Texas Instruments in 1969 as a Production Engineer, becoming Director for Discrete Products in France and Human Resources Director in France in 1980 and Director of Operations for Portugal in 1982. He joined Thomson Semiconductors in 1983 as General Manager of a plant in Aix-en-Provence, France and then became General Manager of SGS-Thomson Discrete Products Division. From 1989 to 1994, Mr. Dutheil served as Director for Worldwide Back-end Manufacturing, in addition to serving as Corporate Vice President for Human Resources from 1992 until 2005. From August 2008 through January 2009, Mr. Dutheil acted as CEO for our joint venture ST-NXP Wireless, and from February 1, 2009 through November 15, 2009, was the CEO of ST- Ericsson.

Georges Auguste currently serves as our Executive Vice President, Quality, Education and Sustainable Development. Mr. Auguste received a degree in Engineering from the Ecole Supérieure d'Electricité ("SUPELEC") in 1973 and a diploma in Business Administration from Caen University in 1976. Prior to joining us, Mr. Auguste worked with Philips Components from 1974 to 1986, in various positions in the field of manufacturing. From 1990 to 1997, he headed our operations in Morocco, and from 1997 to 1999, Mr. Auguste served as Director of Total Quality and Environmental Management.

Orio Bellezza, Executive Vice President and General Manager, Front-End Manufacturing, is responsible for all of our wafer fabrication operations and facilities. He graduated with honors in Chemistry from Milan University in 1983. He joined SGS-ATES in 1984 as a Process Engineer and after two years moved to the Central R&D department, where he worked first as a Development Engineer and later as the Process Integration Manager, responsible for submicron EPROM (Erasable Programmable Read-Only Memories) process technology modules. In 1996, Bellezza was named Director of the Agrate R1 Research and Development facility. In 2002, he was appointed Vice President of Central R&D and then in 2005 was named Vice President and Assistant General Manager of Front-End Technology and Manufacturing. Bellezza also served on the Board of the ST-Hynix memory-manufacturing joint venture established in Wuxi (China).

Gian Luca Bertino is our Corporate Vice President, Computer and Communications Infrastructure. He graduated in 1985 in Electronic Engineering from the Polytechnic of Turin. From 1986 to 1997 he held several positions within the Research and Development organization of Olivetti's semiconductor group before joining ST in 1997. Previously, he was Group Vice President, Peripherals, General Manager of our Data Storage Division within the Telecommunications, Peripherals and Automotive (TPA) Groups.

Marco Luciano Cassis is Corporate Vice President, Japan region. He graduated from the Polytechnic of Milan with a degree in Electronic Engineering. Cassis joined us in 1988 as a mixed-signal analog designer for car radio applications. In 1993, Cassis moved to Japan to support our newly created design center with his expertise in audio products. Then in 2000, Cassis took charge of the Audio Business Unit and a year later he was promoted to Director of Audio and Automotive Group, responsible for design, marketing, sales, application support, and customer services. In 2004, Cassis was named Vice President of Marketing for the automotive, computer peripheral, and telecom products. In 2005, he advanced to Vice President Automotive Segment Group and joined the Board of the Japanese subsidiary, STMicroelectronics K.K.

Patrice Chastagner is Corporate Vice President, Human Resources. He is a graduate of the HEC business school in France and in 1988 became the Grenoble Site Director, guiding the emergence of this facility to become one of the most important hubs in Europe for advanced, complex silicon chip development and solutions. As Human Resources Manager for the Telecommunications, Peripherals and Automotive (TPA) Groups, which was our largest product group at the time, he was also TQM Champion and applied the principle of continuous improvement to human resources as well as to manufacturing processes. Since March 2003, he has also been serving as Chairman of STMicroelectronics S.A. in France.

Jean-Marc Chery is our Executive Vice President and Chief Technology Officer, where his responsibilities include our corporate technology R&D, as well as the production at the Company's 12" (300mm) Crolles wafer fab. He graduated from the National Superior School for Engineering, ENSAM France in 1984. He began his professional career in 1985 with MATRA SA in its Quality organization and by the end of 1986 had joined the Discrete Division of Thomson Semiconducteurs, located in Tours, where he remained until the beginning of 2001, first as Division Planning and Front-End Production Control Manager and later as the Front-End Operation Manager. Early in 2001, Chery joined our Central Front-End Manufacturing organization as General Manager of the Rousset 8" (200mm) plant, eventually assuming responsibilities for the 6" and 8" wafer fab operations at the site. In 2005, Chery successfully led our restructuring program for 6" front-end wafer manufacturing and he moved to Singapore, where, in 2006, his efforts earned him the responsibility for our Asia-Pacific Front-End Manufacturing operations and EWS (electrical wafer-sort) operations. In February 2009, he was appointed a member of ST-Ericsson's Board of Directors. He is also Chairman of STMicroelectronics, Crolles 2, SAS, and, in September 2009, he was appointed a deputy of ST-Ericsson's Board of Directors. Since October 2009, he has been in charge of Information communication Technology.

Andrea Cuomo is Executive Vice President and General Manager, Sales & Marketing, Europe, Middle East and Africa. After studying at Milano Politecnico in Nuclear Sciences, with a special focus on analog electronics, Mr. Cuomo joined us in 1983 as a System Testing Engineer, and from 1985 to 1989 held various positions to become Automotive Marketing Manager, then computer and industrial product manager . In 1989, Mr. Cuomo was appointed Director of Strategy and Market Development for the Dedicated Products Group, and in 1994 became Vice President of the Headquarters Region, responsible for Corporate Strategic Marketing and for Sales and Marketing to ST Strategic Accounts. In 1998, Mr. Cuomo was appointed as Vice President responsible for Advanced System Technology and in 2002, Mr. Cuomo was appointed as Corporate Vice President and Advanced System Technology General Manager. In 2004, he was given the additional responsibility of serving as our Chief Strategy officer and was promoted to Executive Vice President. Since 2008, he has been responsible for EVP, GM, EMEA and AST.

Claude Dardanne is Corporate Vice President and General Manager of our Microcontrollers, Memories & Smartcards (MMS) Group, part of our Industrial & Multi-segment Sector, in January 2007. Mr. Dardanne graduated from the Ecole Supérieure d'Ingénieurs en Génie Electrique de Rouen in France with a Master's degree in Electronic Engineering. After graduation, Mr. Dardanne spent five years at Thomson Semiconducteurs in France before moving to North America as a Field Application Engineer. From 1982, Mr. Dardanne was responsible for marketing of Microcontrollers & Microprocessor products in North America and, in 1987, Mr. Dardanne was appointed Thomson's Worldwide Marketing Manager for Microcontrollers & Microprocessors in France. In 1989, Mr. Dardanne joined Apple Computer, France, as Marketing Director, responsible for business development in segments including Industrial, Education, Banking and Communications. From 1991 to 1994, Mr. Dardanne served as Marketing Director at Alcatel-Mietec in Belgium and in 1994, Mr. Dardanne rejoined Thomson (which by then had merged with SGS Microelettronica) as Director of Central Marketing for the Memory Products Group (MPG). In 1998, Mr. Dardanne became the head of the EEPROM division. In 2002, Mr. Dardanne was promoted to Vice President of the Memory Products Group and General Manager of the Serial Non-Volatile Memories division and in 2004, he was promoted to Deputy General Manager, Memory Products Group, where his responsibilities included the management of our Smartcard Division.

Carlo Ferro is Executive Vice President, Chief Financial Officer. Mr. Ferro has been serving as our CFO since May 2003. Mr. Ferro graduated with a degree in Business and Economics from the LUISS Guido Carli University in Rome, Italy in 1984, and has a professional qualification as a Certified Public Accountant in Italy. From 1984 through 1996, Mr. Ferro held a series of positions in finance and control at Istituto per la Ricostruzione Industriale-IRI S.p.A. ("IRI"), and Finmeccanica. Mr. Ferro served as one of our Supervisory Board Controllers from 1992 to 1996. Mr. Ferro was also a part-time university professor of Planning and Control until 1996. From 1996 to 1999, Mr. Ferro held positions at EBPA NV, a process control company listed on the NYSE, rising to Vice President Planning and Control and principal financial officer. Mr. Ferro joined us in June 1999 as Group Vice President Corporate Finance, overseeing finance and accounting for all affiliates worldwide, and served as Deputy CFO from April 2002 through April 2003. Mr. Ferro holds positions on the board of directors of several of our affiliates. He is also a part-time professor of finance at the University LUISS Guido Carli in Rome (Italy). As of February 1, 2009, he is a member of ST-Ericsson's Board of Directors, as well as Chair of its Audit Committee. He is also the Chairman of Incard SA, our fully owned affiliate.

Alisia Grenville is Corporate Vice President, Chief Compliance Officer. She graduated from Queen's University in Kingston, Ontario with an honor's degree in French and Italian and from the University of Sussex with a bachelor in law (LLB). Between 1999 and 2004, Grenville worked in top-tier American law firms as a corporate associate, specializing in bank finance, capital markets and M&A transactions, as well as governance, based in both New York and Frankfurt. In 2004, Grenville became a Senior Compliance Officer at Zurich Financial Services in Zurich. In 2005, she became the Head of Legal Compliance for Serono, S.A. in Geneva, and she joined ST in December 2007. Grenville is also in charge of the Executive Secretariat of the Supervisory Board, and supervises the Company's Internal Audits in addition to chairing the Company's Ethics Committee.

Paul Grimme was born in 1959 in Yankton, South Dakota, and graduated from the University of Nebraska (Lincoln) with a degree in Electrical Engineering and from the University of Texas (Austin) with a Master of Business Administration. Grimme began his career at Motorola, where he held positions of increasing responsibility in product engineering, marketing and operations management. He served as Corporate Vice President and General Manager of the 8/16-bit Products Division. In 1999, Grimme was promoted to Vice President and General Manager of the Advanced Vehicle Systems Division. He was later appointed Senior Vice President of the Transportation and Standard Products Group and continued in that role at Freescale Semiconductor after Motorola spun off its semiconductor business. Grimme also served as Senior Vice President and General Manager of Freescale Semiconductor's Microcontroller Solutions Group. Grimme joined STMicroelectronics as Deputy General Manager of the Automotive Product Group in early 2009. Grimme was promoted as Corporate Vice President and General Manager of STMicroelectronics' Automotive Product Group in September 2009.

François Guibert is Corporate Vice President, President, Greater China & South Asia Region. He was born in Beziers, France in 1953 and graduated from the Ecole Supérieure d'Ingénieurs de Marseilles in 1978. After three years at Texas Instruments, he joined Thomson Semiconducteurs in 1981 as Sales Manager Telecom. From 1983 to 1986, he was responsible for ICs and strategic marketing of telecom products in North America. In 1988 he was appointed Director of our Semi-custom Business for Asia Pacific and in 1989 he became President of ST-Taiwan. Since 1992 he has occupied senior positions in Business Development and Investor Relations and was Group Vice President, Corporate Business Development which includes M&A activities from 1995 to the end of 2004. In January 2005, Mr. Guibert was promoted to the position of Corporate Vice President, Emerging Markets Region and in October 2006, he was appointed to his current position. In 2008, Mr. Guibert was appointed a member of Veredus' Board of Directors.

Tjerk Hooghiemstra is Executive Vice President, Chief Administrative Officer, responsible for the Company's Human Resources, Health and Safety, Education, Legal, Internal Communication, Security, and Corporate Responsibility. He has held this position since February 2010 and is a member of our Corporate Strategic Committee. He began his career at AMRO Bank. Later he joined HayGroup, a leading global HR consultancy, where he rose through the ranks to become the European head of HayMcBer, the group's HR and leadership development arm, in 1991. Five years later, Hooghiemstra joined Philips Consumer Electronics as Managing Director of Human Resources. In 2000, he was appointed a member of Royal Philips Electronics' Group Management Committee, responsible for Corporate Human Resources of the 160,000-employee global electronics group. In this position, Hooghiemstra successfully developed global HR processes, policies and tools across all Philips' businesses, establishing leading-edge talent and leadership development programs. In 2007-2009, Hooghiemstra served as Executive Vice President, Human Resources, at the Majid Al Futtaim retail and real-estate group in Dubai, UAE. Tjerk Hooghiemstra was born in Hoogeveen, The Netherlands in 1956. He graduated with a degree in Economics from the Erasmus University in Rotterdam, The Netherlands

Otto Kosgalwies is Executive Vice President, Infrastructure and Services, with responsibility for all of our corporate activities related to Capacity Planning, Logistics, Procurement and Material Management, with particular emphasis on the complete supply chain between customer demand, manufacturing execution, inventory management, and supplier relations. Mr. Kosgalwies has been with us since 1984 after graduating with a degree in Economics from Munich University. From 1992 through 1995, he served as European Manager for Distribution, from 1995 to 2000 as Sales and Distribution Director for Central Europe, and since 1997 as CEO of our German subsidiary. In 2000, Mr. Kosgalwies was appointed Vice President for Sales and Marketing in Europe and General Manager for Supply Chain Management, where he was responsible at a corporate level for the effective flow of goods and information from suppliers to end users. In December 2007, he was promoted Executive Vice President and became responsible for capacity and investment planning at the corporate level.

Robert Krysiak is Corporate Vice President and General Manager, Greater China Region, and focuses exclusively on our operations in China, Hong Kong and Taiwan. He graduated from Cardiff University with a degree in Electronics and holds an MBA from the University of Bath. In 1983, Mr. Krysiak joined INMOS, as a VLSI Design Engineer. Then in 1992, Mr. Krysiak formed a group dedicated to the development of CPU products based on the Reusable-Micro-Core architecture. Mr. Krysiak was appointed Group Vice President and General Manager of our 16/32/64 and DSP division in 1997. In 1999, Mr. Krysiak became Group Vice President of the Micro Cores Development, and in 2001, he took charge of our DVD division. He was a Marketing Director for HPC before assuming his current responsibilities.

Philippe Lambinet is Executive Vice President, General Manager Home Entertainment & Displays Group. He graduated from the Paris Ecole Supérieure d'Electricité in 1979 with a Master's Degree in Electronics. He began his professional career as a software engineer with Control Data Corporation in 1979 and in 1980 joined Thomson's semiconductor subsidiary EFCIS to work in Application Engineering. He later supervised ASIC Operations at Thomson's Mostek Corporation in Carrollton, Texas and in 1990 took charge of design and marketing for Mixed Signal Semi-custom Products within the Company's Programmable Products Group. In 1997, he became Group Vice President and General Manager of the Digital Video Division. He then joined Advanced Digital Broadcast Group (ADB) as CEO of ADB-SA and became COO of ADB Holdings SA and Vice Chairman.

Loïc Liétar is a Corporate Vice President and Chief Strategic Officer of STMicroelectronics, and has held this position since January 2008. He is responsible for the Company's Strategic Planning, Corporate Business Development, and Corporate Communication (since February 2010). Liétar also sits on the Board of Directors of ST-Ericsson. Liétar joined Thomson Semiconducteurs, a predecessor company to STMicroelectronics, in 1985. After working in R&D Management and Marketing, he was appointed Director of the Company's Advanced Systems Technology (AST) labs in the US in 1999. Four years later, Liétar became General Manager of ST's Cellular Terminals Division, and later moved to head the Application Processor Division, which brought to market ST's leading-edge Nomadik mobile multimedia processor. In 2006, he was appointed Group Vice President, Strategies, and contributed to establishing ST's R&D partnership with IBM and two joint ventures - the Numonyx flash-memory joint venture with Intel and ST-Ericsson, combining the wireless operations of ST, NXP and Ericsson. Liétar sits on the Board of Directors of the Global Semiconductor Alliance (GSA). Loïc Liétar was born in Paris, France, in 1962. He graduated with degrees in Engineering and Microelectronics from the École Polytechnique and Orsay University in Paris, respectively, and holds an MBA from Columbia University, New York.

Pierre Ollivier is Corporate Vice President, General Counsel. He obtained a Law Degree at Caen University in 1976 and a postgraduate degree in International Business law at Paris 1 University in 1978. After graduation, he joined Clifford Turner (now Clifford Chance) and then, in 1982, joined Stein Heurtey, an engineering firm, where he was responsible for legal affairs. In 1984, Ollivier joined Thomson CSF where he first worked in the Electronics systems and equipment branch, later moving to corporate headquarters. Ollivier became general counsel of STMicroelectronics in 1990, a position he has held since. From 1994 until 2007, he also acted as Executive Secretary to the Secretariat of the Supervisory Board. In January 2008, Ollivier was promoted to Corporate Vice President, General Counsel. In addition to legal matters involving contracts, litigation and general corporate matters, his responsibilities include developing the protection and extraction of value from ST's Intellectual Property, as well as the negotiation and management of worldwide insurance programs for ST's global group of companies.

Carlo Emanuele Ottaviani is Corporate Vice President, Communications. He began his career in 1965 in the Advertisement and Public Relations Office of SIT-SIEMENS, today known as ITALTEL. He later had responsibility for the activities of the associated semiconductor company ATES Electronic Components. ATES merged with the Milan-based SGS in 1971, and Mr. Ottaviani was in charge of the advertisement and marketing services of the newly formed SGS-ATES. In 1975, he was appointed Head of Corporate Communication worldwide, and has held this position since that time. In 2001, Mr. Ottaviani was appointed by STMicroelectronics Foundation, an independent charitable organization, as its President.

Carmelo Papa is our Executive Vice President and General Manager of our Industrial & Multi-segment Sector. He received his degree in Nuclear Physics at Catania University. Mr. Papa joined us in 1983 and in 1986 was appointed Director of Product Marketing and Customer Service for Transistors and Standard ICs. In 2000, Mr. Papa was appointed Corporate Vice President, Emerging Markets and in 2001, he took on additional worldwide responsibility for our Electronic Manufacturing Service to drive forward this new important channel of business. From January 2003 through December 2004, he was in charge of formulating and leading our strategy to expand our customer base by providing dedicated solutions to a broader selection of customers, one of our key growth areas. In 2005, he was named Corporate Vice President.

Jeffrey See is our Executive Vice President and General Manager, Central Packaging & Test Manufacturing. After Mr. See graduated from the Singapore Polytechnic in 1965, he became a Chartered Electronic Engineer at the Institution of Electrical Engineers (IEE) in the UK. In 1969, Mr. See joined SGS Microelettronica, a forerunner company of ST, as a Quality Supervisor at its first Assembly and Test facility in Toa Payoh, Singapore and was promoted to Deputy Back-End Plant Manager in 1980. In 1983, Mr. See was appointed to manage the start-up of the region's first wafer fabrication plant (125-mm) in Ang Mo Kio, Singapore and became General Manager of the front-end operations in 1992. In 2001, Mr. See was appointed Vice President and Assistant General Manager of Central Front-End Manufacturing and General Manager of the Asia Pacific Manufacturing Operations, responsible for wafer fabrication and electrical wafer sort in the region.

As is common in the semiconductor industry, our success depends to a significant extent upon, among other factors, the continued service of our key senior executives and research and development, engineering, marketing, sales, manufacturing, support and other personnel, and on our ability to continue to attract, retain and motivate qualified personnel. The competition for such employees is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on us. We do not maintain insurance with respect to the loss of any of our key personnel.

Major Shareholders

The following table sets forth certain information with respect to the ownership of our issued common shares based on information available to us as of February 15, 2010, based on the websites of the Authority for the Financial Markets (Autoriteit Financiële Markten, the "AFM") and the US Securities and Exchange Commission (the "SEC"):

	Common Shares Owned	
Shareholders	**Number**	**%**
ST Holding II	250,704,754	27.54
Public	542,946,425	59.64
Brandes Investment Partners[(1)]	66,620,387	7.32
Capital World InvestorsInvestors[(2)]	18,050,000	1.98
Treasury shares	31,985,739	3.52
Total	**910,307,305**	**100**

(1) According to information filed February 12, 2010 on Schedule 13G with the SEC, Brandes Investment Partners' shares in our company are beneficially owned by the following group of entities: Brandes Investment Partners, L.P., Brandes Investment Partners, Inc., Brandes Worldwide Holdings, L.P., Charles H. Brandes, Glenn R. Carlson and Jeffrey A. Busby. According to the website of the AFM, Brandes Investment Partners has an interest in us of 7.85%.

(2) At December 31, 2008, Capital World Investors held 5.4% of our shares, according to the information on the website of the SEC. As of December 31, 2009, it held less than 5% of our shares and has ceased to be a major shareholder of our company.

Furthermore to the above, Stichting Continuïteit ST has an option to acquire 540,000,000 preference shares in our share capital. Also, according to the website of the AFM, Capital Research and Management Company holds 40,024,500 voting rights (as at April 8, 2010).

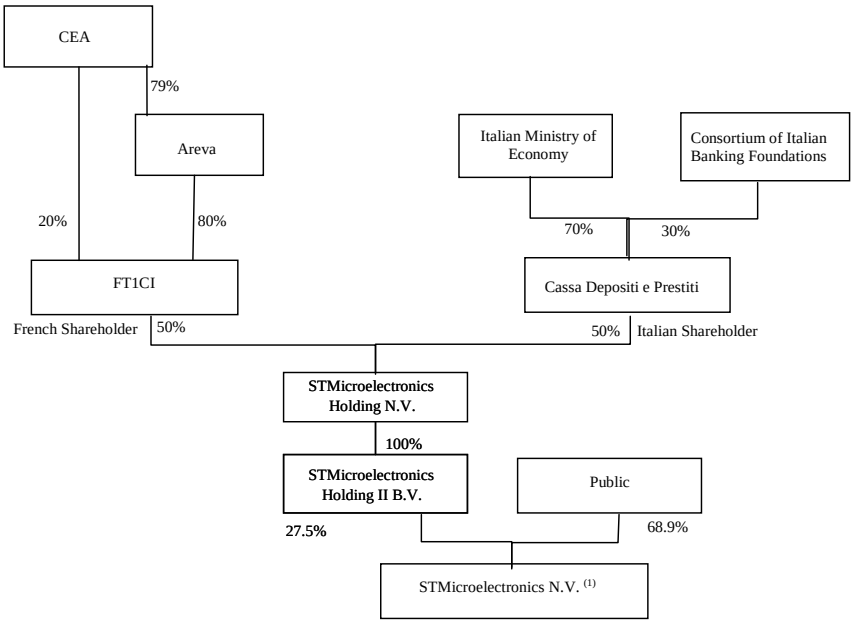
ST Holding II is a wholly owned subsidiary of ST Holding. As of December 31, 2009, FT1CI (the "French Shareholder"), controlled by Areva and CEA, and CDP (the "Italian Shareholder"), directly held 50% each in ST Holding. The indirect interest of FT1CI and CDP in us is split on a 50%-50% basis. Through a structured tracking stock system implemented in the articles of association of ST Holding and ST Holding II, FT1CI and CDP each indirectly held 125,352,377 of our common shares, representing 13.7% of our issued share capital as of December 31, 2009. Any disposals or, as the case may be, acquisitions by ST Holding II on behalf of FT1CI or CDP will decrease or, as the case may be, increase the indirect interest of respectively FT1CI or CDP in our issued share capital. FT1CI was formerly a jointly held company set up by Areva and France Telecom to control the interest of the French shareholders in ST Holding. Following the transactions described below, Areva and CEA are, as of December 31, 2009, the sole shareholders of FT1CI. Following CDP's acquisition of all of Finmeccanica's remaining shares in our company in December 2009, Finmeccanica no longer has a shareholding in ST Holding. Areva (formerly known as CEA-Industrie) is a corporation controlled by CEA. Areva is listed on Euronext in the form of Investment Certificates. CEA is a French government funded technological research organization. CDP is an Italian financial institution 70% owned by the Italian Ministero dell'Economia e delle Finanze (the "Ministry of Economy and Finance") and 30% owned by a consortium of 66 Italian banking foundations.

ST Holding II owned 90% of our shares before our initial public offering in 1994, and has since then gradually reduced its participation, going below the 66% threshold in 1997 and below the 50% threshold in 1999. ST Holding may further dispose of its shares as provided below in "— Shareholders' Agreements — STH Shareholders' Agreement" and "— Disposals of our Common Shares" and pursuant to the eventual conversion of our outstanding convertible instruments. Set forth below is a table of ST Holding II's holdings in us as of the end of each of the past three financial years:

	Common Shares Owned	
	Number	**%**
December 31, 2009	250,704,754	27.5
December 31, 2008	250,704,754	27.5
December 31, 2007	250,704,754	27.5

Announcements about additional disposals of our shares by ST Holding II on behalf of one or more of its indirect shareholders, Areva, CEA, CDP or FT1CI may come at any time.

The chart below illustrates the shareholding structure as of December 31, 2009:



(1) In addition to the 27.5% held by ST Holding and the 68.9% held by the Public, 3.5% are held by us as Treasury Shares.

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

On December 17, 2009, CDP acquired all of Finmeccanica’s remaining 33,707,436 shares in us, held indirectly through ST Holding. Following this transaction, Finmeccanica no longer holds any of our shares, whether indirectly through ST Holding or directly, and is no longer a party to the STH Shareholders’ Agreement and all of its rights related thereto have been transferred to CDP.

Announcements about additional disposals by ST Holding II or our indirect shareholders may come at any time. Our direct or indirect shareholders may sell our existing common shares or issue financial instruments exchangeable into our common shares at any time while at the same time seeking to retain their rights regarding our preference shares. In addition, substantial sales by us of new common shares or convertible bonds could cause our common share price to drop significantly.

All transactions with major shareholders were at arm's length, were approved by the Supervisory Board, and are therefore in compliance with provision III.6.4 of the Dutch Corporate Governance Code.

Shareholders' Agreements

STH Shareholders' Agreement

We were formed in 1987 as a result of the decision by Thomson-CSF (now called Thales) and STET (now called Telecom Italia S.p.A.) to combine their semiconductor businesses and to enter into a shareholders' agreement on April 30, 1987, which was amended on December 10, 2001, restated on March 17, 2004 and further amended on February 26, 2008. The February 26, 2009 amended and restated agreement (as amended, the "STH Shareholders' Agreement") replaces all previous agreements. The current parties to the STH Shareholders' Agreement are Areva, CEA, CDP and FT1CI. Following CDP's acquisition of all of Finmeccanica's shares in us, held directly through ST Holding, Finmeccanica is no longer a party to the STH Shareholders' Agreement and all of its rights and obligations related thereto have been transferred to CDP.

Pursuant to the terms of the STH Shareholders' Agreement and for the duration of such agreement, FT1CI, on the one hand, and CDP, on the other hand, have agreed to maintain equal interests in our share capital. See further details below.

Restructuring of the Holding Companies

If necessary, the parties agreed to restructure the two holding companies (ST Holding and ST Holding II) to simplify the structure to the extent possible or desirable. In any case, at least one holding company will continue to exist to hold our common shares. The Company that now holds or may hold our common shares in the future for indirect shareholders is referred to below as the "holding company."

Standstill

The STH Shareholders' Agreement contains a standstill provision that precludes any of the parties and the parties' affiliates from acquiring, directly or indirectly, any of our common shares or any instrument providing for the right to acquire any of our common shares other than through the holding company. The standstill is in effect for as long as such party holds our common shares through ST Holding. The parties agreed to continue to hold their stakes in us at all times through the current holding structure of ST Holding and ST Holding II, subject to exercising the preference share option granted to ST Holding if ST Holding were to choose not to exercise such rights directly.

The STH Shareholders' Agreement provides for a balanced corporate governance of the indirect interests in us between FT1CI and CDP (FT1CI and CDP are collectively defined as "STH Shareholders" and individually defined as "STH Shareholder") for the duration of the "Balance Period", despite actual differences in indirect economic interest in us. The "Balance Period" is defined as (i) a period through March 17, 2011, provided that each STH Shareholder owns at all times a voting stake at least equal to 10.5% of our issued and outstanding shares, and (ii) subject to the aforementioned condition, thereafter as long as each STH Shareholder owns at any time, including as a result of the exercise of the "Re-balancing Option" (as defined below), a voting stake equal to at least 47.5% of the total voting stakes. During the Balance Period, each of FT1CI and CDP has an option to rebalance their shareholdings, referred to as the "Rebalancing Option", as further described below.

During the Balance Period, the STH Shareholders agree that the holding company will have a managing board comprised of two members (one member designated by FT1CI, and one designated by CDP) and a supervisory board comprised of six members (three designated by FT1CI and three designated by CDP). The chairman of the supervisory board of the holding company shall be designated for a three-year term by one shareholder (with the other shareholder entitled to designate the Vice Chairman), such designation to alternate between CDP on the one hand and FT1CI on the other hand. The current Chairman is Mr. Matteo del Fante.

During the Balance Period, any other decision, to the extent that a resolution of the holding company is required, must be pursuant to the unanimous approval of the shareholders, including but not limited to the following:

(i) the definition of the role and structure of our Managing Board and Supervisory Board, and those of the holding company;

(ii) the powers of the Chairman and the Vice Chairman of our Supervisory Board, and that of the holding company;

(iii) information by the holding company's managing board and supervisory board, and those by us;

(iv) treatment of confidential information;

(v) appointment of any additional members of our Managing Board and those of the holding company;

(vi) remuneration of the members of our Managing Board and those of the holding company;

(vii) internal audit of STMicroelectronics N.V. and of the holding company;

(viii) industrial and commercial relationships between STMicroelectronics N.V. and CDP or STMicroelectronics N.V. and either or both FT1CI shareholders, or any of their affiliates; and

(ix) any of the decisions listed in article 16.1 of our Articles of Association including our budget and pluri-annual plans.

With regards to STMicroelectronics N.V., during the Balance Period:

(i) each of the STH Shareholders (FT1CI on the one hand, and CDP on the other hand) shall have the right to insert on a list prepared for proposal by the holding company to our annual shareholders' meeting the same number of members for election to the Supervisory Board, and the holding company shall vote in favor of such members;

(ii) the STH Shareholders will cause the holding company to submit to our annual shareholders' meeting and to vote in favor of a common proposal for the appointment of the Managing Board; and

(iii) any decision relating to the voting rights of the holding company in us shall require the unanimous approval of the holding company shareholders and shall be submitted by the holding company to our annual shareholders' meeting. The STH Shareholders also agreed that the Chairman of our Supervisory Board will be designated upon proposal of an STH Shareholder for a three-year term, and the Vice Chairman of our Supervisory Board will be designated upon proposal of the other STH Shareholder for the same period, and vice-versa for the following three-year term. The STH Shareholders further agreed that the STH Shareholder proposing the appointment of the Chairman be entitled to propose the appointment of the Assistant Secretary of our Supervisory Board, and the STH Shareholder proposing the appointment of the Vice Chairman be entitled to propose the appointment of the Secretary of our Supervisory Board. Finally, each STH Shareholder is entitled to appoint a Financial Controller to the Supervisory Board. Our Secretary, Assistant Secretary and two Financial Controllers are referred to as professionals (not members) of our Supervisory Board.

In addition, the following resolutions, to the extent that a resolution of the holding company is required, must be resolved upon by a shareholders' resolution of the holding company, which shall require the unanimous approval of the STH Shareholders:

(i) any alteration in the holding company's articles of association;

(ii) any issue, acquisition or disposal by the holding company of its shares or change in share rights;

(iii) any alteration in our authorized share capital or issue by us of new shares and/or of any financial instrument giving rights to subscribe for our common shares; any acquisition or disposal by the holding company of our shares and/or any right to subscribe for our common shares; any modification to the rights attached to our common shares; any merger, acquisition or joint venture agreement to which we are or are proposed to be a party; and any other items on the agenda of our general shareholders' meeting;

(iv) the liquidation or dissolution of the holding company;

(v) any legal merger, legal de-merger, acquisition or joint venture agreement to which the holding company is proposed to be a party; and

(vi) the adoption or approval of our annual accounts or those of the holding company or a resolution concerning a dividend distribution by us.

At the end of the Balance Period, the members of our Supervisory Board and those of the holding company designated by the minority shareholder of the holding company will immediately resign upon request of the holding company's majority shareholder, subject to the rights described in the previous paragraph.

After the end of the Balance Period, unanimous approval by the shareholders of the holding company remains required to approve:

(i) as long as any of the shareholders indirectly owns at least equal to the lesser of 3% of our issued and outstanding share capital or 10% of the remaining STH Shareholders' stake in us at such time, with respect to the holding company, any changes to the articles of association, any issue, acquisition or disposal of shares in the holding company or change in the rights of its shares, its liquidation or dissolution and any legal merger, de-merger, acquisition or joint venture agreement to which the holding company is proposed to be a party.

(ii) as long as any of the shareholders indirectly owns at least 33% of the holding company, certain changes to our Articles of Association (including any alteration in our authorized share capital, or any issue of share capital and/or financial instrument giving the right to subscribe for our common shares, changes to the rights attached to our shares, changes to the preemptive rights, issues relating to the form, rights and transfer mechanics of the shares, the composition and operation of the Managing and Supervisory Boards, matters subject to the Supervisory Board's approval, the Supervisory Board's voting procedures, extraordinary meetings of shareholders and quorums for voting at shareholders' meetings).

(iii) any decision to vote our shares held by the holding company at any shareholders' meeting of our shareholders with respect to any substantial and material merger decision. In the event of a failure by the shareholders to reach a common decision on the relevant merger proposal, our shares attributable to the minority shareholder and held by the holding company will be counted as present for purposes of a quorum of shareholders at one of our shareholders' meetings, but will not be voted (i.e., will be abstained from the vote in a way that they will not be counted as a negative vote or as a positive vote).

(iv) in addition, the minority shareholder will have the right to designate at least one member of the list of candidates for our Supervisory Board to be proposed by the holding company if that shareholder indirectly owns at least 3% of our total issued and outstanding share capital, with the majority STH Shareholder retaining the right to appoint that number of members to our Supervisory Board that is at least proportional to such majority STH Shareholder's voting stake.

Finally, at the end of the Balance Period, the unanimous approval required for other decisions taken at the STMicroelectronics N.V. level shall only be compulsory to the extent possible, taking into account the actual power attached to the direct and indirect shareholding jointly held by the STH Shareholders in our company.

Disposals of our Common Shares

The STH Shareholders' Agreement provides that each STH Shareholder retains the right to cause the holding company to dispose of its stake in us at its sole discretion, provided it is pursuant to either

(i) the issuance of financial instruments,

(ii) an equity swap,

(iii) a structured finance deal or

(iv) a straight sale. ST Holding II may enter into escrow arrangements with STH Shareholders with respect to our shares, whether this be pursuant to exchangeable notes, securities lending or other financial instruments. STH Shareholders that dispose of our shares through the issuance of exchangeable instruments, an equity swap or a structured finance deal maintain the voting rights of the underlying shares in their ST Holding voting stake, provided that such rights remain freely and continuously held by the holding company as though the holding company were still holding the full ownership of the shares.

As long as any of the parties to the STH Shareholders' Agreement has a direct or indirect interest in us, except in the case of a public offer, no sales by a party may be made of any of our shares or of FT1CI, ST Holding or ST Holding II to any of our top ten competitors, or any company that controls such competitor.

Re-adjusting and Re-balancing options

The STH Shareholders' Agreement provides that the parties have the right, subject to certain conditions, to re-balance their indirect holdings in our shares to achieve parity between FT1CI on the one hand and CDP on the other hand. If at any time prior to March 17, 2011, the voting stake in us of one of the STH Shareholders (FT1CI on the one hand, and CDP on the other hand) falls below 10.5% due either to (a) the exchange by a third party of any exchangeable instruments issued by an STH Shareholder or (b) to an issuance by us of new shares subscribed to by a third party, such STH Shareholder will have the right to notify the other STH Shareholder of its intention to exercise a "Re-adjusting Option." In such case, the STH Shareholders will cause the holding company to purchase the number of our common shares necessary to increase the voting stake of such STH Shareholder to 10.5% of our issued and outstanding share capital.

If by three months prior to March 17, 2010, the Balance Period has not already expired and if on such date the voting stake of one of the STH Shareholders (FT1CI on the one hand, and CDP on the other hand) has fallen below 47.5% of the total voting stake in ST Holding, such STH Shareholder will have the right to notify the other STH Shareholder of its intention to exercise a "Re-balance Option" no later than 30 Business Days prior to March 17, 2011. In such case, the STH Shareholders will cause the holding company to purchase before March 17, 2011 the number of our common shares necessary to re-balance at 50/50% the respective voting stakes of the STH Shareholders.

Change of Control Provision

The STH Shareholders' Agreement provides for tag-along rights, preemptive rights, and provisions with respect to a change of control of any of the shareholders or any controlling shareholder of FT1CI, on the one hand, and CDP, on the other hand. The shareholders may transfer shares of the holding company or FT1CI to any of the shareholders' affiliates, which would include the Italian state or the French state with respect to entities controlled by a state. The shareholders and their ultimate shareholders will be prohibited from launching any takeover process on any of the other shareholders.

Non-competition

Pursant to the terms of STH Shareholders' Agreement, neither we nor ST Holding are permitted, as a matter of principle, to operate outside the field of semiconductor products. The parties to the STH Shareholders' Agreement also undertake to refrain directly or indirectly from competing with us in the area of semiconductor products, subject to certain exceptions, and to offer us opportunities to commercialize or invest in any semiconductor product developments by them.

Deadlock

In the event of a disagreement that cannot be resolved between the parties as to the conduct of the business and actions contemplated by the STH Shareholders' Agreement, each party has the right to offer its interest in ST Holding to the other, which then has the right to acquire, or to have a third party acquire, such interest. If neither party agrees to acquire or have acquired the other party's interest, then together the parties are obligated to try to find a third party to acquire their collective interests, or such part thereof as is suitable to change the decision to terminate the agreement. The STH Shareholders' Agreement will remain in force as long as CDP, on the one hand, and any of Areva, FT1CI or CEA, on the other hand, are shareholders of the holding company.

Other Shareholders' Agreements

Italian Shareholders' Pact

In connection with the transfer of an interest in ST Holding from Finmeccanica to CDP, Finmeccanica and CDP entered into a shareholders' pact (the "Italian Shareholders' Pact") on November 26, 2004 setting forth the rights and obligations of their respective interests as shareholders of ST Holding. Pursuant to the terms of the Italian Shareholders' Pact, CDP became a party to the STH Shareholders' Agreement and had the right to exercise certain corporate governance rights in the Company previously exercised by Finmeccanica under the STH Shareholders' Agreement.

Following CDP's acquisition in December 2009 of all of Finmeccanica's remaining shares in us, held indirectly through ST Holding, Finmeccanica's rights granted under the STH Shareholders' Agreement have been transferred to CDP and the Italian Shareholders' Pact has been terminated.

French Shareholders' Pact

Following FT1CI's acquisition of approximately 26 million of our shares representing approximately 2.85% of our share capital, which was financed by CEA, CEA has become a minority shareholder of FT1CI and now adheres to the STH Shareholders' Agreement.

Statutory Considerations

As is the case with other companies controlled by the French government, the French government has appointed a *Commissaire du Gouvernement* and a *Contrôleur d'Etat* for FT1CI. Pursuant to Decree No. 94-214, dated March 10, 1994, these government representatives have the right (i) to attend any board meeting of FT1CI, and (ii) to veto any board resolution or any decision of the president of FT1CI within ten days of such board meeting (or, if they have not attended the meeting, within ten days of the receipt of the board minutes or the notification of such president's decision); such veto lapses if not confirmed within one month by the Ministry of the Economy or the Ministry of the Industry. FT1CI is subject to certain points of the Decree of August 9, 1953 pursuant to which the Ministry of the Economy and any other relevant ministries have the authority to approve decisions of FT1CI relating to budgets or forecasts of revenues, operating expenses and capital expenditures. The effect of these provisions may be that the decisions taken by us and our subsidiaries that, by the terms of the STH Shareholders' Agreement, require prior approval by FT1CI, may be adversely affected by these veto rights under French law.

Pursuant to Law Decree 269 of September 30, 2003 (as subsequently amended) and Decree of the Ministry of the Economy and Finance of December 5, 2003, CDP was transformed from a public entity into a joint stock limited liability company (società per azioni). While transforming itself into a holding company, CDP maintained its public interest purpose. CDP's core business is to finance public investments and more specifically infrastructure and other major public works sponsored by the Republic of Italy, regions, local authorities, public agencies and other public bodies. By virtue of a special provision of Law Decree 269, the Ministry of Economy and Finance will always be able to exercise its control over CDP.

STMicroelectronics shares

Dividend Policy

STMicroelectronics seeks to use our available cash in order to develop and enhance our position in the very capital-intensive semiconductor market while at the same time managing our cash resources to reward our shareholders for their investment and trust in us.

Based on our annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes each year to the Supervisory Board the allocation of our earnings involving, whenever deemed possible and desirable in line with our objectives and financial situation, the distribution of a cash dividend.

The Supervisory Board, upon the proposal of the Managing Board, decides each year, in accordance with this policy, which portion of the profits shall be retained in reserves to fund future growth or for other purposes and makes a proposal to the shareholders concerning the amount, if any, of the annual cash dividend.

In the past five years, we have paid the following dividends:

- On May 20, 2009, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2008 of $0.12 per share.
- On May 14, 2008, our shareholders adopted the payment of a quarterly cash dividend with respect to the year ended December 31, 2007 of $0.36 per share.
- On April 26, 2007, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2006 of $0.30 per share.
- On April 27, 2006, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2005 of $0.12 per share.
- On March 18, 2005, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2004 of $0.12 per share.

Future dividends will depend on our capacity to generate profitable results, our profit situation, our financial situation, the general economic situation and prospects and any other factors that the Supervisory Board, upon the recommendation of our Managing Board, shall deem important.

Trading History of the Company's Shares

Since 1994, our common shares have been traded on the NYSE under the symbol "STM" and on Euronext (formerly known as Paris Bourse) and were quoted on SEAQ International. On June 5, 1998, our common shares were also listed for the first time on the Borsa Italiana (Italian Stock Exchange), where they have been traded since that date.

Since November 12, 1997, our common shares have been included in the CAC 40, the main benchmark for Euronext which tracks a sample of 40 stocks selected from among the top 100 market capitalization and the most active stocks listed on Euronext, and which is the underlying asset for options and futures contracts. The base value was 1,000 at December 31, 1987.

On December 1, 2003, the CAC 40 index shifted to free-float weightings. As of this date, the CAC 40 weightings are based on free-float capitalization instead of total market capitalization. On February 21, 2005, Euronext created a new range of indices; along with four existing indices including the CAC 40, six new indices have been created.

On March 18, 2002, we were admitted into the S&P/MIB (formerly the MIB 30 Index), which was comprised of the 40 leading stocks, based upon their industry, market capitalization and liquidity, listed on the Borsa Italiana. It featured free-float adjustment, high liquidity and broad, accurate representation of market performance based on the leading companies in leading industries. On June 1, 2009, the Borsa Italiana introduced a new series of indexes and, as a result, our shares were included in the new FTSE MIB Index, which replaced the S&P/MIB Index. The new FTSE MIB Index is still comprised of 40 leading stocks, selected on the basis of their market capitalization, liquidity, free float and financial viability. On January 29, 2010, the Borsa Italiana announced the introduction of a new index, the FTSE MIB Dividend Index. This new index relies on the composition of the FTSE MIB Index, to which we belong, and will comprise the cumulative value of ordinary gross dividends announced and paid by the individual constituents of the underlying FTSE MIB Index, calculated in terms of index points.

On June 23, 2003, we were admitted into the SOX. The SOX is a widely followed, modified capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture and sale of semiconductors.

The tables below indicate the range of the high and low prices in U.S. dollars for the common shares on the NYSE, and the high and low prices in Euros for the common shares on Euronext, and the Borsa Italiana annually for the past five years, during each quarter in 2007 and 2008, and monthly for the past 18 months. In December 1994, we completed our Initial Public Offering of 21,000,000 common shares at an initial price to the public of $22.25 per share. On June 16, 1999, we effected a 2-to-1 stock split and on May 5, 2000, we effected a 3-to-1 stock split. The tables below have been adjusted to reflect the split. Each range is based on the highest or lowest rate within each day for common share price ranges for the relevant exchange.

Euronext (Paris)

Calendar Period	Average Daily Trading Volumes: Number of Shares	Average Daily Trading Volumes: Capital	Price Ranges: High	Price Ranges: Low
		(€)	(€)	(€)
Annual Information for the Past Five Years				
2005	5,367,485	72,641,065	15.81	10.83
2006	5,748,008	78,944,778	16.56	11.34
2007	5,430,551	71,352,748	15.61	9.70
2008	7,490,827	54,414,076	9.89	4.52
2009	4,613,574	23,933,547	7.02	2.97
Quarterly Information for the Past Two Years				
2008				
First quarter	7,826,688	62,318,108	9.89	6.21
Second quarter	8,048,986	60,926,675	8.70	6.55
Third quarter	8,051,424	62,352,058	9.49	6.17
Fourth quarter	6,049,032	34,975,690	7.66	4.52
2009				
First quarter	4,318,138	17,103,184	5.29	2.97
Second quarter	5,127,833	25,919,626	5.96	3.67
Third quarter	4,519,462	25,896,652	6.78	4.96
Fourth quarter	4,504,956	26,817,174	7.02	5.18
Monthly Information for the Past 6 Months				
2009				
October	5,556,260	34,655,655	7.02	5.44
November	4,642,508	26,148,817	6.16	5.18
December	3,322,354	19,848,345	6.43	5.41
2010				
January	5,118,605	31,814,948	6.59	5.81
February	1,719,898	14,398,264	8.77	7.87
March (as of March 31, 2010)	1,261,031	11,735,263	9.97	8.70

Source: Bloomberg

Borsa Italiana (Milan)

Calendar Period	Average Daily Trading Volumes: Number of Shares	Average Daily Trading Volumes: Capital	Price Ranges: High	Price Ranges: Low
		(€)	(€)	(€)
Annual Information for the past five years				
2005	15,530,038	210,190,100	15.82	10.82
2006	10,316,084	141,689,828	16.55	11.33
2007	7,485,654	98,885,773	15.60	9.80
2008	7,194,358	52,370,415	9.90	4.52
2009	6,606,116	34,222,931	7.03	2.97
Quarterly Information for the past two years				
2008				
First quarter	8,127,048	64,733,773	9.90	6.21
Second quarter	8,234,557	62,311,404	8.69	6.55
Third quarter	8,080,374	62,486,775	9.50	6.17
Fourth quarter	4,293,847	24,952,098	7.66	4.52
2009				
First quarter	4,708,890	18,660,286	5.29	2.97
Second quarter	7,575,169	38,304,696	5.95	3.67
Third quarter	6,923,926	39,684,060	6.79	4.96
Fourth quarter	7,216,727	42,888,549	7.03	5.15
Monthly Information for the past 6 months				
2009				
October	9,420,406	58,764,062	7.03	5.45
November	6,560,369	36,977,051	6.11	5.15
December	5,481,856	32,563,593	6.43	5.42
2010				
January	9,438,785	58,671,489	6.58	5.81
February	7,623,253	46,419,896	6.45	5.72
March (as of March 31, 2010)	6,414,587	44,061,243	7.51	6.39

Source: Bloomberg

New York Stock Exchange

Calendar Period	Average Daily Trading Volumes: Number of Shares	Average Daily Trading Volumes: Capital (US$)	Price Ranges: High (US$)	Price Ranges: Low (US$)
Annual Information for the past five years				
2005	1,087,913	18,288,128	19.47	13.96
2006	1,069,476	18,428,607	19.90	14.55
2007	1,823,514	32,857,113	20.84	14.22
2008	2,615,829	28,015,734	14.35	5.90
2009	1,707,480	12,411,885	10.28	3.73
Quarterly Information for the past two years				
2008				
First quarter	2,820,614	33,476,984	14.35	9.88
Second quarter	2,644,567	31,193,912	13.56	10.33
Third quarter	2,836,884	32,893,674	13.74	9.75
Fourth quarter	2,171,834	16,582,971	10.46	5.9
2009				
First quarter	1,780,595	9,166,855	7.15	3.73
Second quarter	1,632,902	11,183,826	8.30	4.97
Third quarter	1,483,681	11,785,948	9.99	6.89
Fourth quarter	1,980,001	17,386,576	10.28	7.86
Monthly Information for the past 6 months				
2009				
October	2,199,882	20,174,914	10.28	7.93
November	1,866,736	15,730,980	9.05	7.86
December	1,863,090	16,233,438	9.46	8.23
2010				
January	2,687,037	23,781,694	9.5	8.1
February	1,719,898	14,398,264	8.77	7.87
March (as of March 31, 2010)	1,261,031	11,735,263	9.97	8.70

Source: Bloomberg

Of the 878,333,566 common shares outstanding as of December 31, 2009, 78,305,804, or 8.9%, were registered in the common share registry maintained on our behalf in New York and 581,333,347, or 66.2%, of our common shares outstanding were listed on Euroclear France and traded on Euronext SA and on the Borsa Italiana in Milan. Of the 874,276,833 common shares outstanding as of December 31, 2008, 65,100,373, or 7.4%, were registered in the common share registry maintained on our behalf in New York and 558,471,706, or 63.9%, of our common shares outstanding were listed on Euroclear France and traded on Euronext SA and on the Borsa Italiana in Milan.

Euronext

General

On September 22, 2000, upon successful completion of an exchange offer, the Paris-Bourse ("SBF") SA, or the "SBF", the Amsterdam Stock Exchange and the Brussels Stock Exchange merged to create Euronext, the first pan-European stock exchange. Through the exchange offer, all the shareholders of SBF, the Amsterdam Stock Exchange and the Brussels Stock Exchange contributed their shares to Euronext N.V. ("Euronext"), a Dutch holding company, and the Portugal Exchange was included in Euronext in January 2002. Following the creation of Euronext, the SBF changed its name to Euronext Paris SA ("Euronext Paris"). Securities quoted on exchanges participating in Euronext cash markets are traded and cleared over common Euronext platforms but remain listed on their local exchanges. "UTP" is the common Euronext platform for trading and "Clearing 21" for clearing. In addition, Euronext, through Euroclear has a central settlement and custody structure over a common system ("ESES"). In January 2002, Euronext acquired the London International Financial Futures and Options Exchange ("LIFFE"), London's derivatives market and created Euronext.liffe. Euronext.liffe is the international derivatives business of Euronext, comprising the Amsterdam, Brussels, Lisbon, London and Paris derivatives markets. Euronext.liffe creates a single market for derivatives, by bringing all its derivatives products together on the one electronic trading platform, LIFFE CONNECT™.

NYSE Group Inc. and Euronext combined in April 2007 to create NYSE Euronext, the world's largest and first transatlantic stock exchange operator, with six cash equities exchanges in five countries and six derivatives exchanges. NYSE Euronext is the group holding company, and NYSE Group Inc. and Euronext are its subsidiaries.

Euronext Paris

In 2005, Euronext overhauled its listing arrangements, creating a single list, Eurolist by Euronext ("Eurolist"), that encompassed all of its regulated markets. In Paris, the markets operated by Euronext–*Premier Marché, Second Marché* and *Nouveau Marché*– were amalgamated in February 2005, becoming Euronext Paris. Euronext Paris retains responsibility for the admission of shares on, and regulation of, the Paris market.

Our shares have been listed on the *Premier Marché* of Euronext Paris since July 2001 and are now listed on compartment A of Eurolist. In accordance with Euronext Paris rules, the shares issued by domestic and other companies listed on Eurolist are classified in capitalization compartments. The shares of listed companies are distributed between the following three market capitalization compartments:

- Compartment A comprises the companies with market capitalizations above €1 billion;
- Compartment B comprises the companies with market capitalizations from €150 million and up to and including €1 billion; and
- Compartment C comprises the companies with market capitalizations below €150 million.

Our common shares are listed on the compartment A under the ISIN Code NL0000226223.

Securities listed on Euronext Paris are placed in one of two categories *(Continu* or *Fixing)* depending on whether they belong to certain indices or compartments and/or their trading volume. Our common shares are listed in the category known as *Continu,* which includes the most actively traded securities. The minimum yearly trading volume required for a security of a listed company on a regulated market of Euronext Paris in the *Continu* category is 2,500 trades.

Securities listed on Euronext Paris are traded through providers of investment services (investment companies and other financial institutions). The trading of our common shares takes place continuously on each business day from 9:00 a.m. to 5:30 p.m. (Paris time), with a pre-opening session from 7:15 a.m. to 9:00 a.m. (Paris time) and a pre-closing session from 5:30 p.m. to 5:35 p.m. (Paris time) during which transactions are recorded but not executed and a closing auction at 5:35 p.m. (Paris time). From 5:35 p.m. to 5:40 p.m. (Paris time) ("trading at last phase"), transactions are executed at the closing price. Any trade effected after the close of a trading session will be recorded, on the next Euronext Paris trading day, at the closing price for the relevant security at the end of the previous day's session. Euronext Paris publishes a daily official price list that includes price information on each listed security. Euronext Paris has introduced continuous electronic trading during trading hours for most actively traded securities. Any trade of a security that occurs outside trading hours is effected at a price within a range of 1% of the closing price for that security.

Under the NSC trading manual, Euronext Paris may temporarily interrupt trading in a security admitted to trading on the Euronext Paris market if purchases and sales recorded in the system would inevitably result in a price beyond a certain threshold, determined on the basis of a percentage fluctuation from a reference price. With respect to shares belonging to the *continu* category, once trading has commenced, volatility interruptions for a reservation period of 2 minutes (subject to extension by Euronext Paris) are possible if the price varies either by more than 5% from a reference price (e.g., opening auction price) or by more than 2% (with respect to CAC 40 issuers like our company) from the last trade on such securities. Euronext Paris may also suspend trading of a security admitted to trading on the Euronext Paris market in certain circumstances including the occurrence of unusual trading activity in a security. In addition, in exceptional cases, including, for example, upon announcement of a takeover bid, the French market regulator (Autorité des marchés financiers or "AMF") may also require Euronext Paris to suspend trading.

Under the UTP trading manual, for securities belonging to the *continu* category, an order which breaches volatility thresholds no longer triggers the interruption of the trading of the security. Instead, until confirmed by the ordering member, such order is automatically rejected by Euronext Paris. If confirmed, the order is executed. In addition, Euronext Paris still remains entitled to suspend trading of a security belonging to the *continu* category in case of repeated volatility threshold breaches.

All trades of securities listed on Euronext Paris are performed on a cash-settlement basis on the third trading day after the trade. Market intermediaries are also permitted to offer investors a deferred settlement service (*Service à Réglement Différé* or "SRD") for a fee. The SRD allows investors who elect this service to benefit from leverage and other special features of the monthly settlement market. The SRD is reserved for securities which have both a total market capitalization of at least €1 billion and represent a minimum daily trading volume of €1 million and which are normally cited on a list published by Euronext Paris. Investors in securities eligible for the SRD can elect on the determination date *(date de liquidation)*, which is, at the latest, the fifth trading day before the end of the month, either to settle the trade by the last trading day of the month or to deduct a margin amount and postpone the settlement decision to the determination date of the following month. Our common shares are eligible for the SRD.

Ownership of securities traded on a deferred settlement basis belongs to the market intermediary (in whose account they are registered at the date set by market rules) pending registration in the buyer's account. According to the rules of Euronext Paris, the market intermediary is entitled to the dividends and coupons pertaining to the securities he has full title, provided he is responsible for paying the buyer, when the settlement matured, the exact cash equivalent of the rights received.

Prior to any transfer of securities held in registered form on Eurolist, the securities must be converted into bearer form and accordingly inscribed in an account maintained by an accredited intermediary with Euroclear France SA ("Euroclear"), a registered clearing agency. Transactions in securities are initiated by the owner giving instructions (through an agent, if appropriate) to the relevant accredited intermediary. Trades of securities listed on Eurolist are cleared through Clearing 21, a common Euronext platform, and settled through Euroclear using a continuous net settlement system. A fee or a commission is payable to the broker-dealer or other agent involved in the transaction.

Our common shares have been included in the CAC 40, the principal index published by Euronext Paris, since November 12, 1997. The CAC 40 is derived daily by comparing the total market capitalization of 40 stocks included in the monthly settlement market of Euronext Paris to a baseline established on December 31, 1987. Adjustments are made to allow for expansion of the sample due to new issues. The CAC 40 indicates the trends in the French stock market as a whole and is one of the most widely followed stock price indices in France.

Our common shares could be removed from the CAC 40 at any time, and the exclusion or the announcement thereof could cause the market price of our common shares to drop significantly.

Securities Trading in Italy

The Mercato Telematico Azionario (the "MTA"), the Italian automated screen-based quotation system on which our common shares are listed, is organized and administered by Borsa Italiana S.p.A. ("Borsa Italiana") subject to the supervision of the Commissione Nazionale per le Società e la Borsa ("CONSOB") the public authority charged, inter alia, with regulating investment companies, securities markets and public offerings of securities in Italy to ensure the transparency and regularity of dealings and protect investors. Borsa Italiana was established to manage the Italian regulated financial markets (including the MTA) as part of the implementation in Italy of the EU Investment Services Directive pursuant to Legislative Decree No. 415 of July 23, 1996 (the "Eurosim Decree") and as modified by Legislative Decree No. 58 of February 24, 1998, as amended (the "Financial Act"). Borsa Italiana became operative in January 1998, replacing the administrative body Consiglio di Borsa, and has issued rules governing the organization and the administration of the Italian stock exchange, futures and options markets as well as the admission to listing on and trading in these markets. As of October 1, 2007, upon a merger with the London Stock Exchange, 99.9% of the share capital of Borsa Italiana is held by the London Stock Exchange Group plc, which, as of June 25, 2009, holds such interest through its subsidiary, London Stock Exchange Group Holdings (Italy) LTD.

A cash settlement period of three open market days applies to all trades of equity securities in Italy effected on a regulated market. Any person, through an authorized intermediary, may purchase or sell listed securities following (i) in the case of sales, deposit of the securities; and (ii) in the case of purchases, deposit of 100% of such securities' value in cash, or deposit of listed securities or government bonds of an equivalent amount. No "closing price" is reported for the electronic trading system, which requires the daily publication of: (i) an "official price" for each security calculated as a weighted average price of all trades effected during the trading day; and (ii) a "reference price" for each security calculated as the closing-auction price or, in the event that no closing-auction price is available, as a weighted average of the trades effected during a ten-minute interval of the continuous trading phase.

If the opening price of an equity security contained in the FTSE MIB Index (established each trading day prior to the commencement of trading based on bids received) differs by more than 5% or such other amount established by Borsa Italiana from the previous day's reference price, trading in that security will not be permitted and a volatility bid takes place. (For equity securities other than those contained in the FTSE MIB Index, trading will not be permitted, and a volatility bid takes place, if the opening price differs by more than 10% from the previous day's reference price).

If in the course of a trading day the price of a security fluctuates by more than 3.5% from the last reported sale price, an automatic suspension in the trading of that security will be declared by the Borsa Italiana. (For equity securities other than those contained in the FTSE MIB Index, this suspension will apply upon a 5% fluctuation from the last reported sale price). In the event of such a suspension a volatility bid takes place, lasting for ten minutes plus a variable period of time, randomly determined by the trading system, of up to one minute. Borsa Italiana has the authority to suspend trading in any security, among other things, in response to extreme price fluctuations. In urgent circumstances, CONSOB may, where necessary, adopt measures required to ensure the transparency of the market, orderly trading and protection of investors.

Italian law requires that trading of equity securities, as well as any other investment services, may be carried out *vis-à-vis* the public on a professional basis by financial intermediaries, banks and certain types of finance companies. In addition, banks and investment firms organized in any member state of the EU are permitted to operate in Italy either on a branch or on a cross-border basis provided that the intent of such bank or investment firm is communicated to CONSOB and the Bank of Italy by the competent authorities of the member state according to specific procedures. Non-EU banks and non-EU investment firms may operate in Italy subject to the specific authorization of CONSOB and the Bank of Italy.

The settlement of Italian stock exchange transactions is facilitated by Monte Titoli S.p.A., a centralized securities clearing system owned by Borsa Italiana. Most Italian banks and certain Italian securities dealers have securities accounts with Monte Titoli and act as depositories for investors. Beneficial owners of shares may hold their interests through custody accounts with any such institution. Beneficial owners of shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those shares through such accounts.

Participants in Euroclear and Clearstream may hold their interests in shares and transfer the shares, collect dividends, create liens and exercise their shareholders' rights through Euroclear and Clearstream. A holder may require Euroclear and Clearstream to transfer its shares to an account of such holder with an Italian bank or any authorized broker.

Our common shares are included in the FTSE MIB Index. Our common shares could be removed from the FTSE MIB Index at any time, and the exclusion or announcement thereof could cause the market price of our common shares to drop significantly.

Financial statements and Notes

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Consolidated financial statements

Consolidated income statement

In millions of USD, except per share amount	Notes	Year ended December 31, 2009	Year ended December 31, 2008
Sales	27, 28	8,465	9,792
Other revenues	27, 28	45	50
Total revenues		**8,510**	**9,842**
Cost of sales	29	(6,268)	(6,585)
Gross profit		**2,242**	**3,257**
Selling, general and administrative	29	(1,199)	(1,219)
Research and development	29	(2,079)	(1,859)
Other income	30	279	131
Other expenses	30	(78)	(66)
Impairment on assets held for sale and related costs	16	(25)	(105)
Operating profit (loss)	28	**(860)**	**139**
Impairment and realized loss on available-for-sale investments	14.1	(140)	(138)
Finance income	31	76	145
Finance costs	31	(63)	(121)
Share of gain (loss) of associates	10	(95)	(60)
Impairment on investments in associates	10	(211)	(494)
Loss on convertible debt repurchase	14.3	(7)	
Loss before income tax		**(1,300)**	**(529)**
Income tax benefit / (expense)	33	76	11
Net result		**(1,224)**	**(518)**
Attributable to:			
The equity holders of the parent		(1,003)	(519)
Non-controlling interests		(221)	1
Net result		**(1,224)**	**(518)**
Loss per share attributable to the equity holders of the parent			
Loss per share (Basic)	34	(1.14)	(0.58)
Loss per share (Diluted)	34	(1.14)	(0.58)

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

Consolidated statement of comprehensive income

In millions of USD	Note	Year ended December 31, 2009	Year ended December 31, 2008
Net result		**(1,224)**	**(518)**
Exchange differences on translation of foreign operations		111	(267)
Net movement on cash flow hedges	**32**	(7)	6
Income tax effect		1	-
		(6)	6
Net (loss) / gain on available-for-sale financial assets	**32**	12	(10)
Income tax effect		(1)	-
		11	(10)
Other comprehensive income, net of tax		**116**	**(271)**
Total comprehensive income, net of tax		**(1,108)**	**(789)**
Attributable to:			
The equity holders of the parent		(902)	(770)
Non-controlling interests		(206)	(19)
Total comprehensive income, net of tax		**(1,108)**	**(789)**

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

Consolidated statement of financial position

In millions of USD	Notes	December 31, 2009	December 31, 2008
Assets			
Non-current assets			
Property, plant and equipment	11	4,178	4,820
Goodwill	13	989	870
Intangible assets	12	1,959	1,865
Investments in associates	10	303	510
Other non-current financial assets	14.1	510	703
Deferred tax assets	33	642	536
Other non-current assets	15	219	437
Total non-current assets		**8,800**	**9,741**
Current assets			
Inventories	17	1,275	1,841
Trade accounts receivable	18	1,366	1,064
Other current financial assets	14.1	1,068	722
Current tax assets	33	-	68
Other receivable and assets	19	718	546
Cash and cash equivalents	20	1,588	1,009
Total current assets		**6,015**	**5,250**
Assets held for sale	16	31	-
Total assets		**14,846**	**14,991**
Equity			
Equity attributable to the equity holders of the parent		8,367	8,759
Non-controlling interests		1,263	474
Total equity	**22**	**9,630**	**9,233**
Non-current liabilities			
Interest-bearing loans and borrowings	14.3	2,194	2,403
Other non-current financial liabilities	14.2	56	347
Employee benefits	24	232	294
Deferred tax liabilities	33	204	233
Non-current provisions	23	133	110
Other non-current liabilities	25	91	123
Total non-current liabilities		**2,910**	**3,510**
Current liabilities			
Interest-bearing loans and borrowings – current portion	14.3	201	158
Trade accounts payable	26	883	840
Other payables and accrued liabilities	26	507	521
Employee benefits – current portion	24	355	345
Current provisions	23	266	313
Other current financial liabilities	14.2	34	5
Income tax payable	33	60	66
Total current liabilities		**2,306**	**2,248**
Total equity and liabilities		**14,846**	**14,991**

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

Consolidated statement of changes in equity

For the year ended December 31, 2008

In millions of USD	Notes	Equity attributable to the equity holders of the parent					Non-controlling interests	Total equity
		Ordinary shares	Capital surplus	Treasury shares	Other reserves	Retained earnings		
As at January 1, 2008		**1,156**	**1,983**	**(274)**	**1,645**	**5,443**	**53**	**10,006**
Net result		-	-	-	-	(519)	1	(518)
Other comprehensive income, net of tax	**22.6**	-	-	-	(251)	-	(20)	(271)
Total comprehensive income		**-**	**-**	**-**	**(251)**	**(519)**	**(19)**	**(789)**
Employee share award scheme, net of tax	**22.5**	-	-	-	76	-	-	76
Issuance of shares by subsidiaries		-	131	-	-	-	-	131
Non-controlling interest arising on business combinations	**9**	-	-	-	-	-	450	450
Distribution of treasury shares	**22.3**	-	-	(208)	-	(104)	-	(312)
Dividends	**22.7**	-	-	-	-	(319)	(10)	(329)
At December 31, 2008		**1,156**	**2,114**	**(482)**	**1,470**	**4,501**	**474**	**9,233**

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

For the year ended December 31, 2009

In millions of USD	Notes	Equity attributable to the equity holders of the parent					Non-controlling interests	Total equity
		Ordinary shares	Capital surplus	Treasury shares	Other reserves	Retained earnings		
As at January 1, 2009		**1,156**	**2,114**	**(482)**	**1,470**	**4,501**	**474**	**9,233**
Net result		-	-	-	-	(1,003)	(221)	(1,224)
Other comprehensive income, net of tax	**22.6**	-	-	-	101	-	15	116
Total comprehensive income		**-**	**-**	**-**	**101**	**(1,003)**	**(206)**	**(1,108)**
Employee share award scheme, net of tax	**22.5**	-	-	-	36	-	-	36
Share conversion option of 2016 convertible bond	**14.2**	-	-	-	260	-	-	260
Purchase of equity from non-controlling interests	**9**	-	319	-	-	-	(411)	(92)
Non-controlling interest arising on business combinations	**9**	-	-	-	-	-	1,411	1,411
Distribution of treasury shares	**22.3**	-	-	105	-	(105)	-	-
Dividends	**22.7**					(105)	(5)	(110)
At December 31, 2009		**1,156**	**2,433**	**(377)**	**1,867**	**3,288**	**1,263**	**9,630**

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

Consolidated statement of cash flows

In millions of USD	Notes	Year ended December 31, 2009	Year ended December 31, 2008
Cash flows from operating activities			
Cash generated from operations	21	1,101	2,160
Interest paid		(34)	(63)
Income tax (paid) refunded		142	(154)
Net cash from operating activities		**1,209**	**1,943**
Cash flows from investing activities			
Payment for purchase of tangible assets		(451)	(984)
Payment for purchase of available-for-sale financial assets	14.1	(1,730)	-
Proceeds from sale of available-for-sale financial assets	14.1	1,446	351
Disposal of financial instrument		26	-
Investments in intangible and financial assets		(576)	(434)
Proceeds received in business combinations	9	1,155	-
Payment for business combinations	9	(18)	(1,694)
Interest received		45	122
Net cash used in investing activities		**(103)**	**(2,639)**
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings		1	663
Repurchase of convertible debt	14.3	(103)	-
Repayment of interest-bearing loans and borrowings		(134)	(187)
Repurchase of common stock		-	(313)
Dividends paid to equity holders of the parent	22.7	(158)	(240)
Dividends paid to non-controlling interests		(5)	(10)
Purchase of equity from non-controlling interests	9	(92)	-
Payment for other financing activities		(2)	-
Net cash used in financing activities		**(493)**	**(87)**
Effect of changes in exchange rates		(14)	(83)
Net cash increase (decrease)		**599**	**(866)**
Cash and cash equivalents at the beginning of the period		989	1,855
Cash and cash equivalents at the end of the period		1,588	989
Reconciliation of cash and cash equivalents			
Cash and cash equivalents on the face of the statement of financial position	20	1,588	1,009
Bank overdrafts included in interest-bearing loans and borrowings	14.3	-	(20)
Cash and cash equivalents used in statement of cash flows		**1,588**	**989**

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

Notes to the consolidated financial statements

1. Corporate information

STMicroelectronics N.V. (the “Company”) is registered in The Netherlands with its statutory domicile in 265, Schiphol Boulevard, Amsterdam and its corporate headquarters located in Geneva, Switzerland.

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

STMicroelectronics is a publicly traded company that is listed on the New York Stock Exchange, on Euronext Paris and on the Borsa Italiana (Italian Stock Exchange).

These consolidated financial statements have been approved on April 16, 2010 for submission to the annual general shareholders’ meeting by the Supervisory Board.

2. Basis of preparation

The consolidated financial statement have been prepared on a historical cost basis, except for available-for-sale financial assets and certain other financial assets and liabilities (including derivative financial instruments) that have been measured at fair value. The consolidated financial statement are presented in dollars of the United States of America and all values are rounded to the nearest million (USD million) except when otherwise stated. Under Article 35 of the Group’s Articles of Association, the financial year extends from January 1 to December 31, which is the period-end of each fiscal year.

The Group made certain changes to last year comparative figures in order to comply with the current year presentation of the statement of financial position.

3. Statement of compliance

These consolidated financial statements are prepared for Dutch statutory purposes, in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. In accordance with Article 402, Title 9, Book 2 of the Dutch Civil Code STMicroelectronics N.V.'s corporate income statement is presented in abbreviated form.

4. Basis of consolidation

The consolidated financial statements comprise the financial statements of STMicroelectronics N.V. and its subsidiaries as at December 31, 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are fully eliminated.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to the parent company. Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Associates include all entities over which the Group has a significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. These investments are accounted for by the equity method of accounting and are initially recognized at cost. They are presented in the consolidated statement of financial position on the line "Investments in associates".

The Group's share in its associate's profit and losses is recognized in the consolidated income statement as "Share of gain (loss) of associates" and in the balance sheet as an adjustment against the carrying amount of the associate while its share of post acquisition movement in reserves is recognized in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivable, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are consistent with the policies adopted by the Group.

5. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 2 Share-based Payment (Amendment): Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IFRS 7 Financial Instruments (Amendment): Disclosures effective 1 January 2009
- IAS 1 Presentation of Financial Statements (Revised) effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 32 Financial Instruments (Amendment): Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IAS 39 Financial Instruments (Amendment): Recognition and Measurement – Eligible Hedged Items effective 1 July 2009 (early adopted)
- IFRIC 9 Remeasurement of Embedded Derivatives (Amendment) and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009 (Early adopted)
- IFRIC 13 Customer Loyalty Programs effective 1 July 2008
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- IFRIC 18 Transfers of Assets from Customers effective 1 July 2009 (early adopted)
- Improvements to IFRSs (May 2008)

When the adoption of the standard or interpretation is deemed to have a significant impact on the financial statements or performance of the Group, its impact is described below:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised)

The Group adopted the revised standard from 1 January 2009. IFRS 3R (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3R (Revised) and IAS 27R (Revised) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (by class, for all financial instruments recognized at fair value). In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 14.5. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 37.

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Improvements to IFRSs

In May 2008 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies but did not have any significant impact on the financial position or performance of the Group.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosures in Note 28 Operating segment information.

- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group analyzed whether the expected period of realization of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

- IAS 16 Property, Plant and Equipment: Replaces the term “net selling price” with “fair value less costs to sell”. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

- IAS 18 Revenue: The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

    - Has primary responsibility for providing the goods or service
    - Has inventory risk
    - Has discretion in establishing prices
    - Bears the credit risk

    The revenue recognition accounting policy has been updated accordingly.

- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment impact the Group as the government assistance received are not loans but direct grants.

- IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.
- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’. This amendment had no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using ‘value in use’. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities. The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

6. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after July 1, 2009 with early adoption permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

IFRS 9 Financial Instruments.

The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. This standard has not yet been endorsed by the European Union. The Group is currently assessing the impact of this standard on its financial performance and statement of financial position.

In April 2009, the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These improvements have not yet been endorsed by the European Union. The Group does not expect those improvements to have a material impact on the financial statements of the Group.

7. Summary of significant accounting policies

7.1. Business combinations and goodwill

The Group accounts for business combinations in accordance with IFRS 3R, using the acquisition method. The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.

Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This is a policy choice on a transaction by transaction basis.

Goodwill arises when there is a positive difference between:

- the aggregate of consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
- the net identifiable assets acquired.

Goodwill is initially recorded at cost. If the acquirer has made a gain from a bargain purchase that gain is recognized in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group cash generating units ("CGU") that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

A cash generating unit represents a unit one level below the level of an operating segment for which discrete financial information is available and which is subject to regular review by segment management.

The impairment test determines whether the recoverable amount of each cash-generating unit, which is the higher of its assets' fair value less cost to sell and its value in use, is lower than its total carrying amount. If lower, an impairment loss is recognized for the excess of the carrying amount over the recoverable amount. If the impairment loss exceeds the book value of goodwill, allocation is made on a pro rata basis over the remaining assets of the CGU. In determining the value in use of a cash-generating unit, the Group usually estimates the expected discounted future cash flows associated with the 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 cash-generating unit's market penetration, the market acceptance of certain new technologies, relevant cost structure, the discount rates applied are based on various scenarios incorporating a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values.

7.2. Investments in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the result of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity or other comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement on the line "Share of gain (loss) of associates". This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company or with a quarter-lag if the associate cannot prepare financial statements in a timing compliant with the closing timeframe of the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the income statement.

7.3. Foreign currency translation

The U.S. dollar is the functional currency for the Company and the presentation currency for the Group, which is the currency of the primary economic environment in which the Group operates. The worldwide semiconductor industry uses the U.S. dollar as a currency of reference for actual pricing in the market. Furthermore, the majority of the Group's transactions are denominated in U.S. dollars, and revenues from external sales in U.S. dollars largely exceed revenues in any other currency. However, non-dollar labor costs are concentrated primarily in the countries of the Euro zone.

The functional currency of each subsidiary throughout the Group is either the local currency or the US dollar, determined on the basis of the economic environment in which each subsidiary operates. For consolidation purposes, assets and liabilities included in the financial statement of the Group's subsidiaries having the local currency as functional currency are translated at current rates of exchange at the reporting date. Income and expense items and cash flow items are translated at the monthly exchange rate in which they are recognized, since they approximate the applicable spot rate. This has been determined to be an adequate reflection of average exchange rate of the period. The currency translation adjustments ("CTA") generated by the conversion of the financial position and results of operations from local functional currencies are reported as a component of "Other reserves" in the consolidated statement of changes in equity.

Assets, liabilities, revenues, expenses, gains or losses arising from transactions denominated in foreign currency are recorded in the functional currency of the recording entity at the exchange rate during the month of the transaction. At each reporting date, balances denominated in a currency other than the recording entity's functional currency are re-measured into the functional currency at the exchange rate prevailing at the reporting date. The related exchange gains and losses are recorded in the consolidated income statement as "Other income" or "Other expense".

Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are distinguished between translation differences resulting from changes in the amortized cost of the security and fair value changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in the consolidated income statement as finance cost or finance income below operating income, and fair value changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain, or on the line "Other income" or "Other expense" within the operating results. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value are recognized in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the transaction closing rate.

7.4. Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating intercompany sales within the Group. Revenue is recognized as follows:

SALES

Revenue from the sale of products is recognized upon transfer of significant risks and rewards of ownership to the customer, assuming that the revenue to be recognized can be measured reliably and it is probable that economic benefits will flow to the Group. Based on the standard shipping terms applied this 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 the Group's products to compensate them for declines in market prices. The ultimate decision to authorize a distributor refund remains fully within the control of the Group. The Group records the accrued amounts as a reduction of revenue at the time of the sale.

The Group's customers occasionally return the Group's products for technical reasons. The Group provides for such returns when they are considered probable and can be reasonably estimated. The Group records the accrued amounts as a reduction of revenue.

The Group records 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 management has determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period.

Distribution costs are recorded in "cost of sales".

Revenue recognition from the rendering of services that can be measured reliably is based on the stage of completion of the transaction at the reporting date.

While the majority of the Group's sales agreements contain standard terms and conditions, the Group may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. Revenues from contracts with multiple-element arrangements are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by internal or third-party analyses of market-based prices. A delivered element is considered a separate unit of accounting if it has a value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered elements in the arrangement, and delivery or performance of undelivered elements in the arrangement is considered probable and substantially under the Group's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for a single unit of accounting in accordance with the criteria described in the preceding paragraphs.

OTHER REVENUES

Other revenues primarily consist of license revenue and patent royalty income, which are recognized ratably over the term of the agreements. Other revenues also include, from time to time sales of technology license bundled with support over a defined time period. This kind of arrangements is a multiple-element arrangement and is accounted for according to the policy described in the preceding paragraph.

FUNDINGS

Fundings received by the Group are mainly from governmental agencies. Income is recorded when all qualifying expenditures have been incurred and the Group has obtained sufficient evidence from the relevant authorities that the credit will be granted. The Group's primary sources for government funding are French, Italian and other European Union ("EU") governmental entities, and Singapore agencies. Such funding is generally provided to encourage research and development activities, industrialization and local economic development. The EU has developed model contracts for research and development funding that requires beneficiaries to disclose the results to third parties on reasonable terms. The conditions for receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with European Commission regulations, as well as specifications regarding objectives and results. Certain specific contracts contain obligations to maintain a minimum level of employment and investment during a certain period of time. There could be penalties if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations.

In accordance with the Group's revenue recognition policy, funding related to these contracts is recorded when the conditions required by the contracts are met. The Group's funding programs are classified under three general categories: funding for research and development activities, capital investment, and loans.

Funding for research and development activities

Funding for research and development activities is the most common form of funding that the Group receives. Public funding for such activities is recorded as "Other income" in the Group's consolidated income statement. Public funding is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions are met. The majority of this public funding is not received for development projects recognized by the Group as intangible assets, which would have supposed that the Group would have recognized such funding as a reduction of the corresponding intangible assets.

The Group receives certain specific project-related research tax credits ("Credit Impot Recherche") in its tax jurisdictions. Such credits can be recovered through the reduction of income tax to be paid for the year. Nevertheless, the Group is entitled to receive in cash such credit even if no income tax is expected to be paid. The Group recognizes these credits as long term or short-term receivables depending on the expected time to collection. Since 2008 in France these credits are enacted on the basis of a new tax law and as such deducted from "Research and development" in the consolidated income statement. The Group considers the tax credits received from French tax authorities as government grant based on the fact, that the credit is granted independent of tax payments of the Group. The Group does not discount the research tax credits.

Capital investments

Capital investment funding is recorded as a reduction of “Property, plant and equipment” and is recognized in the Group’s consolidated income statement according to the depreciation charges of the funded assets during their useful lives. The Group also receives capital funding in Italy, which is recovered through the reduction of various government liabilities, including income taxes, value-added tax and employee-related social charges. When the funding has been classified as long-term receivable, it is reflected in the balance sheet at its discounted net present value. The subsequent accretion of the discount is recorded as non-operating profit in “Finance costs”.

Loans

The Group receives certain loans from public sources, related to large capital investment projects, at preferential interest rates. For loans received before January 1, 2009, the Group records these loans at their nominal value as debt in its consolidated statement of financial position. For loans received after January 1, 2009, the loans are measured and recognized in accordance with IAS 39. The benefit calculated as the difference between the initial carrying amount of the loans determined in accordance with IAS 39 and the proceeds received is recognized in accordance with the policy described in the preceding paragraphs.

Finance income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

7.5. Research and development

Research and development expenditures include costs incurred by the Group, the Group’s share of costs incurred by other research and development interest groups and costs associated with co-development contracts. Research costs are charged to expense as incurred and are presented net of French research tax credits.

Expenditures incurred on development projects, mainly related to the design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Research and tax credits are also recognized as a reduction of intangible assets for the portion that can be reliably allocated to development projects. Development expenditures recognized as assets are amortized, when in use, over their estimated useful lives, not exceeding three years (Refer to Intangible assets). Other development costs are recognized as an expense as incurred. Development costs recognized as an expense are not recognized as an asset in a subsequent period. The amortization expenses recognized on capitalized development costs are recorded as cost of sales. Amortization expense on technologies and licenses purchased by the Group from third parties or acquired in a business combination to facilitate the Group’s research are recorded as research and development expenses.

An impairment test is performed whenever a triggering event questions the future recoverability, or at least annually, for the capitalized development projects still not in use. A loss is recognized in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Write-offs and impairment expenses recognized on capitalized development costs are recorded as cost of sales.

7.6. Income taxes

Income tax expense represents the income taxes expected to be paid or the benefit expected to be received related to the current year income or loss in each individual tax jurisdiction. Income tax expense for specific tax assessments are also estimated and recorded when an additional tax payment is determined probable. Deferred tax assets and liabilities are recorded, using the liability method, for temporary differences arising between the tax and book bases of assets and liabilities and for the benefits of tax credits and operating loss carry-forwards. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Group does not provide deferred income taxes on temporary differences arising on investments in subsidiaries and associates because the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future, or if reversed, will not be subject to tax.

The Group receives certain research tax credits in some of its jurisdictions. Except for the French tax credits granted after 2008, these research tax credits are deemed to benefit the income tax.

Income taxes are recognized in the cash flows from operating activities in the consolidated statement of cash flows.

7.7. Earnings per share

Basic earnings per share are computed by dividing net profit by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are computed using the treasury stock method by dividing net profit (adding-back interest expense, net of tax effects, related to convertible debt if determined to be dilutive) by the weighted average number of ordinary shares and potential ordinary shares outstanding during the period. The weighted average shares used to compute diluted earnings per share include the incremental shares of ordinary shares relating to stock options granted, non vested shares and convertible debt to the extent such incremental shares are dilutive. Non vested shares with performance or market conditions are included in the computation of diluted earnings per share if their conditions have been satisfied at the reporting date and if the awards are dilutive. If all the conditions have not been satisfied by the end of the period, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

7.8. Cash and cash equivalents

Cash and cash equivalents represents cash on hand, deposits at call with banks, highly liquid investments purchased with an original maturity of ninety days or less. Bank overdrafts are not netted against cash and cash equivalents and are shown as part of current liabilities on the consolidated statement of financial position.

7.9. Restricted cash

Restricted cash includes collateral deposits used as security for financing of certain entities.

7.10. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is based on the weighted average cost by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on the Group's manufacturing performance. In the case of underutilization of manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable costs to sell.

The Group performs on a continuous basis inventory write-off of products, which have the characteristics of slow-moving, old production date and technical obsolescence. Additionally, the Group evaluates its product inventory to identify obsolete or slow-selling stock by computing any excess inventory based on the previous quarter sales, orders' backlog and production plans. Inventory associated with obsolete or uncommitted inventory is expensed to cost of sales.

7.11. Intangible assets with finite useful lives

Intangible assets acquired separately are recognized at cost and include technologies and licenses purchased from third parties and purchased software.

The cost of intangible assets acquired in a business combination such as customer relationships, in-process research & development, is fair value at the date of acquisition.

Internally generated intangible assets, excluding, internally developed software and costs incurred on other development projects that meet all capitalization criteria as defined in IAS 38 are not capitalized and subject to amortization. Expenditure on internally generated intangible assets is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The carrying value of intangible assets with finite useful lives is assessed for impairment whenever there is an indication that intangible assets may be impaired. An impairment loss is recognized in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. In determining recoverability, the Group usually estimates the fair value based on the projected discounted future cash flows associated with the intangible assets and compares this to their carrying value.

Intangible assets with finite lives are amortized over their useful economic lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Amortization is computed using the straight-line method over the following estimated useful lives

The capitalization of costs for internally generated software developed for the Group's internal use begins when the preliminary project stage is completed and when the Group, implicitly or explicitly, authorizes and commits to funding a computer software project since it will be probable that the project will be completed and will be used to perform the function intended.

Expenditures incurred on development projects, mainly related to the design and testing of new or improved products, are recognized as intangible assets net of any research tax credit attributable to the specific projects when the Group can demonstrate all of the following:

- the technical feasibility of completing the item under development so that it will be available for use or sale;
- its intention to complete the item under development and ability to use it or sell it;
- how the item under development will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the item under development; and
- its ability to measure reliably the expenditure attributable to the project during its development.

Development costs are amortized, when the development is complete, on a straight-line basis over the period of their expected benefits, not exceeding three years.

A summary of the policies applied to the Group's intangible assets is as follows:

	Technologies & licenses	Purchased software	Internally developed software	Development costs	Customer relationships
Useful lives	Finite	Finite	Finite	Finite	Finite
Amortization method used	Straight line basis over estimated useful life –	Straight line basis over estimated useful life –	Straight line basis over estimated useful life –	Straight line basis over estimated useful life –	Straight line basis over estimated useful life –
	3-7 years	3-4 years	Max 4 years	Max 3 years	4-12 years
Internally generated or acquired	Acquired	Acquired	Internally generated	Internally generated	Acquired

7.12. Property, plant and equipment

Property, plant and equipment are stated at historical cost, net of government fundings, accumulated depreciation and/or impairment losses, if any. Major additions and improvements are capitalized as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of item can be measured reliably; minor replacements and repairs are charged to the consolidated income statement.

Land is not depreciated. Depreciation on fixed assets is computed using the straight-line method over the following estimated useful lives:

Buildings	33 years
Facilities & leasehold improvements	5-10 years
Machinery and equipment	3-10 years
Computer and R&D equipment	3-6 years
Other	2-5 years

The Group evaluates in each period whether there is reason to suspect that tangible assets or groups of assets might not be recoverable. Several impairment indicators exist for making this assessment, such as: significant changes in the technological, market, economic or legal environment in which the Group operates or in the market to which the asset is dedicated, or available evidence of obsolescence of the asset, or indication that its economic performance is, or will be, worse than expected. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognized in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is normally estimated by the Group based on independent market appraisals or using discounted cash-flow procedure.

The value in use corresponds to the sum of discounted future cash flows to be derived from the particular asset, using market assumptions such as the utilization of the Group's fabrication facilities and their continual technological competitiveness, change in the selling price and the adoption of new technologies. The Group also evaluates, and adjusts if appropriate, the assets' useful lives, at each reporting date or when impairment indicators exist. Assets classified as held for sale are reflected at the lower of their carrying amount or fair value less selling costs and are not depreciated during the selling period. Costs to sell include incremental direct costs to transact the sale that would not have been incurred except for the decision to sell.

When property, plant and equipment are retired or otherwise disposed of, the net book value of the assets is removed from the Group's books and the net gain or loss is included in "Other income" or "Other expenses" in the consolidated income statement.

A manufacturing line is composed of several individual equipments which are individually recorded, depreciated and disposed of if needed.

Leasing agreements in which a significant portion of the risks and rewards of ownership are retained by the Group are classified as finance leases. These leases are included in "property, plant and equipment" at the lower of fair value and present value of minimum lease term payments. They are depreciated over the shorter of the estimated useful life or the lease term. Leasing agreements classified as operating leases are arrangements in which the lessor retains a significant portion of the risks and rewards of ownership of the leased asset. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

7.13. Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group did not hold at December 31, 2008 and December 31, 2009 any asset classified as held-to-maturity.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets when they are expected to be realized within twelve months of the reporting date. This category also includes derivatives classified as held for trading including foreign currency forward contracts and currency options.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets. Loans and receivables

are classified in the consolidated statement of financial position as trade accounts receivable, other receivables and long-term loans and receivables and cash and cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months after the reporting date.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the consolidated income statement within “Other income” or “Other expenses” in the period in which they arise.

Changes in the fair value excluding translation differences of monetary and non-monetary securities classified as available for sale are recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement.

The fair values of quoted investments are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models and reference indexes, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity securities are not reversed through the consolidated income statement if the security recovers its value prior to disposal.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

7.14. Trade accounts receivable

The accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of the estimated cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an impairment account, and the amount of the loss is recognized in the consolidated income statement as "Selling, general and administrative". When a trade receivable is uncollectible, it is written-off against the impairment account for trade receivable. Subsequent recoveries of amounts previously written off are credited against "selling, general and administrative expenses" in the consolidated income statement.

7.15. Derivative financial instruments and hedging activities

Derivative financial instruments are classified as held-for-trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held-for-trading

The worldwide operations of the Group lead to an exposure to adverse movements in foreign currency exchange rate. The Group enters into foreign currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at STMicroelectronics's subsidiaries. In addition forward contracts and currency options are also used by the Group to reduce its exposure to U.S. dollar fluctuations in Euro-denominated forecast intercompany transactions that cover a large part of research and development expenditures and certain corporate expenses incurred on STMicroelectronics's behalf by subsidiaries. These intercompany transactions are not closely linked to ultimate transactions with third parties. These instruments do not qualify as hedging instruments under the requirements of the IAS 39.

The derivative financial instruments held-for-trading are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value. Fair value adjustments and realized gains and losses are recognized in the consolidated income statement on the line “other income” or “other expenses”.

Derivative financial instruments designated as hedging instruments

These instruments include notably forward currency contracts and interest rate swaps that are entered into by the Group to hedge its risks associated with interest rate and foreign currency fluctuations.

For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges, when they hedge exposure to variability in cash flows of a recognized asset or liability or a highly probable forecasted transaction; or
- Fair value hedges, when they hedge exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk.

The following criteria must be in place before the Group will use hedge accounting:

- Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied
- The hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period and the hedge is effective on an ongoing basis
- For a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

Cash flow hedges

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Group also hedges a portion of its Euro-denominated forecasted intercompany purchases of products whose underlying front-end manufacturing production costs of semi-finished goods are incurred in Euros, since these transactions are considered highly probable to occur.

Such derivatives financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated income statement. Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction effects the income statement, such as when the forecast purchase or sale occurs.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs.

Fair value hedges

Such derivative financial instruments are also initially recognized at fair value on the date on which the derivative contract is entered into. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is remeasured at fair value and gains and losses are recognized in the consolidated income statement.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the income statement over the remaining term of maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The change in fair value of the hedging instrument is also recognized in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

7.16. Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

7.17. Employee benefits

Pension obligations

The Group sponsors various pension schemes for its employees. These schemes conform to local regulations and practices of the countries in which the Group operates. They are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. Such plans include both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. Significant estimates are used in determining the assumptions incorporated in the calculation of the pension obligations, which is supported by input from independent actuaries. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to profit or loss over the employees' expected average remaining working lives. Past-service costs are recognized immediately in profit or loss, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other long-term employee benefits

The Group provides long term employee benefits such as seniority awards in certain countries. The entitlement to these benefits is usually conditional on the employee completing a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to profit or loss in the period of change. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the reporting date are discounted to present value. In the case of an offer made to encourage voluntary redundancy, the Group bases the measurement of termination benefits on the number of employees expected to accept the offer.

Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing plans when it is contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

All the share plans of the Group are equity settled.

The fair value of the employee services received in exchange for the grant of share-based awards is recognized as an expense and as a corresponding increase in shareholders' equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted at date of grant. Any applicable employee social charges are also expensed pro rata over the same period as the share-based compensation expense.

7.18. Financial Debt

Compound Financial Instruments

Compound financial instruments are assessed for separate accounting into debt and equity components based on the circumstances at the inception of the instruments. The Group recognizes separately the components of the financial instrument that a) creates a financial liability and b) grants an option to the holder of the instrument to convert it into an equity instrument of STMicroelectronics. A conversion option embedded in the compound financial instrument is an equity instrument when STMicroelectronics has an unconditional right through this option to avoid settlement in cash or another financial asset as well as if the amount is not settled by at a fixed amount of shares for a fixed price. When separate accounting is applied, the fair value of the liability portion of the convertible debt is determined using a market interest rate for an equivalent non-convertible debt over the period of future probable cash flows as estimated on the date of issuance. This amount is recognized as a financial liability on an amortized cost basis until redeemed, extinguished on conversion or on the maturity of the bonds. The remainder of the proceeds is allocated to the conversion option recognized in equity and not subsequently remeasured except on conversion or expiry. When separate accounting cannot be applied because settlement in cash or another financial asset cannot be avoided, the conversion option is recorded at fair value and reported as a liability component as part of non-current liabilities on the consolidated balance sheet.

Debt issuance and other transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. The costs allocated to the liability component of the financial instrument are amortized in “finance cost” until extinguishment of the liability component.

Bank loans and senior bonds

Bank loans and senior bonds, are recognized initially at fair value, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method within finance costs

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

7.19. Equity movements

Ordinary share capital

The Group has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognized in equity, net of tax.

Treasury shares and contracts on own shares

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments. Changes in the fair value are reported in the income statement.

Dividends on ordinary share capital

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

7.20. Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method when maturity of the payables exceeds one year.

7.21. Provisions

Provisions for restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlements is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of the outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as finance cost.

7.22. Contingencies

The Group is subject to the possibility of loss contingencies arising in the ordinary course of business. These include but are not limited to: warranty cost on the products of Group, breach of contract claims, claims for unauthorized use of third party intellectual property, tax claims and provisions for specifically identified income tax exposures as well as claims for environmental damages. In determining loss contingencies, the Group considers the likelihood of a loss of an asset or the incurrence of a liability as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is probable that a liability has been incurred and when the amount of the loss can be reasonably estimated. the Group regularly revaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Group. Changes in these evaluations could result in adverse, material impact on the Group's results of operations, cash flows or its financial position for the period in which they occur.

7.23. Segment reporting

Operating segments are defined as a component of the entity that (i) engages in business activities from which it may earn revenues and incur expenses, (ii) whose operating results are regularly reviewed by the entity's Chief Operating decision maker (Company's sole member of Managing Board) to make decision about resources to be allocated to the segments and assess its performance and (iii) for which discrete financial information is available.

For the computation of the segments' internal financial measurements, the Group uses certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Capitalized development costs are not allocated to segments. Additionally, in compliance with the Group's internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges.

8. Significant accounting judgments, estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below.

8.1. Income taxes

The Group is required to assess the likelihood of recovery of deferred tax assets. As at December 31, 2009, on the basis of the current long-term financial plan, the Group believes that all of the deferred tax assets as recorded on the consolidated balance sheet would ultimately be recovered. However, should there be a change in the Group's ability to recover deferred tax assets or in the tax rates applicable in the various jurisdictions, this could have an impact on the Group's future tax provision in the periods in which these changes could occur.

In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Group recognizes liabilities for anticipated tax audit issues based on estimates that probable additional taxes will be due. The Group reverses the liability and recognizes a tax benefit during the period if it ultimately determines that the liability is no longer necessary. An additional charge is recorded in income tax expense in the period in which the Group determines that the recorded tax liability is less than the Group expects the ultimate assessment to be.

8.2. Impairment of long-lived assets

Long-lived assets are tested or reviewed for impairment in accordance with accounting policies stated in Notes 7.1, 7.11 and 7.12. Considerable management judgments are necessary to identify impairment indicators and to estimate future sales and expenses, which underlie the discounted future cash flow projections. Factors such as changes in the planned use of property, plant and equipment, the closure of facilities, the change in the use or in the market acceptance of certain new technologies, could result in shortened useful lives or impairment charges to be recognized in the period in which such determination is made.

8.3. Pension obligations

The Group sponsors various pension schemes for its employees. The expense incurred under the defined benefit retirement plans is based upon statistical and actuarial calculations, and is impacted by assumptions on discount rates used to reach the present value of future pension liabilities, expected return that will be made on existing pension assets, future salary increases as well as future pension increases and statistical-based assumptions covering future withdrawals of participants from the plan and estimates of life expectancy.

The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants and significantly impact the amount of pension costs and pension liabilities to be recognized in the period in which such determination is made.

8.4. Fair value of financial instruments

The Group holds certain financial instruments that are not traded in an active market. For the valuation of the fair value of such instruments, the Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

8.5. Business combinations

The Group has entered, and may also in the future enter, into agreements to acquire business activities. In accounting for business combinations, IFRS 3R requires that the Group initially recognizes each identifiable asset and liability of the acquired businesses at their acquisition date fair values. As technology, research and development activities and customer relationships are the main value drivers in the microelectronic industry, a significant amount of the purchase price paid relates to the related identifiable intangible assets.

As no active market exists for most intangible assets, the determination of their acquisition date fair value requires a considerable amount of estimates and judgment. These estimates include, but are not limited to, estimates of future cash flows related to these intangibles, charges for other assets used to generate cash flows in combination with other assets (contributory asset charges), the useful lives and the derivation of the appropriate cost of capital to discount the projected cash flows. As the actual results may differ materially from the cash flow projections, impairment charges in subsequent periods might be required.

8.6. Capitalized development costs

Development costs are capitalized in accordance with the accounting policy described in notes 7.5 and 7.11. Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product or technology has reached a certain maturity level in product life cycle model used by the Group. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of a project, discount rate to be applied and the expected period of benefits. As at December 31, 2009, the carrying amount of capitalized development costs was $930 million (2008: $745 million).

9. Business Combinations

Acquisitions in 2009

ST-NXP Wireless – Buy out of the 20% non-controlling interest of NXP B.V.

The ST-NXP Wireless purchase agreement provided the Group with a call option and NXP with a put option on NXP's 20% non-controlling interest in the new company. Based on the original terms of the purchase agreement, the options could be exercised three years after signing of the agreement, or earlier in case of a business combination with Ericsson Mobile Platforms ("EMP").

Prior to the closing of the transaction with Ericsson, on February 1, 2009, the Group exercised its option to purchase the 20% non-controlling interest of NXP in ST-NXP for a price of $92 million. NXP's non-controlling interest amounted to $411 million as at February 1, 2009, thus generated a gain recognized in equity of $319 million.

ST-Ericsson – Acquisition of the Ericsson Mobile Platform ("EMP")

On February 3, 2009, the Group closed a transaction to combine the businesses of EMP and ST-NXP Wireless into a new venture, named ST-Ericsson. ST-Ericsson combines the resources of the two companies and focuses on developing and delivering a complete portfolio of mobile platforms wireless semiconductor solutions across a broad spectrum of mobile technologies. The operations of ST-Ericsson are conducted through two groups of companies. The parent of one of the groups is ST-Ericsson Holding AG ("JVS"), which is owned 50% plus a controlling share by ST. JVS is responsible for the full commercial operation of the combined businesses, namely sales, marketing, supply and the full product responsibility. The parent of the other group, ST-Ericsson AT Holding AG ("JVD"), is owned 50% plus a controlling share by Ericsson and will be focused on fundamental R&D activities.

The Group has determined that it controls JVS and therefore consolidates JVS, but that it has only significant influence on JVD and therefore accounts for its investment in JVD under the equity method. JVD is discussed further in Note 10. In connection with the contributions by ST and Ericsson of their respective businesses to the venture entities, Ericsson paid cash directly to the Group for $700 million and contributed an additional $445 million to JVS.

The transaction has been accounted for as a business combination under IFRS 3R.

The consolidated financial statements include the results of JVS for the eleven month period from the acquisition date. In accordance with IFRS 3R, the Group elected to measure non-controlling interests at full fair value.

The fair value of the identifiable assets and liabilities of the EMP business as at the date of acquisition were:

In millions of USD	**Fair value recognized on acquisition**
Property, plant and equipment (Note 11)	23
Customer relationships (Note 12)	48
Other current assets and liabilities net	(47)
Cash in JVS	445
Total identifiable net assets at fair value	**469**
Non-controlling interest measured at fair value	(306)
Goodwill arising on acquisition (Note 13)	143
Purchase consideration	**306**

The total purchase consideration and the cash flows on acquisition are as follows:

In millions of USD	
Non-controlling interest in ST-NXP wireless given to Ericsson via JVS	1,105
Cash received from Ericsson	(700)
Non-controlling interest in JVD given by Ericsson	(99)
Total consideration	**306**

Analysis of cash flows on acquisition:	
Transaction costs of the acquisition (included in cash flows from operating activities)	9
Cash received from Ericsson	700
Cash in JVS	445
Subsequent cash adjustments between parent companies	10
Net proceeds from business combinations (included in cash flows from investing activities)	1,155

There are no contingent assets or liabilities recognized in the transaction.

The goodwill of $143 million arises principally due to expected synergies and the value of the assembled workforce. An amount of $26 million is expected to be tax-deductible.

The fair value of the non-controlling interests is determined based on a third party evaluation of the fair values of the businesses contributed. Due to lack of comparable market transactions, the EMP business was valued using a Discounted Cash Flow approach. The primary inputs used to measure the fair value were the stand-alone business plan for the five-year period 2009-2013, including certain cost synergies of the venture, and the weighted average cost of capital, which was determined to be 8.9%. The resulting value of the EMP business was then allocated between the two entities of the venture as follows: (a) specifically identifiable assets as well as customer-related intangibles and the cost synergies were allocated to the portion of the EMP business contributed to JVS, and (b) specifically identifiable assets as well as the value of the usage rights of the technology were allocated to the portion of the EMP business contributed to JVD. The fair value of the Group's contribution of its ST-NXP Wireless business to JVS was determined based upon the valuation of the EMP business contributed to JVS and JVD and the cash consideration that was agreed upon between the Group and Ericsson to compensate for the difference in fair values between the two companies' contributions. Due to the significant minority rights of the Group and Ericsson in JVD and JVS respectively, no control premium or discount was assigned in the valuation of the non-controlling interests. Upon closing, JVS was determined to be included in the reportable segment "Wireless".

The unaudited pro forma information below assumes that JVS was created on January 1, 2009 and 2008 and incorporates the results of the EMP business allocated to JVS beginning on those dates. The 2008 and 2009 information for the Group has been adjusted to incorporate the results of the EMP business allocated to JVS on January 1, 2009 and January 1, 2008. Such results include estimated results of the business acquired, adjustments to conform to the Group's accounting policies, additional depreciation and amortization resulting from the step up to the fair values of the tangible and intangible assets, consequential tax effects and non-controlling interest adjustments.

These amounts are presented for information purposes only and are not indicative of the results of operations that would have been achieved had the acquisition taken place as of January 1, 2009 and January 1, 2008.

In millions of USD	(unaudited) Twelve months ended	
	December 31, 2009	December 31, 2008
Pro forma net revenues	8,536	10,485
Pro forma net loss attributable to the owners of the Group	(985)	(537)

Net revenues of the EMP business for the period from the acquisition date of February 3, 2009 to December 31, 2009 included in the consolidated statement of income were $300 million. Net income (loss) during this period is no longer separately identifiable, as the EMP business was immediately integrated across a large number of legal entities combining the cost structures of the EMP and ST-NXP Wireless businesses.

Acquisitions in 2008

Genesis Microchip Inc.

On January 17, 2008, the Group obtained effective control of Genesis Microchip Inc. ("Genesis Microchip") by acquiring 89% of its common shares of under the terms of a tender offer announced on December 11, 2007. On January 25, 2008 the Group completed the acquisition by acquiring the remaining common shares of Genesis Microchip by offering the right to receive the same $8.65 per share price paid in the original tender offer. The total purchase price for the acquired shares was $340 million; however the Group received $170 million of cash and cash equivalents for a net payment of $170 million. Additional direct costs associated with the acquisition amounting to approximately $6 million were paid in 2008. On closing, Genesis Microchip became part of the Group's Home Entertainment & Displays business activity which is part of the Automotive Consumer Computer and Telecom Infrastructure Product Groups segment.

The acquisition of Genesis Microchip expands the Group's leadership in the digital TV market. Genesis Microchip will enhance the Group's technological capabilities for the transition to fully digital solutions in the segment and strengthen its product intellectual property portfolio.

The acquisition had the following effect on the Group's assets and liabilities on January 17, 2008 the acquisition date:

In millions of USD	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Property, plant and equipment (Note 11)	14	-	14
Core technologies	8	36	44
Customer relationships	-	27	27
Trademarks	-	2	2
IP R&D	-	21	21
Total intangible assets (Note 12)	8	86	94
Inventories	13	-	13
Marketable securities	11	-	11
Cash and cash equivalents	170	-	170
Other receivables	22	-	22
Other assets	13	(6)	7
Deferred tax assets	-	44	44
Trade accounts payable	(13)	-	(13)
Accrued liabilities	(19)	-	(19)
Income tax payable	(9)	-	(9)
Net identifiable assets and liabilities	**210**	**124**	**334**
Goodwill on acquisition (Note 13)			12
Non-controlling interest			-
Cash paid		340	
Direct costs attributable to acquisition		6	
Total purchase consideration		**346**	
Less:			
Value of non-cash assets exchanged		-	
Cash and cash equivalents acquired		(170)	
Cash flow effect		**176**	

The purchase price allocation is based on a third party independent appraisal.

The acquired business contributed revenues of $131.5 million and net loss of $36.8 million to the Group for the period of 17 January 2008, to December 31, 2008.

ST-NXP Wireless

On August 2, 2008, ST-NXP Wireless, a subsidiary owned 80% by the Group, began operations based on contributions of the wireless businesses of the Group and NXP B.V., as the minority interest holder. the Group paid to NXP $1.55 billion for the 80% stake, which included a control premium, and received cash from the NXP businesses of $33 million. The consideration also included a contribution in kind, measured at fair value, corresponding to a 20% interest in the Group's wireless business. Direct costs of $21 million were associated with the acquisition. On closing, ST-NXP Wireless was determined to be a product segment of the Group's business and is reported as the "Wireless Product Sector."

The formation of ST-NXP Wireless creates a solid top-three industry player with a complete wireless product and technology portfolio and a leading supplier to major handset manufacturers who together ship more than 80% of all handsets. ST-NXP Wireless will be one of the few companies with the R&D scale and expertise to meet customer needs in 2G, 2.5G, 3G, multimedia, connectivity and all future wireless technologies.

The acquisition had the following effect on the Group's assets and liabilities on August 2, 2008, the acquisition date:

In millions of USD	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Property, plant and equipment (Note 11)	277	31	308
Core technologies	-	278	278
Customer relationships	-	506	506
IP R&D	-	95	95
Total intangible assets (Note 12)	-	879	879
Inventories	194	110	304
Cash and cash equivalents	33	-	33
Trade receivables	51	-	51
Other receivables	79	(5)	74
Other assets	13	-	13
Other liabilities	(115)	-	(115)
Deferred tax liabilities	-	(40)	(40)
Net identifiable assets and liabilities	**532**	**975**	**1,507**
Goodwill on acquisition (Note 13)			621
Non-controlling interest			(301)
Cash paid		1,807	
Direct costs attributable to acquisition		21	
Total purchase consideration		**1,828**	
Less:			
Value of non-cash assets exchanged		(256)	
Cash and cash equivalents acquired		(33)	
Costs accrued		(21)	
Cash flow effect		**1,518**	

The acquired business contributed revenues of 491 million, contribution to its operating profit was not material, excluding the impact related to purchase accounting for the period of August 2, 2008, to December 31, 2008. The 2008 pro forma figures for the period before acquisition included revenues contributed by NXP Wireless of $801 million with a net loss of $ 42 million before attribution to non-controlling interest.

The purchase price allocation is based on a third party independent appraisal. It applies to the assets received by ST-NXP Wireless from the non-controlling interest holder. The assets acquired by ST-NXP are recorded at book value from the minority interest holder plus an increase to reflect the fair value.

In addition to the amounts shown in the table above related to the non-controlling interest, the non-controlling interest in the Group's equity also increased by $149 million to reflect the book value of the non-cash assets included in the consideration.

The ST-NXP Wireless purchase agreement provided the Group with a call and NXP with a put option on NXP's non-controlling 20% stake in the new company. Concurrently to the signing of the ST-NXP Wireless transaction, the Group entered into negotiations to create a new group of entities with Ericsson. Therefore, the Group and NXP agreed in a side letter just after signing the initial agreement, that the Group was eligible to accelerate the call option in the event of the closing of the new transaction. The accelerated call was valued at $24 million and classified as a financial instrument at the date of acquisition.

The Joint venture with Ericsson was effective on February 1, 2009. The accelerated call option was exercised at a strike price of $92 million.

the Group and NXP had in the past pre-existing relationships before the business combination described above through the alliance the Group operated jointly with Freescale Semiconductor, Inc. for certain research and development activities and the operation of a 300mm wafer pilot line facility in Crolles (France) ("Crolles2 alliance"). In January 2007, NXP Semiconductors B.V. announced that it would withdraw from the alliance. Therefore, the Crolles2 alliance expired on December 31, 2007. Freescale Semiconductor, Inc. has also notified the Group that the Crolles2 alliance would terminate as of such date. Following the termination of the Crolles 2 alliance, the Group entered into agreements to acquire all equipment in Crolles from NXP and Freescale according to the following schedule: (i) the acquisition of equipment amounting to $128 million from NXP on December 31, 2007; (ii) the acquisition of equipment amounting to $140 million from Freescale on March 14, 2008; (iii) the acquisition of equipment amounting to $135 million from Freescale on April 18, 2008 and (iv) the acquisition of equipment amounting to $129 million from NXP on June 30, 2008. The March 14, 2008 installment has been executed by a combination of direct purchase amounting $40 million and a finance lease for the remainder of the equipment. The termination of the Crolles 2 alliance did not result in other settlements, which could have generated gain or losses in the consolidated statement of income for the year ended December 31, 2008.

10. Investments in associates

Investments in associates as at December 31, 2009 and 2008 were as follows:

In millions of USD	As at December 31, 2009		As at December 31, 2008	
	Carrying amount	% of interests	Carrying amount	% of interests
Numonyx	223	48.6%	496	48.6%
ST-Ericsson AT Holding (“JVD”)	67	49.9%	-	
Others	13		14	
Total	303		510	

Numonyx

The Group has a 48.6% interest in Numonyx. Numonyx is a private entity that is not listed on any public exchange. The following table illustrates summarized financial information of the Group's investment in Numonyx:

In millions of USD	2009	2008
Share of Numonyx's unaudited IFRS statement of financial position:		
Non-current assets	640	693
Current assets	642	784
Equity	**679**	**808**
Non-current liabilities	434	420
Current liabilities	169	249
Share of Numonyx's unaudited IFRS revenue and profit (loss):		
Revenue	813	566
Profits	(130)	(58)
Carrying amount of the investment	**223**	**496**
Initial value of investment	966	966
Cumulated share of profit or loss	(188)	(58)
Amortization of basis differences	72	4
Value of financial guarantee (Note 14.2)	69	69
Cumulated impairment losses	(696)	(485)

The Group accounts for its share in Numonyx under the equity method based on the actual results of the venture. In the valuation of Numonyx investment under the equity method, the Group applies a one-quarter lag reporting. Therefore revenue and profit (loss) in the table above correspond to the results of Numonyx for the fourth quarter of 2008 and the first three quarters of 2009. The Numonyx transaction closed on March 30, 2008. At closing, through a series of steps, the Group contributed its flash memory assets and businesses as previously announced, for 109,254,191 common shares of Numonyx, representing a 48.6% interest in equity valued at $966 million, and $156 million in long-term subordinated notes.

The Group evaluates at the end of each reporting period basis the fair value of the investment in Numonyx based upon estimated discounted future cash flows. In the first half of 2009, the Group recorded an impairment charge of $211 million resulting from a re-assessment by the Group of the fair value of its investment in Numonyx following the deterioration of the global economic situation and of the memory market segment, as well as a revision by Numonyx of its 2009 projected results.

The Group's current maximum exposure to loss as a result of its involvement with Numonyx is limited to its equity investment, its investment in subordinated notes and its debt guarantee obligation.

ST-Ericsson AT Holding

On February 3, 2009, the Group announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms ("EMP") and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Group received an interest in ST-Ericsson AT Holding AG ("JVD") that was valued at $99 million. JVD, in which the Group owns 50% less a controlling share held by Ericsson, is the parent company of a group of entities that perform fundamental R&D activities for the ST-Ericsson venture. The Group has a significant influence and therefore accounts for JVD under the equity method. The following table illustrates summarized financial information of the Group's investment in JVD:

In millions of USD	**2009**
Share of JVD's unaudited IFRS statement of financial position:	
Non-current assets	26
Current assets	17
Equity	10
Non-current liabilities	6
Current liabilities	27
Share of JVD's unaudited IFRS revenue and profit (loss):	
Revenue	121
Profits	(8)
Carrying amount of the investment	**67**
Initial value of investment	99
Cumulated share of profit or loss	(8)
Amortization of basis difference	(24)

11. Property, plant and equipment

Property, plant and equipment consisted of the following:

In millions of USD	As at December 31, 2008		
	Gross value	**Accumulated depreciation**	**Net value**
Land	89	-	89
Buildings	1,007	(264)	743
PP&E under finance lease	157	(67)	90
Facilities and leasehold improvements	3,153	(2,115)	1,038
Machinery and equipment	13,700	(11,037)	2,663
Computer and R&D equipment	528	(440)	88
Furniture and other tangible fixed assets	187	(127)	60
Construction in progress	49	-	49
Total	**18,870**	**(14,050)**	**4,820**
	As at December 31, 2009		
	Gross value	**Accumulated depreciation**	**Net value**
Land	96	-	96
Buildings	1,011	(295)	716
PP&E under finance lease	214	(105)	109
Facilities and leasehold improvements	3,158	(2,331)	827
Machinery and equipment	13,765	(11,633)	2,132
Computer and R&D equipment	544	(458)	86
Furniture and other tangible fixed assets	252	(146)	106
Construction in progress	106	-	106
Total	**19,146**	**(14,968)**	**4,178**

Changes in the net carrying amount of property, plant and equipment are detailed as follows:

In millions of USD	Lands	Buildings	Finance lease	Facilities and lease-hold impro-vements	Machi-nery and equip-ment	Compu-ter and R&D equip-ment	Furniture and other tangible fixed assets	Cons-truction in progress	Total
Balance as at December 31, 2007	**91**	**692**	**22**	**1,230**	**2,756**	**96**	**57**	**101**	**5,045**
Additions	1	5	395	43	748	37	45	87	1,361
Business combinations (Note 9)	-	79	-	8	226	6	2	1	322
Disposals	-	-	(296)	-	-	(3)	(33)	-	(332)
Impairment	-	(12)	-	(17)	(93)	(1)	(1)	(6)	(130)
Transfer	-	38	-	74	16	1	4	(133)	-
Depreciation expense	-	(34)	(35)	(268)	(896)	(44)	(10)	-	(1,287)
Foreign currency translation	(3)	(25)	4	(32)	(94)	(4)	(3)	(2)	(159)
Balance as at December 31, 2008	**89**	**743**	**90**	**1,038**	**2,663**	**88**	**61**	**48**	**4,820**
Additions	7	10	55	95	330	42	128	58	725
Business combinations (Note 9)	-	-	-	-	23	-	-	-	23
Transfer to assets held for sale (Note 16)	-	-	-	(51)	-	-	(6)	-	(57)
Disposals	-	-	-	-	(3)	-	(50)	-	(53)
Impairment	(2)	(15)	-	(21)	(35)	-	-	(1)	(74)
Depreciation expense	-	(33)	(37)	(247)	(872)	(45)	(26)	-	(1,260)
Foreign currency translation	2	11	1	13	26	1	(1)	1	54
Balance as at December 31, 2009	**96**	**716**	**109**	**827**	**2,132**	**86**	**106**	**106**	**4,178**

In the year ended December 31, 2009, capital investment funding has totaled $4 million (2008: $4 million) and were accounted for as a reduction of the gross value of related tangible assets. The impact of capital funding on depreciation expense for the year ended December 31, 2009 is a reduction of $22 million (2008: $25 million).

In 2009, the Group made equipment sales for cash proceeds of $10 million (2008: $8 million).

12. Intangible assets

Intangible assets consisted of the following:

In millions of USD	As at December 31, 2008		
	Gross value	**Accumulated amortization**	**Net value**
Purchased technologies and licenses	773	(381)	392
Purchased software	236	(183)	53
Internally developed software	275	(109)	166
Capitalized development costs	1,054	(309)	745
Contractual customer relationships	532	(23)	509
Total	**2,870**	**(1,005)**	**1,865**
	As at December 31, 2009		
	Gross value	**Accumulated amortization**	**Net value**
Purchased technologies and licenses	849	(528)	321
Purchased software	284	(208)	76
Internally dev eloped software	270	(143)	127
Capitalized development costs	1,314	(384)	930
Contractual customer relationships	580	(75)	505
Total	**3,297**	**(1,338)**	**1,959**

Changes in the net carrying amount are detailed as follows:

In millions of USD	Purchased technologies and licenses	Purchased software	Internally developed software	Capitalized development costs	Contractual customer relationships	Total
Balance as at December 31, 2007	**128**	**51**	**59**	**605**	**-**	**843**
Additions	19	6	145	227	-	397
Business combinations (Note 9)	323	-	2	116	533	974
Disposals	-	-	-	-	-	-
Impairment	(1)	(1)	(9)	(69)	-	(80)
Transfer	1	27	(28)	-	-	-
Amortization expense	(77)	(30)	(3)	(134)	(24)	(268)
Foreign currency translation	(1)	-	-	-	-	(1)
Balance as at December 31, 2008	**392**	**53**	**166**	**745**	**509**	**1,865**
Additions	71	4	44	437	-	556
Business combinations (Note 9)	-	-	-	-	48	48
Disposals	(5)	-	-	-	-	(5)
Impairment	-	-	-	(69)	-	(69)
Transfer	1	49	(50)	-	-	-
Amortization expense	(139)	(30)	(33)	(183)	(52)	(437)
Foreign currency translation	1	-	-	-	-	1
Balance as at December 31, 2009	**321**	**76**	**127**	**930**	**505**	**1,959**

For the year ended December 31, 2009, additions of intangible assets amounted to $604 million (2008: $1,371 million), of which $48 million (2008: $974 million) were acquired through business combinations as described in Note 9:

- Purchase price allocation on the acquisition of EMP in 2009 resulted in $48 million of customer relationships with a useful life of four years.
- Purchase price allocation on the acquisition of Genesis in 2008 resulted in $44 million of core technologies, $27 million related to customer relationships, $2 million of trademarks and $21 million of IP R&D. The core technologies have an average useful life of approximately four years, the customers' relationship of seven years and the trademarks of approximately two years.
- Purchase price allocation on the integration of NXP wireless business resulted in the recognition of core technologies of $278 million, customer relationships of $506 million and acquired IP R&D of $95 million The core technologies have useful lives ranging from approximately three and a half to six and a half years and the customer relationships' average useful lives were estimated at 12 years.

The 2009 amortization expense included $216 million (2008: $145 million) in costs of sales, $138 million (2008: $78 million) in research and development and $83 million (2008: $45 million) in selling general and administrative.

The impairment and write-offs of capitalized development costs of $69 million in both 2009 and 2008 were recognized in costs of sales.

13. Goodwill

Goodwill split by operating segment are as follows:

In millions of USD	Automotive Consumer Computer and Communication Infrastructure ("ACCI")	Wireless sector ("Wireless")	Industrial and Multi segment Sector ("IMS")	Other	Total
Balance as at December 31, 2007	**16**	**147**	**78**	**2**	**243**
Business combinations	12	621	-	-	633
Incard goodwill impairment	-	-	(3)	-	(3)
Foreign currency translation	(1)	-	(2)	-	(3)
Balance as at December 31, 2008	**27**	**768**	**73**	**2**	**870**
Business combinations	-	131	-	-	131
Foreign currency translation	(2)	(9)	1	(2)	(12)
Balance as at December 31, 2009	**25**	**890**	**74**	**0**	**989**

As at December 31, 2009, the gross value of goodwill was $1,008 million (2008: $889 million) and the accumulated impairment was $19 million (2008: $19 million).

During the year ended December 31, 2009, the Group recognized a goodwill of $143 million (2008: $633 million) as a result of the business combination with Ericsson Mobile Platform, described in Note 9. Besides during the second half of 2009, the Group made final adjustments to the business combinations with NXP Wireless and decreased the related goodwill by $12 million.

During the second half of 2009, the Group performed its annual impairment test on goodwill which did not evidence any impairment.

Goodwill is allocated to the Group's cash-generating units ("CGUs"). The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by management covering a five-year period.

The key-assumptions used for value-in-use calculations are based on a five-year plan of each CGU tested including average annual revenues growth, in aggregate for relevant CGUs, higher than Group's average by approximately 5% resulting from the forecasted faster growth for these businesses and their incoming new products, and an average gross margin over the five-year period within a range of 41% and 46%. Discount rates are pre-tax and inferred from the observed volatility of share prices for comparable companies in the semi-conductor industry, and range from 9% to 13% depending on CGUs.

These assumptions have been used, as applicable, for the analysis of each CGU within the product segments. Management determined budgeted gross margin based on past performance and its expectations for the market development. The average yearly growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs. A reasonable change in these assumptions would not result in an impairment.

14. Other financial assets and financial liabilities

14.1. Other financial assets

In millions of USD	As at December 31, 2009	As at December 31, 2008
Other financial assets (including derivatives)		
Other financial assets		
Available-for-sale investments – quoted debt and equity securities	1,042	656
Available-for-sale investments – unquoted debt securities	215	410
Available-for-sale investments – unquoted equity securities	29	32
Restricted cash	250	250
Other	6	6
Total other financial assets	**1,542**	**1,354**
Current	1,032	651
Non-current	510	703
Derivative financial instruments		
Cash flow hedges		
Forward foreign exchange contracts	9	10
Purchased currency options	9	27
Derivatives not designated as hedges		
Interest rate swap	-	34
Forward foreign exchange contracts	18	-
Total derivatives financial instruments	**36**	**71**
Current	36	71
Non-current	-	-
Total other financial assets (including derivatives)	**1,578**	**1,425**
Total current	**1,068**	**722**
Total non-current	**510**	**703**

Movements in other financial assets (excluding derivatives) recorded in 2009 are summarized as follows:

In millions of USD	Dec 31, 2008	Change in fair value included in OCI*	Finance costs Impair-ment and realized losses	Purchase	Sale	Foreign exchange result recognized in P&L	Foreign exchange result recognized in OCI*	Dec 31, 2009
Government bonds issued by the U.S. Treasury	-	-	-	1,060	(720)	-	-	340
Government bonds issued by foreign governments	-	-	-	670	(543)	14	3	144
Senior debt floating rate note issued by financial institutions	651	8			(108)	-	(3)	548
Quoted equity instruments	5	-	-	-	-	5	-	10
Sub-total Available-for-sale investments – quoted debt and equity securities	**656**	**8**	**-**	**1,730**	**(1,371)**	**19**	**-**	**1,042**
Auction rate securities	242	15	(140)	-	(75)	-	-	42
Long-term subordinated notes	168	(11)	16	-	-	-	-	173
Sub-total Available-for-sale investments – unquoted debt securities	**410**	**4**	**(124)**	**-**	**(75)**	**-**	**-**	**215**
Available-for-sale investments – unquoted equity securities	32	-	(3)	-	-	-	-	29
Restricted cash	250	-	-	-	-	-	-	250
Other current financial assets	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**6**
Total other financial assets (excluding derivatives)	**1,354**	**12**	**(127)**	**1,730**	**(1,446)**	**19**	**-**	**1,542**

*OCI: Other comprehensive income

Available-for-sale investments – quoted debt instruments

As at December 31, 2009, the Group had investments in quoted marketable debt instruments for an aggregate value of $1,032 million (2008: $651 million). Government bonds have a Aaa rating.

As at December 31, 2008, given the Group's exposure to Lehman Brothers senior unsecured bonds for a maximum amount of €15 million, the Group recorded an impairment of $11 million on floating rate notes issued by Lehman Brothers following its Chapter 11 filing on September 15, 2008. Lehman Brothers floating rate notes put aside, the Group reported as at December 31, 2009 an after tax increase in fair value of $8 million (2008: after-tax decline of $14 million) on its floating rate note portfolio. No significant gain or loss was included in earnings as a result of floating rate notes sales. Out of the fifteen investment positions in floating-rate notes, with the only exception of a senior floating rate issued by Lehman Brothers, nine positions are in an unrealized loss position. This situation has been considered as not significant and prolonged. For all floating rate notes, except the Lehman Brothers senior unsecured bonds described below, the Group expects to recover the debt securities' entire amortized cost basis. Since the duration of the floating rate note portfolio is less than two years on average and the securities have a minimum Moody's rating of A3 (with the only exception of the Lehman Brothers senior unsecured bonds), the Group expects the value of the securities to return to par as the final maturity is approaching. In addition, the Group does not expect to be required to sell the securities before maturity.

Available-for-sale investments – unquoted debt instruments

The auction-rate securities, which have a final maturity up to 40 years, were purchased in the Group's account by Credit Suisse Securities LLC contrary to the Group's instructions. On February 16, 2009, the Group announced that an arbitration panel of the Financial Industry Regulatory Authority ("FINRA"), in a full and final resolution of the issues submitted for determination, awarded the Group, in connection with such unauthorized auction-rate securities, approximately $406 million, comprising compensatory damages, as well as interest, attorney's fees and consequential damages, which were assessed against Credit Suisse. In addition, the Group is entitled to retain an interest award of approximately $27 million, out of which $25 million has already been paid, plus interest at the rate of 4.64% on the par value of the portfolio from December 31, 2008 until the award is paid in full. The Group has petitioned the United States District Court for the Southern District of New York seeking enforcement of the award. Credit Suisse has responded by seeking to vacate the FINRA award. Upon receipt of the award, the Group will transfer ownership of the portfolio of unauthorized auction-rate securities to Credit Suisse. Until the award is executed, the Group will continue to own the Auction-rate securities and, consequently, will account for them in the same manner as in the prior periods. The FINRA award was upheld by the US District Court of the Southern District of New York, by a decision made public on March 23rd, 2010. In December 2009, Credit Suisse, because of its contingent interest in certain securities held by the Group and issued by Deutsche Bank, requested that we either tender the securities or accept that the amount that would be received by the Group pursuant to such tender ($75 million) be deducted from the sum to be collected by the Group if and when the FINRA award is confirmed and enforced. Pursuant to legal advice, and while reserving our legal rights, we participated in the tender offer and were paid $0.49 per dollar of face value. As a result, the Group sold the auction-rate securities with a face value of $154 million, collected $75 million and registered $68 million as realized losses on financial assets. Losses as a result of this transaction should be recovered upon collection of the award.

Until the FINRA award is executed, the Group determined that it would not expect to recover the entire amortized cost basis of the securities resulting in an impairment of the securities based on credit losses. Consequently, the Group reported an impairment amounting to $72 million in 2009. In 2009, the value of the remaining auction-rate securities increased in value by $15 million, which has been recorded as a separate component of "Accumulated other comprehensive income" in the consolidated statements of changes in equity. The estimated value of these securities could further decrease due to a deterioration of the corporate industry indexes used for the evaluation. Fair value measurement information is further detailed in Note 14.5.

Long-term subordinated notes

The Group received upon the creation of Numonyx long-term subordinated notes amounting to $156 million at inception, bearing interest at market rates and with a maturity as at March 30, 2038. These long-term notes yield 9.5% interest, generally payable in kind for seven years and in cash thereafter. In liquidation events in which proceeds are insufficient to pay off the term loan, revolving credit facilities and the Francisco Partners' preferential payout rights, the subordinated notes will be deemed to have been retired. These notes are also classified as available-for-sale financial assets. The nominal value of the notes was accreted since inception by $27 million of paid-in-kind interests receivable, of which $16 million was recognized in 2009. Changes in fair value were recognized as a separate component in the statement of comprehensive income and corresponded to a pre-tax cumulative $11 million deferred loss as of December 31, 2009. This decline in fair value was not assessed to be significant and prolonged as the Group expects to recover the debt securities' entire amortized cost basis.

Restricted cash

In 2004, the Group signed a joint venture agreement with Hynix Semiconductor Inc. to build a front-end memory manufacturing facility in Wuxi City, Jiangsu Province, China. Under the agreement, Hynix Semiconductor Inc. contributed $500 million for a 67% equity interest and the Group contributed $250 million for a 33% equity interest. Additionally, the Group originally committed to grant $250 million in long-term financing to the new joint venture guaranteed by the subordinated collateral of the joint venture's assets. On March 30, 2008, the investment in the joint venture, which amounted to $291 million at the time, was transferred to Numonyx upon the formation of that entity. Due to regulatory and withholding tax issues the Group could not directly provide the joint venture with the $250 million long-term financing as originally planned. As a result, in 2006, the Group entered into a ten-year term debt guarantee agreement with an external financial institution through which the Group guaranteed the repayment of the loan by the joint venture to the bank. The guarantee agreement includes the Group placing up to $250 million in cash on a deposit account. The guarantee deposit will be used by the bank in case of repayment failure from the joint venture, with $250 million as the maximum potential amount of future payments the Group, as the guarantor, could be required to make. In the event of default and failure to repay the loan from the joint venture, the bank will exercise the Group's rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the joint venture's assets. The debt guarantee resulted in the recognition of a $17 million liability, corresponding to the fair value of the guarantee at inception of the transaction (refer to Note 14.2). The debt guarantee obligation continues to be reported on the line "Other non-current financial liabilities" in the consolidated balance sheet as at December 31, 2009, since the terms of FMG deconsolidation did not include the transfer of the guarantee. As at December 31, 2009, the guarantee was not exercised. As at December 31, 2009, the joint venture was current on their debt obligations, not in default of any debts covenants and did not expect to be in default on these obligations in the foreseeable future.

14.2. Other financial liabilities

In millions of USD	As at December 31, 2009	As at December 31, 2008
Other financial liabilities (including derivatives)		
Other financial liabilities		
Debt financial guarantee Numonyx	39	56
Debt financial guarantee Hynix	17	17
Share conversion option	-	274
Total other financial liabilities	**56**	**347**
Current	-	-
Non-current	56	347
Derivative financial instruments		
Cash flow hedges		
Forward foreign exchange contracts	11	-
Purchased currency options	8	-
Derivatives not designated as hedges		
Interest rate swap	-	-
Forward foreign exchange contracts	15	5
Total derivatives financial instruments	**34**	**5**
Current	34	5
Non-current	-	-
Total other financial liabilities (including derivatives)	90	352
Total current	34	5
Total non-current	56	347

Debt financial guarantee Numonyx

Upon creation, Numonyx entered into financing arrangements for a $450 million term loan and a $100 million committed revolving credit facility from two primary financial institutions. The loans have a four-year term. Intel and the Group have each granted in favor of Numonyx a 50% debt guarantee that is not joint and several. In the event of default and failure to repay the loans from Numonyx, the banks will exercise the Group's rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the assets. At inception of the transaction, the debt guarantee was fair valued at $69 million in accordance with IAS 39. The same amount was also added to the value of our investment in Numonyx as described in note 10. The Guarantee is being amortized on a pro-rata basis over its four-year term.

Share conversion option

In respect to the 2016 convertible bond and its share conversion option, the Group classified the share conversion option as equity rather than in other non-current liability, based on the fact that the Group will, under no circumstances, settle the share conversion option in cash or other assets.

14.3. Interest-bearing loans and borrowings

In millions of USD	As at Dec 31, 2009	As at Dec 31, 2008
Bank loans		
Overdraft	-	20
2.10% due 2009, floating rate at LIBOR + 0.40%	-	50
1.79% due 2010, floating rate at LIBOR + 1.0%	40	50
Funding program loans		
2.00% (w.a.*), due 2009, fixed interest rate	-	4
0.90% (w.a.*), due 2010, fixed interest rate	12	24
3.27% (w.a.*), due 2012, fixed interest rate	6	10
0.50% (w.a.*), due 2013, fixed interest rate	3	2
0.50% (w.a.*), due 2014, fixed interest rate	8	10
0.50% (w.a.*), due 2016, fixed interest rate	2	-
3.24% (w.a.*), due 2017, fixed interest rate	67	72
0.27% (w.a.*), floating interest rate at LIBOR + 0.017%	100	120
0.31% (w.a.*), floating interest rate at LIBOR + 0.026%	56	65
0.33% (w.a.*), floating interest rate at LIBOR + 0.052%	136	136
0.57% (w.a.*), floating interest rate at LIBOR + 0.317%	180	180
0.49% (w.a.*), floating interest rate at LIBOR + 0.213%	200	200
Finance leases:		
5.39% (w.a.*), due 2011, fixed interest rate	8	13
5.00% (w.a.*), due 2013, fixed interest rate	93	78
6.00% (w.a.*), due 2014, fixed interest rate	9	0
5.29% (w.a.*), due 2017, fixed interest rate	2	2
Senior Bonds		
1.12%, due 2013, floating interest rate Euribor + 0.40%	720	703
Convertible Bonds		
4.92% convertible bonds due 2016	753	822
Total interest-bearing loans and borrowings	2,395	2,561
Total current	201	158
Total non-current	2,194	2,403

* Weighted average

Interest-bearing loans and borrowings are denominated in the following currencies:

In millions of USD	As at Dec 31, 2009	As at Dec 31, 2008
U.S. Dollars	1,476	1,626
Euros	919	915
Total	2,395	2,541

The European Investment bank's loans denominated in Euro, but drawn in USD, are classified as USD denominated debt. The 2008 figures have been updated accordingly.

Aggregate future maturities of interest-bearing loans and borrowings outstanding are as follows:

In millions of USD	**As at Dec 31, 2009**
2010	201
2011	900
2012	145
2013	851
2014	114
Thereafter	184
Total	2,395

Convertible debt

In February 2006, the Group issued $1,131 million principal amount at maturity of zero coupon senior convertible bonds due in February 2016. The bonds were issued at 100% of principal with a yield to maturity of 1.5% and resulted in net proceeds to the Group of $974 million less transaction fees. The bonds are convertible by the holder at any time prior to maturity at the adjusted conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. The holders can also redeem the convertible bonds on February 23, 2011 at a price of $1,077.58, on February 23, 2012 at a price of $1,093.81 and on February 24, 2014 at a price of $1,126.99 per one thousand dollar face value of the bonds.

In December 2009, the Group repurchased the equivalent of $98 million principal amount for a cash consideration of $103 million. The Group allocated the consideration paid to the separate components of the convertible bonds using a method consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible instrument was issued. As a result of this transaction, the Group recognized a loss of $7 million corresponding to the difference between the carrying amount of the liability component of the convertible debt and its fair value. An amount of $11 million was recognized as a reduction of the equity component of the 2016 convertible bond.

Senior Bonds

In March 2006, STMicroelectronics Finance B.V. (“ST BV”), a wholly owned subsidiary of the Group, issued floating rate senior bonds with a principal amount of €500 million at an issue price of 99.873%. The notes, which mature on March 17, 2013, pay a coupon rate of the three-month Euribor plus 0.40% on the 17th of June, September, December and March of each year through maturity. In the event of changes to the tax laws of the Netherlands or any successor jurisdiction, ST BV or the Group may redeem the full amount of senior bonds for cash. In the event of certain change in control triggering events, the holders can cause ST BV or the Group to repurchase all or a portion of the bonds outstanding.

Credit facilities

The Company had unutilized committed medium term credit facilities with core relationship banks totalling $500 million. In addition, the aggregate amount of the Company's and its subsidiaries' total available short-term credit facilities, excluding foreign exchange credit facilities, was approximately $759 million as at December 31, 2009. In addition, ST-Ericsson had $25 million of unutilized committed line from Ericsson as parent Group. The Group also had two committed credit facilities with the European Investment Bank as part of R&D funding programs. The first one, for a total of €245 million for R&D in France was fully drawn in U.S. dollars for a total amount of $341 million, of which $49 million were paid back as at December 31, 2009. The second one, signed on July 21, 2008, for a total amount of €250 million for R&D projects in Italy, was fully drawn in U.S. dollars for $380 million as at December 31, 2009. The Group maintains also uncommitted foreign exchange facilities totalling $714 million at December 31, 2009. At December 31, 2009 and 2008, amounts available under the short-term lines of credit were not reduced by any borrowing.

14.4. Hedging activities and derivatives

Derivative Instruments Not Designated as a Hedge

The Group enters into foreign currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at the Group's subsidiaries. These include receivables from international sales by various subsidiaries in foreign currencies, payables for foreign currency denominated purchases and certain other assets and liabilities arising in intercompany transactions.

The notional amount of these financial instruments totaled $1,448 million in 2009 (2008: $857 million). The main currencies covered are the Euro, the Singapore dollar, the Japanese yen, the Swiss franc, the Swedish krona, the British pound and the Malaysian ringgit.

The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled. The risk of loss associated with purchased currency options is equal to the premium paid when the option is not exercised.

Foreign currency forward contract and currency options not designated as cash flow hedges outstanding as at December 31, 2009 are expected to mature within the next twelve months.

Derivative Instruments Designated as a Hedge

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Group hedges certain Euro-denominated forecasted transactions that cover at year-end a portion of its front-end manufacturing costs of semi-finished goods through the use of currency forward contracts and currency options. The maximum length of time over which the Group hedges its exposure to the variability of cash flows for forecasted transactions is 12 months.

For the year ended December 31, 2009 the Group recorded a reduction in cost of sales of $29 million (2008: $4 million) related to the realized gain incurred on such hedged transactions. No significant ineffective portion of the hedge was recorded on the lines "Other income" or "Other expenses" for the years ended December 31, 2009 and 2008.

The notional amount of foreign currency forward contracts and currency options designated as cash flow hedges totaled $623 million (2008: $807 million). The forecasted transactions hedged at December 31, 2009 were determined to be probable of occurrence.

As at December 31, 2009, $5 million (2008: $13 million) of deferred gains on derivative instruments, net of tax of $1 million (2008: $2 million) were recognized in the statement of comprehensive income and were expected to be reclassified as earnings during the next twelve months based on the monthly forecasted semi-finished manufacturing costs.

Foreign currency forward contract and currency options designated as cash flow hedges outstanding as at December 31, 2009 are expected to mature within the next twelve months.

Interest rate swaps

In 2006, the Group entered into cancellable swaps with a combined notional value of $200 million in connection with the issuance of the 2016 convertible bond carrying a fixed interest rate. The swaps were supposed to hedge the bond but did not meet the criteria of IAS 39 for hedging relationship and are cancellable by the Group only. In 2008, the Group recognized an unrealized gain of $26 million. The Group sold the instruments during the first quarter of 2009 and realized a loss of $8 million included in “Finance costs”.

14.5. Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

In millions of USD	Carrying amount		Fair value	
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2009	Dec 31, 2008
Financial assets				
Trade receivables	1,366	1,064	1,366	1,064
Other receivables and assets	718	546	718	546
Available for sale financial investments	1,286	1,094	1,286	1,094
Restricted cash	250	250	250	250
Other financial assets	220	463	220	463
Cash and cash equivalents	1,588	1,009	1,588	1,009
Financial liabilities				
Interest-bearing loans and borrowings (including current portion)	2,370	2,561	2,473	2,425
Other non-current financial liabilities	56	347	56	347
Trade accounts payable	883	840	883	840
Other payables and accrued liabilities	507	521	507	521
Other current financial liabilities	34	5	34	5

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Trade receivables, cash and cash equivalents, trade accounts payable, other payables and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Other receivable and assets approximate their carrying amounts due either to their short-term maturities or to the fact that they are recorded at their net discounted present value.
- Available for sale financial investments:
    - The fair value of government bonds, quoted equity securities and floating rate notes, with the exception of the floating rate notes issued by Lehman Brothers, is determined based upon quoted market prices for the identical instruments. Since 2008, the fair value of the floating rate notes issued by Lehman Brothers relies on information received from a major credit rating entity based on historical recovery rates,
    - Since 2008, the fair value of auction-rate securities is based on a theoretical model using yields obtainable for comparable assets. The value inputs for the evaluation of these securities were publicly available indexes of securities with the same rating, similar duration and comparable/similar underlying collaterals or industries exposure (such as ABX for the collateralized debt obligation, ITraxx and IBoxx for the credit-linked notes), which the Group believes approximates the orderly exit value in the current market.
    - The fair value of the long-term subordinated note is estimated based on publicly available fixed interest swap rates for instrument with similar maturities, taking into account the credit risk feature of the issuer of the debt securities.
    - The fair value of unquoted equity securities is estimated based on the valuation of the underlying investments on a new round of third party financing or upon liquidation.
- The fair value of restricted cash is its carrying amount
- The fair value of interest-bearing loans and borrowings is determined based on quoted market prices, and by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the Group's borrowing rates for similar types of borrowing arrangements.

- The fair value of foreign exchange forward contracts and currency options is determined based upon quoted market prices for identical instruments.
- The fair value of the interest rate swap was estimated based on inputs other than quoted prices received from two market counterparties which held the derivative contracts, which the Group estimated to reflect the orderly exit price of the instruments when correlated to other observable market data such as interest rates and yield curve observable at commonly quoted intervals.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at December 31, 2009, the Group held the following financial instruments measured at fair value:

In millions of USD	Dec 31, 2009	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	18	18	-	-
Cash flow hedges				
Forward foreign exchange contracts	9	9	-	-
Purchased currency options	9	9	-	-
Available-for-sale financial assets				
Available-for-sale investments – quoted debt and equity securities	1,042	1,031	-	11
Available-for-sale investments – unquoted debt securities	215	-	-	215
Available-for-sale investments – unquoted equity securities	29	-	-	29
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	15	15	-	-
Cash flow hedges				
Forward foreign exchange contracts	11	11	-	-
Purchased currency options	8	8	-	-

During the reporting period ending December 31, 2009, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.
For assets measured at fair value using significant unobservable inputs (Level 3), the reconciliation between January 1, 2009 and December 31, 2009 is presented as follows:

In millions of USD	Fair value measurements using significant unobservable inputs (Level 3)
As at January 1, 2009	**453**
Increase in fair value included in AFS reserve for available-for-sale financial assets	15
Impairment charge and losses on auction-rate securities included in the statement of income	(140)
Impairment charge on available-for-sale unquoted equity securities	(3)
Paid-in-kind interest on Numonyx subordinated notes	16
Change in fair value on Numonyx subordinated notes, before tax	(11)
Settlements and redemptions	(75)
As at December 31, 2009	**255**
Amount of total losses for the period included in the income statement attributable to assets still held at the reporting date	75

15. Other non-current assets

Non-current loans and receivables consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Long-term receivables related to funding	8	8
Long-term receivables from government agencies	170	378
Other assets	41	51
Total	**219**	**437**

These non-current receivables are all due within 5 years from the balance sheet date except certain receivables related to funding which are expected to be received beyond 5 years.

Long-term receivables related to funding are mainly public grants to be received from governmental agencies in Italy as part of long-term research and development, industrialization and capital investment projects.

Long-term receivables from government agencies included mainly CIR receivables (research tax credits) in France.

Other assets are composed of individually insignificant amounts as at December 31, 2009 and December 31, 2008.

Long-term receivables are reflected in the balance sheet at their discounted net present value. The fair value of long-term receivables related to funding amounts to $8 million. As at December 31, 2009 and December 31, 2008, only individually insignificant long-term loans and receivables were fully impaired. No long-term loans and receivables were past due but not impaired.

The carrying amounts of the Group's non-current loans and receivables are denominated in the following currency:

In millions of USD	December 31, 2009	December 31, 2008
US dollar	41	49
Euro	170	376
Japanese Yen	-	4
Other currencies	8	8
Total	**219**	**437**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

16. Assets held for sale

The Group had committed in the third quarter of 2007 to a restructuring plan, aimed at redefining the Group's manufacturing strategy in order to be more competitive in the semiconductor market. This manufacturing plan is pursuing, among other initiatives, the transfer of 150-mm production from Carrollton (Texas) to Asia, the transfer of 200-mm production from Phoenix (Arizona) to Europe and Asia and the restructuring of the manufacturing operations in Morocco with a progressive phase out of the activities in Ain Sebaa site. In April 2009, the Group has completed the phase-out of manufacturing operations in Ain Sebaa and Carrollton.

In the first half of 2009, upon the completion of all production and the receipt of certain offers by third parties, the Group plans to sell its Carrollton facilities. In accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, the Group reclassified the assets of its manufacturing site in Carrollton as Held for sale and incurred impairment charges related to their disposal. The carrying value of the assets to be sold totaled $51 million at the date of the reclassification, while fair value less costs to sell amounted to approximately $30 million, which generated in the first half of 2009 an impairment charge of $21 million. Fair value less costs to sell was based on the consideration to be received upon the sale, which is expected to occur within one year. In the first half of 2009, the Group also recorded impairment charges totaling $4 million on long-lived assets of the Group's manufacturing site in Phoenix (Arizona), for which no alternative future use existed within the Group and which were also classified as assets held for sale. The carrying value of those assets to be disposed of by sale totaled $6 million at the date of the reclassification, while fair value less costs to sell amounted to $2 million.

17. Inventories

Inventories consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Raw materials	73	76
Work-in-process	769	1,125
Finished products	433	640
Total	**1,275**	**1,841**

The amount of write-off of inventories recognized as an expense in 2009 is $124 million (2008: $75 million) which is recognized in cost of goods sold.

The fair market value adjustment on inventories recognized as part of the purchase price allocation for NXP Wireless in 2008, described in Note 9, was fully expensed in cost of goods sold as at December 31, 2008.

18. Trade accounts receivable

Trade accounts receivable consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Trade accounts receivable	1,385	1,089
Impairment of trade receivables	(19)	(25)
Total	**1,366**	**1,064**

The carrying value less provision for impairment of trade receivables is assumed to approximate the fair values of the trade receivables due to their short-term nature. Doubtful account expense is reported as selling, general and administrative expenses in the income statement. The individually impaired receivables mainly relate to customers, who are unexpectedly in difficult economic situations; a portion of such receivables is expected to be recovered.

Movements in the provision for impairment of trade receivables are as follows:

In millions of USD	December 31, 2009	December 31, 2008
Beginning of period	**25**	**21**
Losses recognized in selling, general and administrative	2	1
Additions due to business combinations	-	8
Reversal	(8)	(5)
End of period	**19**	**25**

Amounts charged to the provision account are generally written-off when there is no expectation of recovering additional cash. The maximum exposure to credit risk at the reporting date is the fair value of trade accounts receivable net of impairment. In 2009, Nokia represented 16.1% (2008: 17.5%) of the Group's revenue. Sales to Nokia are primarily recorded in the Wireless Sector operating segment.

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

As at December 31, 2009, the ageing analysis of trade receivables is a follows:

In millions of USD			Past due but not impaired		
	Total	Neither past due nor impairment	Less than a month	Between 1 and 6 months	Over 6 months
2009	1,366	1,232	101	29	4
2008	1,064	894	110	50	10

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

In millions of USD	December 31, 2009	December 31, 2008
US dollar	1,189	923
Euro	131	140
Japanese Yen	17	19
Swedish Krona	48	-
Other currencies	-	7
Total	**1,385**	**1,089**

19. Other receivables and assets

Other receivables and assets consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Receivables from government agencies	208	125
Advances	79	14
Prepayments	50	64
Accrued income	4	14
Sundry debtors within cooperation agreements	-	29
Other indirect tax receivable	272	170
Other current assets	105	130
Total	**718**	**546**

The carrying amounts are assumed to approximate fair value. Other receivables do not contain significant impaired assets. As at December 31, 2009, other receivables past due but not impaired were not material. These related mainly to receivables from government agencies for which there is no recent history of default.

The carrying amounts of the Group's other receivables are denominated in the following currencies:

In millions of USD	December 31, 2009	December 31, 2008
US dollar	107	111
Euro	599	421
Other currencies	12	14
Total	**718**	**546**

Receivables from government agencies relate to research and development contracts, research tax credits, industrialization contracts and capital investment projects. The maximum exposure to credit risk at the reporting date is the carrying amount of other receivables.

20. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Cash at bank and in hand	99	219
Deposits at call with banks	1,489	790
Total	**1,588**	**1,009**

In 2008, bank overdraft for $20 million were included in the line “Interest-bearing loans and borrowings – current portion” in the statement of financial position.

21. Cash generated from operations

Cash generated from operations is detailed as follows:

In millions of USD	December 31, 2009	December 31, 2008
Net result	**(1,224)**	**(518)**
Depreciation and amortization	1,629	1,530
Amortization of discount of convertible debt	21	18
Impairment and realized losses on financial assets (Note 14.1)	140	138
Loss / (Gain) on financial assets	8	(15)
Loss on convertible debt repurchase	7	-
Other non-cash items	(13)	108
Deferred income tax	(5)	(37)
Accrued income tax	(142)	154
Share of loss of associates and impairments on investments in associates	307	554
Impairment, restructuring and other related closure costs, net of cash payments	(27)	332
Trade receivables, net	(300)	565
Inventories, net	553	(299)
Trade payables	(54)	(34)
Other assets and liabilities net	201	(336)
Cash generated from operations	**1,101**	**2,160**

22. Equity

22.1. Outstanding shares

The authorized share capital of STMicroelectronics is € 1,810 million consisting of 1,200,000,000 common shares and 540,000,000 preference shares, each with a nominal value of € 1.04. As at December 31, 2009, the number of common shares issued was 910,319,305 shares (2008: 910,307,305 shares).

As at December 31, 2009, the number of common shares outstanding was 878,333,566 shares (2008: 874,276,833 shares).

22.2. Preference shares

The 540,000,000 preference shares, when issued, will entitle a holder to full voting rights and to a preferential right to dividends and distributions upon liquidation. On May 31, 1999, the Company entered into an option agreement with STMicroelectronics Holding II B.V. in order to protect the Group from a hostile takeover or other similar action. The option agreement provided for 540,000,000 preference shares to be issued to STMicroelectronics Holding II B.V. upon their request based on approval by STMicroelectronics's Supervisory Board. STMicroelectronics Holding II B.V. would be required to pay at least 25% of the par value of the preference shares to be issued, and to retain ownership of at least 30% of STMicroelectronics's issued share capital. An amendment was signed in November 2004 which reduced the threshold required for STMicroelectronics Holding II B.V. to exercise its right to subscribe preference shares of STMicroelectronics, down to 19% issued share capital compared to the previous requirement of at least 30%.

On November 27, 2006 the Supervisory Board of STMicroelectronics approved the termination of the existing option agreement between STMicroelectronics and STMicroelectronics Holding II B.V. and the substitution of such agreement by a new agreement of substantially similar terms between STMicroelectronics and a Dutch independent Foundation, Stichting Continuïteit ST. The new option agreement provides for the issuance of 540,000,000 preference shares. Any such shares would be issued by STMicroelectronics to the Foundation, upon its request and in its sole discretion, upon payment of at least 25% of the par value of the preference shares to be issued. The issuing of the preference shares is conditional upon (i) the Group receiving an unsolicited offer or there being the threat of such an offer; (ii) STMicroelectronics's Managing and Supervisory Boards deciding not to support such an offer and; (iii) the Board of the Foundation determining that such an offer or acquisition would be contrary to the interests of the Group and its stakeholders. The preference shares may remain outstanding for no longer than two years. There was no preference shares issued as of December 31, 2009.

22.3. Treasury shares

Following the authorization by the Supervisory Board, announced on April 2, 2008, to repurchase up to 30 million shares of its common stock, the Group acquired 29,520,220 shares as at December 31, 2008, for a total amount of approximately $313 million, also reflected at cost as a reduction of the shareholders' equity. This repurchase intends to cover the transfer of shares to employees upon vesting of future share based remuneration programs.

The treasury shares have been designated for allocation under the Group's share based remuneration programs of non-vested shares including such plans as approved by the 2005, 2006, 2007, 2008 and 2009 Annual General Meeting of Shareholders. As of December 31, 2009, 10,934,481 of these treasury shares were transferred to employees under the Group's share based remuneration programs of which 4,044,733 in the year ended December 31, 2009, following the full vesting of the 2006 stock-award plan, the vesting of the first and second tranches of the 2007 stock-award plan, the vesting of the first tranche of the 2008 stock-award plan together with the acceleration of the vesting of a limited number of stock-awards.

22.4. Stock-option plans

In 1995, the Shareholders voted to adopt the 1995 Employee Stock Option Plan (the "1995 Plan") whereby options for up to 33,000,000 shares may be granted in installments over a five-year period. Under the 1995 Plan, the options may be granted to purchase shares of common stock at a price not lower than the market price of the shares on the date of grant. At December 31, 2008, under the 1995 plan, 42,300 of the granted options originally vested 32% after two years, 32% after three years and 36% after four years following the date of the grant. The options expire 10 years after the date of grant. During 2005, the vesting periods for all options under the plan were accelerated with no impact on the consolidated statements of income.

In 1996, the Shareholders voted to adopt the Supervisory Board Option Plan whereby each member of the Supervisory Board was eligible to receive, during the three-year period 1996-1998, 18,000 options for 1996 and 9,000 options for both 1997 and 1998, to purchase shares of common stock at the closing market price of the shares on the date of the grant. In the same three-year period, the professional advisors to the Supervisory Board were eligible to receive 9,000 options for 1996 and 4,500 options for both 1997 and 1998. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant.

In 1999, the Shareholders voted to renew the Supervisory Board Option Plan whereby each member of the Supervisory Board may receive, during the three-year period 1999-2001, 18,000 options for 1999 and 9,000 options for both 2000 and 2001, to purchase shares of capital stock at the closing market price of the shares on the date of the grant. In the same three-year period, the professional advisors to the Supervisory Board may receive 9,000 options for 1999 and 4,500 options for both 2000 and 2001. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant.

In 2001, the Shareholders voted to adopt the 2001 Employee Stock Option Plan (the "2001 Plan") whereby options for up to 60,000,000 shares may be granted in installments over a five-year period. The options may be granted to purchase shares of common stock at a price not lower than the market price of the shares on the date of grant. In connection with a revision of its equity-based compensation policy, the Group decided in 2005 to accelerate the vesting period of all outstanding unvested stock options. The options expire ten years after the date of grant.

In 2002, the Shareholders voted to adopt a Stock Option Plan for Supervisory Board Members and Professionals of the Supervisory Board. Under this plan, 12,000 options can be granted per year to each member of the Supervisory Board and 6,000 options per year to each professional advisor to the Supervisory Board. Options would vest 30 days after the date of grant. The options expire ten years after the date of grant.

A summary of the stock option activity for the plans for the three years ended December 31, 2009 and 2008 follows:

		Price per share	
	Number of shares	Range	Weighted average
As at December 31, 2007	**46,765,635**	**$16.73 - $62.01**	**$31.42**
Options granted	-	-	-
Options expired	(5,923,552)	$44.00 - $62.01	$59.10
Options forfeited	(1,410,650)	$16.73 - $62.01	$27.90
Options exercised	-	-	-
As at December 31, 2008	**39,431,433**	**$16.73 - $39.00**	**$27.35**
Options granted	-	-	-
Options expired	-	-	-
Options forfeited	(1,487,601)	$17.08 - $39.00	$27.69
Options exercised	-	-	-
As at December 31, 2009	**37,943,832**	**$16.73 - $39.00**	**$27.33**

Stock options exercisable following acceleration in 2005 of vesting for all outstanding unvested stock options were as follows:

	December 31, 2009	December 31, 2008
Options exercisable	37,943,832	39,431,433
Weighted average exercise price	$27.33	$27.35

The weighted average remaining contractual life of options outstanding as at December 31, 2009 was 2.9 years (2008: 3.9 years).

The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options exercisable as of December 31, 2009 were as follows:

Number of shares	Option price range	Weighted average exercise price	Weighted average remaining contractual life in years
133,966	$16.73 - $17.31	$17.05	4.7
19,744,709	$19.18 - $24.88	$21.02	3.8
167,350	$25.90 - $29.70	$26.96	3.3
17,897,807	$31.09 - $39.00	$34.37	1.8

The fair value of the stock options was estimated under IFRS 2 using a Black-Scholes option pricing model since the simple characteristics of the stock options did not require complex assumptions. The Group has amortized the compensation expense incurred on the grant of stock options over the nominal vesting period for employees based on the vesting of each plan.

Stock options were issued at market price. The Group has determined the historical share price volatility to be the most appropriate estimate of future price activity. The historical share price volatility is based on statistical analysis of daily share prices over the expected option life. The weighted average fair value of share options granted during 2005 was $5.24.

22.5. Non-vested share awards

On April 29, 2006 the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 66,000 non-vested shares to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2006 Supervisory Board Plan"), of which 15,000 awards were immediately waived. These awards are granted at the nominal value of the share of €1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In 2007, the first tranche of the plan, representing 17,000 shares vested as at April 27, 2007. In 2008, the second tranche of the plan, representing 16,000 shares vested as at April 27, 2008. Furthermore, following the end of mandate of one of the members of the Board, 4,000 shares were accelerated in 2008. In 2009, the third tranche of the plan, representing 14,000 shares vested as at April 27, 2009. As of December 31 2009, no awards were outstanding under the 2006 Supervisory Board Plan.

On September 29, 2006 the Group granted 4,854,280 non-vested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2006 Employee Plan"). The Compensation Committee and the Supervisory Board also authorized on September 29, 2006 the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. These additional shares were granted in 2006 and 2007, as detailed below. The shares were granted for free to employees, and vested upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in one of the Group's European subsidiaries for whom a sub-plan was simultaneously created on September 29, 2006 for statutory payroll tax purposes, the non-vested shares vested over the following requisite service period: 32% as at April 27, 2007, 32% as at April 27, 2008 and 36% as at April 27, 2009. The following requisite service period was required for the non-vested shares granted under the local sub-plan: 64% of the granted stock awards vested two years from grant date and 36% as at April 27, 2009. In addition, the sale by the employees of the shares included in the sub-plan, once vested, is restricted over an additional two-year period which is not considered as an extension of the requisite service period. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 1,120,234 shares, vested as at April 27, 2007. In addition, 10,120 shares were accelerated during the year, of which 340 under the sub-plan. In 2008, the second tranche of the original plan, representing 1,079,952 shares, vested as at April 27, 2008, and the first tranche of the sub-plan, representing 748,394 shares vested as at September 30, 2008. In addition, 30,590 shares were accelerated during the year, of which 5,941 under the sub-plan. These shares were transferred to employees from the treasury shares owned by the Group. In 2009, the third tranche of the original plan, representing 1,155,238 shares and the third tranche of the sub-plan, representing 400,149 shares vested as at April 27, 2009. In addition, 9,446 shares were accelerated during the year, of which 4,035 under the sub-plan. At December 31, 2009, no non-vested shares from the 2006 plan were outstanding.

On December 19, 2006, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted additional 62,360 shares to selected employees designated by the Managing Board of the Company as part of the 2006 Employee Plan. This additional grant had the same terms and conditions as the original plan. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 8,885 shares, vested as at April 27, 2007, and the first tranche of the sub-plan, representing 21,648 shares vested as at December 20, 2008. In 2008, the second tranche of the plan, representing 8,885 shares, vested as at April 27, 2008. In 2009, the third tranche of the plan, representing 9,264 shares and the third tranche of the sub-plan representing 12,147 shares vested as at April 27, 2009. As at December 31, 2009, no non-vested shares were outstanding as part of this additional grant.

On February 27, 2007, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted additional 215,000 shares to selected employees designated by the Managing Board of the Company as part of the 2006 Employee Plan. This additional grant had the same terms and conditions as the original plan. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 50,031 shares, vested as at April 27, 2007. In addition, 1,196 shares were accelerated during the year. In 2008, the second tranche of the plan, representing 47,551 shares vested as at April 27, 2008. In addition, 598 shares were accelerated during the year. In 2009, the first tranche of the sub-plan, representing 36,122 shares vested as at February 28, 2009. The third tranche of the plan representing 51,514 shares and the third tranche of the sub-plan representing 20,174 shares vested as at April 27, 2009. In addition, 108 shares were accelerated during the year. As at December 31, 2009, no non-vested shares were outstanding as part of this additional grant.

On April 28, 2007, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2007 Supervisory Board Plan"), of which 22,500 awards were immediately waived. These awards are granted at the nominal value of the share of €1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 45,000 shares, vested as at April 28, 2008. Furthermore, following the end of mandate of one of the members of the Board, 7,500 shares were accelerated in 2008. The second tranche of this plan, representing 45,000 shares, vested as at April 28, 2009. As of December 31, 2009, 45,000 awards were outstanding under the 2007 Supervisory Board Plan.

On June 18, 2007, the Group granted 5,691,840 non-vested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2007 Employee Plan"). The Compensation Committee and the Supervisory Board also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company as detailed below. The shares were granted for free to employees, and will vest upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in two of the Group's European subsidiaries for whom a sub-plan was simultaneously created, the non-vested shares vest over the following requisite service period: 32% as at April 26, 2008, 32% as at April 26, 2009 and 36% as at April 26, 2010. The following requisite service period is required for the non-vested shares granted under the two local sub-plans: for the first one, 64% of the granted stock awards vest as at June 19, 2009 and 36% as at June 19, 2010. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. For the second sub-plan, 32% vest as at June 19, 2008, 32% as at April 26, 2009 and 36% as at April 26, 2010. In 2008, the Group failed to meet one performance condition during one semester. Consequently, one sixth of the shares granted, totaling 926,121 shares, of which 242,233 on the first sub-plan and 2,634 on the second sub-plan, was lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 1,097,124 shares, vested as at April 26, 2008. The first tranche of one of the local sub-plans, representing 4,248 shares, vested as at June 19, 2008. In addition, 31,786 shares were accelerated during the year, of which 2,999 under the sub-plans. These shares were transferred to employees from the treasury shares owned by the Group. The second tranche of the original plan, representing 1,048,429 shares and the second tranche of one of the local sub-plans, representing 3,914 shares, vested as at April 26, 2009. The first tranche of the other local sub-plan, representing 768,157 shares, vested as at June 19, 2009. In addition, 32,360 shares were accelerated during the year, of which 4,974 under the sub-plans. These shares were transferred to employees from the treasury shares owned by the Group. At December 31, 2009, 1,539,083 non-vested shares were outstanding, of which 409,491 under the first sub-plan and 4,395 under the second one.

On December 6, 2007, the Managing Board of the Company, as authorized by the Compensation Committee of the Supervisory Board, granted additional 84,450 shares to selected employees designated by the Managing Board of the Company as part of the 2007 Employee Plan. This additional grant has the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 14,023 shares were lost for vesting, of which 498 on the sub-plan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 10,434 shares, vested as at April 26, 2008. In addition, 11,311 shares were accelerated during the year. The second tranche of the original plan, representing 21,585 shares, vested as at April 26, 2009. The first tranche of the sub-plan, representing 1,602 shares, vested as at December 7, 2009. At December 31, 2009, 24,711 non-vested shares were outstanding as part of this additional grant, of which 900 under the local sub-plan.

On February 19, 2008, the Managing Board of the Company, as authorized by the Compensation Committee of the Supervisory Board, granted additional 135,550 shares to selected employees designated by the Managing Board of the Company as part of the 2007 Employee Plan. This additional grant has the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 22,559 shares were lost for vesting, of which 5,887 on the local sub-plan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 26,407 shares, vested as at April 26, 2008. In addition, 320 shares were accelerated during the year. The second tranche of the original plan, representing 21,978 shares, vested as at April 26, 2009. In addition, 567 shares were accelerated during the year. At December 31, 2009, 37,534 non-vested shares were outstanding as part of this additional grant, of which 12,821 under the local sub-plan.

On May 16, 2008, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2008 Supervisory Board Plan"), of which 22,500 awards were immediately waived. These awards are granted at the nominal value of the share of €1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 47,500 shares, vested as at May 16, 2009. As of December 31, 2009, 95,000 awards were outstanding under the 2008 Supervisory Board Plan.

On July 22, 2008, the Group granted 5,723,305 non-vested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2008 Employee Plan"). The Compensation Committee also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. The shares were granted for free to employees, and will vest upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in two of the Group's European subsidiaries for whom a sub-plan was simultaneously created, the non-vested shares vest over the following requisite service period: 32% as at May 14, 2009, 32% as at May 14, 2010 and 36% as at May 14, 2011. The following requisite service period is required for the non-vested shares granted under the two local sub-plans: for the first one, 64% of the granted stock awards vest as at July 23, 2010 and 36% as at May 14, 2011. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. For the second one, 32% vest as at July 22, 2009, 32% as at May 14, 2010 and 36% as at May 14, 2011. In 2009, based on the final calculations, it turned out that the Group failed to meet two performance conditions. Consequently, two third of the shares granted, totaling 3,747,193 shares, of which 1,020,134 on the first sub-plan and 35,598 on the second sub-plan, was lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 427,324 shares, vested as at May 14, 2009. The first tranche of one of the local sub-plans, representing 5,719 shares, vested as at July 23, 2009. In addition, 15,588 shares were accelerated during the year. These shares were transferred to employees from the treasury shares owned by the Group. At December 31, 2009, 1,399,373 non-vested shares were outstanding, of which 509,324 under the first local sub-plan and 11,906 under the second local sub-plan.

On February 27, 2009, the Managing Board of the Company, as authorized by the Compensation Committee of the Supervisory Board, granted additional 50,400 shares to selected employees designated by the Managing Board of the Company as part of the 2008 Employee Plan. This additional grant has the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 33,589 shares were lost for vesting, of which 11,365 on the first local sub-plan and 1,332 on the second local sub-plan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 3,348 shares, vested as at May 14, 2009. At December 31, 2009, 12,329 non-vested shares were outstanding as part of this additional grant, of which 5,685 under the first local sub-plan and 668 under the second local sub-plan.

On May 20, 2009, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2009 Supervisory Board Plan"), of which 7,500 awards were immediately waived. These awards are granted at the nominal value of the share of €1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. As of December 31 2009, 157,500 awards were outstanding under the 2009 Supervisory Board Plan.

On July 28, 2009, the Group granted 5,575,240 non-vested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2009 Employee Plan"). The Compensation Committee also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. The shares were granted for free to employees, and will vest upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in one of the Group's European subsidiaries for whom a sub-plan was simultaneously created, the non-vested shares vest over the following requisite service period: 32% as at May 20, 2010, 32% as at May 20, 2011 and 36% as at May 20, 2012. The following requisite service period is required for the non-vested shares granted under the local sub-plan: 64% of the granted stock awards vest as at July 29, 2011 and 36% as at May 20, 2012. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. At December 31, 2009, 5,532,440 non-vested shares were outstanding, of which 1,438,185 under the sub-plan.

On November 30, 2009, the Managing Board of the Company, as authorized by the Compensation Committee of the Supervisory Board, granted additional 8,300 shares to selected employees designated by the Managing Board of the Company as part of the 2009 Employee Plan. This additional grant has the same terms and conditions as the original plan. At December 31, 2009, 8,300 non-vested shares were outstanding as part of this additional grant.

A summary of the non-vested share activity for the years ended December 31, 2009 and December 31, 2008 is presented below:

Non-vested shares	Number of shares	Exercise price
As at December 31, 2007	**10,510,030**	**$0 - €1.04**
Awards granted:		
2007 Employee plan	135,550	$0
2008 Employee plan	5,723,305	$0
2008 Supervisory Board plan	165,000	€1.04
Awards forfeited:		
2005 Employee plan	(7,900)	$0
2006 Employee plan	(62,162)	$0
2007 Employee plan	(141,201)	$0
2008 Employee plan	(56,185)	$0
2008 Supervisory Board plan	(22,500)	€1.04
Awards cancelled on failed vesting conditions		
2007 Employee plan	(962,703)	$0
Awards vested:		
2005 Employee plan	(903,381)	$0
2005 Supervisory Board plan	(17,000)	€1.04
2006 Employee plan	(1,937,618)	$0
2006 Supervisory Board plan	(20,000)	€1.04
2007 Employee plan	(1,181,630)	$0
2007 Supervisory Board plan	(52,500)	€1.04
As at December 31, 2008	**11,169,105**	**$0 - €1.04**
Awards granted:		
2008 Employee plan	50,400	$0
2009 Employee plan	5,583,540	$0
2009 Supervisory Board plan	165,000	€1.04
Awards forfeited:		
2006 Employee plan	(8,507)	$0
2007 Employee plan	(52,896)	$0
2008 Employee plan	(73,057)	$0
2009 Employee plan	(42,800)	$0
2009 Supervisory Board plan	(7,500)	€1.04
Awards cancelled on failed vesting conditions		
2008 Employee plan	(3,780,782)	$0
Awards vested:		
2006 Employee plan	(1,694,162)	$0
2006 Supervisory Board plan	(14,000)	€1.0
2007 Employee plan	(1,898,592)	$0
2007 Supervisory Board plan	(45,000)	€1.04
2008 Employee plan	(451,979)	$0
2008 Supervisory Board plan	(47,500)	€1.04
As at December 31, 2009	**8,851,270**	**$0 - €1.04**

For the 2005 share award plan, the Group recorded compensation expense for the non-vested share awards based on the fair value of the awards at the grant date, which represents the $16.61 share price at the date of the grant. The fair value of the non-vested shares affected by a market condition reflects a discount of 49.50%, using a Monte Carlo path-dependent pricing model to measure the probability of achieving the market condition.

The following assumptions were incorporated into the Monte Carlo pricing model to estimate the 49.50% discount:

	2005 Employee plan
Historical share price volatility	27.74%
Historical volatility of reference index	25.5%
Three-year average dividend yield	0.55%
Risk-free interest rates used	4.21% - 4.33%

Consistent with fair value calculations of stock option grants in prior years, the Group has determined the historical share price volatility to be the most appropriate estimate of future price activity. The weighted average grant-date fair value of non-vested shares granted in 2005 was $8.50.

In 2006, the Group assessed the impact of the modification of the Employee 2005 Plan following the creation of a local sub-plan in one of its subsidiary. However, in compliance with IFRS 2 and considering that the modification of the plan did not result in an increase of the awards fair value, the Group continued to recognize the compensation expense of the whole original plan over the remaining original requisite service period. No incremental cost is recognized over the modified extended service period.

The weighted average grant date fair value of non-vested shares granted to employees under the 2006 Employee Plan was $17.35. On the 2006 Employee Plan, the fair value of the non-vested shares granted did not reflect any discount since they are not affected by a market condition. On February 27, 2007, the Compensation Committee approved the statement that the three performance conditions were met (as per initial assumption). Consequently, the compensation expense recorded on the 2006 Employee Plan reflects the statement that all of the awards granted will vest, as long as the service condition is met.

The weighted average grant date fair value of non-vested shares granted to employees under the 2007 Employee Plan was $19.35. On the 2007 Employee Plan, the fair value of the non-vested shares granted did not reflect any discount since they are not affected by a market condition. On April 1, 2008, the Compensation Committee approved the statement that two performance conditions were fully met and that for one condition only one half of it was achieved. Consequently, the compensation expense recorded on the 2007 Employee Plan reflects the statement that five sixths of the awards granted will vest, as long as the service condition is met.

The weighted average grant date fair value of non-vested shares granted to employees under the 2008 Employee Plan was $10.64. On the 2008 Employee Plan, the fair value of the non-vested shares granted did not reflect any discount since they are not affected by a market condition. On March 23, 2009, the Compensation Committee approved the statement that one performance condition was fully met. Consequently, the compensation expense recorded on the 2008 Employee Plan reflects the statement that one third of the awards granted will vest, as long as the service condition is met.

The weighted average grant date fair value of non-vested shares granted to employees under the 2009 Employee Plan was $7.54. On the 2009 Employee Plan, the fair value of the non-vested shares granted did not reflect any discount since they are not affected by a market condition. On the contrary, the Group estimates the number of awards expected to vest by assessing the probability of achieving the performance conditions. At December 31, 2009, a final determination of the achievement of the performance conditions had not yet been made by the Compensation Committee of the Supervisory Board. However, the Group has estimated that two third of awards are expected to vest. Consequently, the compensation expense recorded for the 2009 Employee Plan reflects the vesting of two third of the awards granted, subject to the service condition being met. The assumption of the expected number of awards to be vested upon achievement of the performance conditions is subject to changes based on the final measurement of the conditions, which is expected to occur early 2010.

The following table illustrates the classification of share-based compensation included in the income statement for grants of non-vested shares during the years ended at December 31, 2009 and 2008:

In millions of USD	December 31, 2009	December 31, 2008
Cost of sales	7	15
Selling, general and administrative	19	37
Research and development	11	24
Other	1	2
Total pre-payroll tax and social contribution share-based compensation expense	**38**	**78**

As at December 31, 2009, compensation cost, excluding payroll tax and social contribution, capitalized as part of inventory was $2 million (2008: $3 million). As at December 31, 2009 there was $27 million (2008: $37 million) of total unrecognized compensation cost related to the grant of non-vested shares, which is expected to be recognized over a weighted average period of 16.3 months (2008: 14.3 months).

The total deferred income tax expense recognized in the statement of income related to unvested share-based compensation expense amounted to $8 million for the year ended December 31, 2009, including a shortfall recorded on the 2006 Employee Plan closed during 2009 due to the vesting fair value being significantly lower than the grant fair value. The total deferred income tax benefit recognized in the consolidated statements of income related to unvested share-based compensation expense amounted to $3 million for the year ended December 31, 2008.

22.6. Other reserves

Other reserves include the following components as at December 31, 2009

In millions of USD	2016 Share conversion option reserve	Share-based compen-sation reserve	Available-for-sale (AFS) reserve	Cash Flow Hedge (CFH) reserve	Foreign currency translation reserve	Total other reserves
As at December 31, 2008	**-**	**396**	**(15)**	**11**	**1,078**	**1,470**
Reclassification of share conversion option (Note 14.2)	260	-	-	-	-	260
Share-based compensation expense for the year	-	36	-	-	-	36
Net movement recognized in the statement of comprehensive income	-	-	11	(6)	96	101
As at December 31, 2009	**260**	**432**	**(4)**	**5**	**1,174**	**1,867**

2016 Share conversion option

The 2016 Share conversion option reserve is used to recognize the equity component of the 2016 Convertible. Refer to note 14.2 for further details on the reclassification recognized in 2009.

Share-based compensation reserve

The share-based compensation reserve is used to recognize the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to notes 22.4 and 22.5 for further details on these plans.

Cash Flow hedge reserve

The cash flow hedge reserve contains the effective portion of the cash flow hedge relationship incurred as at the reporting date. Also recorded here as a separate component, is the effective portion of the gain or loss on hedging instruments in cash flow hedges.

Available-for-sale (AFS) reserve

This reserve records fair value changes on available-for-sale financial assets.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

22.7. Dividends

At the Annual General meeting of Shareholders held on May 20, 2009, the distribution of a cash dividend of $105 million or $0.12 per common share to be paid in four equal installments was approved. Through December 31, 2009, payments were made for an amount of $79 million including the payment of $3 million for related withholding tax. The remaining $0.03 per share cash dividend to be paid in the first quarter of 2010 totaled $26 million and was included in “other payables and accrued liabilities” as at December 31, 2009.

At the Annual General Meeting of Shareholders on May 14, 2008 shareholders adopted the distribution of a cash dividend of $319 million or $0.36 per common share, payable in four equal quarterly installments. Through December 31, 2008, payments totaled $0.27 per share or approximately $240 million. The remaining $0.09 per share cash dividend to be paid in the first quarter of 2009 totaled $79 million and was included in “other payables and accrued liabilities” as at December 31, 2009.

23. Provisions

Movements in provisions during the year ended December 31, 2009 are detailed as follows:

	Restructuring	Warranty and product Guarantee	Tax	Total
As at December 31, 2008	**266**	**4**	**153**	**423**
Expense recognized during the period	229	-	48	277
Amounts paid	(296)	(1)	(9)	(306)
Discount expense	4	-	-	4
Currency translation effect	-	-	1	1
As at December 31, 2009	**203**	**3**	**193**	**399**
Current 2009	189	3	74	266
Non-current 2009	14	-	119	133
	203	**3**	**193**	**399**
Current 2008	236	4	73	313
Non-current 2008	30	-	80	110
	266	**4**	**153**	**423**

Warranty and product guarantee

The Group's customers occasionally return the Group's products for technical reasons. The Group's standard terms and conditions of sale provide that if the Group determines that products are non-conforming, the Group will repair or replace the non-conforming products, or issue a credit or rebate of the purchase price. Quality returns are not related to any technological obsolescence issues and are identified shortly after sale in customer quality control testing. Quality returns are usually associated with end-user customers, not with distribution channels. The Group provides for such returns when they are considered probable and can be reasonably estimated. The Group records the accrued amounts as a reduction of revenue.

Tax provisions

Tax provisions are related to uncertain tax positions that remain open for review in the Group's major tax jurisdictions

Restructuring provisions

The Group is currently engaged in two major restructuring plans, the STE restructuring plan and the 2007 restructuring plan that are briefly described hereafter. The Group is also engaged in various initiatives launched in 2008 and 2009 aimed at reducing the operating expenses through a workforce reduction.

In April 2009, ST-Ericsson announced a restructuring plan to be completed by mid-2010 (the "STE restructuring plan"). The main actions included in the restructuring plan are a re-alignment of product roadmaps to create a more agile and cost-efficient R&D organization and a reduction in workforce of 1,200 worldwide to reflect further integration activities following the merger. On December 3, 2009, ST-Ericsson expanded its restructuring plan, targeting additional annualized savings in operating expenses and spending, along with an extensive R&D efficiency program. The targeted time of completion of this new plan is the end of 2010.

The Group announced in 2007 management's commitment to a restructuring plan aimed at redefining the Group's manufacturing strategy in order to be more competitive in the semiconductor market (the "2007 restructuring plan"). In addition to the prior restructuring measures undertaken in the past years, this manufacturing plan would pursue, among other initiatives: the transfer of 150mm production from Carrollton (Texas) to Asia, the transfer of 200mm production from Phoenix (Arizona), to Europe and Asia and the restructuring of the manufacturing operations in Morocco with a progressive phase out of the activities in Ain Sebaa site synchronized with a significant growth in Bouskoura site.

In 2009, the Group incurred restructuring charges and other related closure costs for $234 million relating primarily to:

- $100 million (2008: nil) for the STE restructuring plan for on-going termination benefits for involuntary leaves pursuant to the closure of certain locations in Europe, the Unites States of America and Asia.
- $79 million (2008: $48 million) for the 2007 restructuring plan primarily related to closure costs and one-time termination benefits to be paid to employees who render services until the complete closure of the Carrollton (Texas) and Phoenix (Arizona) fabs. The $79 million include a $4 million (2008: $8 million) interest expense due to the unwinding of the discount for the provision.
- $55 million (2008: $78 million) restructuring charges related to former committed restructuring initiatives. These restructuring charges consisted primarily of termination benefits in Asia and voluntary termination arrangements in certain European locations. Additionally, the Group paid $39 million related to the restructuring plan announced upon the integration of NXP wireless business. The amounts paid were charged against the liability recorded in 2008 in the purchase price allocation.

24. Employee benefits

Employee benefits liabilities are detailed as follows:

In millions of USD	December 31, 2009	December 31, 2008
Retirement benefit obligation liability	258	264
Other long term employee benefits	42	41
Salaries and wages	287	334
Total employee benefits liabilities	**587**	**639**
Current	355	345
Non-current	232	294

Pensions

The Group has a number of defined benefit pension plans covering employees in various countries. The plans provide for pension benefits, the amounts of which are calculated based on factors such as years of service and employee compensation levels. The Group uses December 31 as measurement date for all its plans. Eligibility is generally determined in accordance with local statutory requirements. In 2009 and 2008, the major defined benefit pension plans and long-term employee benefit plans were in Italy and France.

The amounts recognized in the balance sheet are determined as follows:

In millions of USD	December 31, 2009	December 31, 2008
Benefit obligations wholly or partially funded	(412)	(386)
Fair value of plan assets	339	262
Benefit obligations wholly unfunded	(216)	(172)
Unrecognized actuarial gain (loss)	26	30
Reserve against prepaid	-	(2)
Unrecognized past service cost	5	4
Total pension liabilities	**(258)**	**(264)**

The movements in the pension liability are as follows:

In millions of USD	2009	2008
Beginning of the year	264	322
Exchange difference	7	(20)
Pension expense before asset ceiling	41	28
Changes in the reserve against prepaid	(2)	2
Plan merger / acquisition	7	(31)
Contributions paid	(59)	(37)
End of the year	**258**	**264**

Changes in defined benefit obligation are as follows:

In millions of USD	2009	2008
Beginning of the year	558	559
Service cost	22	20
Interest cost	30	29
Employee contributions	4	3
Plan amendment – past service cost – non vested benefits	-	(2)
Actuarial gain (loss)	27	18
Acquisition / Transfer in	12	69
Divestiture / Transfer out	(5)	(52)
Effect of curtailment	(2)	(1)
Effect of settlement	(16)	(5)
Benefits paid	(25)	(35)
Effect of foreign exchange translation	23	(45)
End of the year	**628**	**558**

Change in plan assets are as follows:

In millions of USD	2009	2008
Beginning of the year	262	278
Expected return on plan assets	16	18
Employer contribution	46	16
Employee contribution	4	3
Acquisition / Transfer in	7	54
Sale / Transfer out	(6)	(5)
Effect of settlement	(14)	(3)
Administration fees	-	(1)
Benefits paid	(13)	(11)
Actuarial gain (loss)	25	(59)
Effect of foreign exchange translation	12	(28)
End of the year	**339**	**262**

The actual return on plan assets in 2009 was a gain of $41 million (2008: loss of $41 million). In 2009, the expected return on plan asset amounted to $16 million (2008: gain of $18 million) resulting in an actuarial gain on plan assets of $25 million (2008: loss of $59 million).

The present value of the defined benefit obligation, the fair value of plan assets and the surplus or deficit in the pension plans for the current annual period and previous four annual periods are as follows:

	2009	2008	2007	2006	2005
Present value of defined benefit obligation	628	558	559	570	450
Fair value of pension plan assets	339	262	278	241	191
Deficit on pension plans	**289**	**296**	**281**	**329**	**259**
Experience adjustment on plan assets	(25)	48	-	-	-
Experience adjustment on plan liabilities	7	41	-	-	-

The amounts recognized in the income related to pensions are as follows:

In millions of USD	2009	2008
Current service cost	22	20
Interest cost	30	29
Expected return on plan assets	(16)	(18)
Amortization of unrecognized past service cost non vested	1	2
Amortization of actuarial net loss (gain)	4	(1)
Effect of settlement	2	(2)
Effect of curtailment	(2)	(1)
Asset ceiling	(2)	-
Total pension costs	**39**	**29**

Other long-term employee benefit

Other long-term employee benefits include seniority and loyalty award programs.

The movements in the other long-term employee benefits liability are as follows:

In millions of USD	2009	2008
Beginning of the year	41	42
Exchange differences	1	(4)
Total other long-term benefits costs recognized in the income statement	5	8
Plan merger / acquisition	-	3
Benefits paid	(5)	(8)
End of the year	**42**	**41**

Changes in other long-term benefits obligations are as follows:

In millions of USD	2009	2008
Beginning of the year	42	42
Service cost	4	4
Interest cost	2	3
Actuarial (gain) loss	(1)	1
Acquisition / Transfer in	1	9
Divestiture / Transfer out	(1)	(5)
Benefits paid	(2)	(8)
Settlement and curtailment	(4)	-
Effect of foreign exchange translation	1	(4)
End of the year	**42**	**42**

The amounts recognized in the income related to other long-term benefits are as follows:

In millions of USD	2009	2008
Current service cost	4	4
Interest cost	2	3
Amortization of unrecognized prior service cost	-	-
Amortization of actuarial net loss (gain)	(1)	1
Total other long-term benefits costs	**5**	**8**

Assumptions

The weighted average assumptions used in the determination of pension obligations were as follows:

	2009	2008
Discount rate	5.11%	5.23%
Expected long-term rate of return on assets	5.28%	5.69%
Future salary increase	3.08%	3.46%

The discount rate was determined by comparison against long-term corporate bond rates applicable to the respective country of each plan. In developing the expected long-term rate of return on assets, the Group modeled the expected long-term rates of return for broad categories of investments held by the plan against a number of various potential economic scenarios.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yield on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality experience are set based on advice from published statistics and experience in each territory.

The Group's pension plan asset allocation at December 31, 2008 and 2009 and target allocation for 2010 are as follows:

	% of plan assets as at	
Asset category	December 31, 2009	December 31, 2008
Equity securities	38%	36%
Bonds securities bearing regular interests	33%	37%
Real estate	9%	6%
Other	20%	21%

The Group's investment strategy for its pension plans is to maximize the long-term rate of return on plan assets with an acceptable level of risk in order to minimize the cost of providing pension benefits while maintaining adequate funding levels.

The Group's practice is to periodically conduct a review in each subsidiary of its asset allocation strategy. A portion of the fixed income allocation is reserved in short-term cash to provide for expected benefits to be paid. The Group's equity portfolios are managed in such a way as to achieve optimal diversity. The Group does not manage any assets internally.

After considering the funded status of the Group's defined benefit plans, movements in the discount rate, investment performance and related tax consequences, the Group may choose to make contributions to its pension plans in any given year in excess of required amounts. In 2009, the Group's contributions to plan assets were $46 million (2008: $16 million) and it expects to contribute cash of $18 million in 2010.

Defined contribution plans

The Group has certain defined contribution plans, which accrue benefits for employees on a pro-rata basis during their employment period based on their individual salaries. In 2009, the annual cost of these plans amounted to approximately $81 million (2008: $72 million).

25. Other non-current liabilities

Other non-current liabilities consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Capacity rights granted to associates	47	66
Other non-current liabilities	44	57
Total other non-current liabilities	**91**	**123**

The obligations for capacity rights granted to associates are due to:

- The terms of the agreement for the inception of Numonyx that included rights granted to Numonyx to use certain assets retained by the Group. As at December 31, 2009, the value of such rights totaled $65 million (2008: $87 million) of which $47 million (2008: $63 million) was classified as a non-current liability.
- The terms of the agreement for the integration of NXP wireless business that included rights granted to NXP to obtain products from the Group at a preferential pricing. As at December 31, 2008, the total value of such rights amounted to $8 million, of which $3 million were classified as a non-current liability.

26. Trade accounts payables, Other payables and accrued liabilities

In millions of USD	December 31, 2009	December 31, 2008
Trade accounts payable	**883**	**840**
Dividends due to shareholders	26	79
Taxes other than income taxes	80	85
Social charges on salaries and wages	149	150
Advance	47	51
Accounts payable to associates	30	7
Capacity rights granted to associates	21	29
Royalties	35	14
Other accrued liabilities	119	106
Total other payables and accrued liabilities	**507**	**521**

27. Significant categories of income

In millions of USD	December 31, 2009	December 31, 2008
Sales of goods	8,465	9,792
License revenue and patent royalty income	45	50
Research tax credit recognized as a reduction of Research & Development expenses	110	117
Research and development funding recognized in Other income	201	83
Finance income	70	145
Total	**8,891**	**10,187**

28. Operating segment information

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

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

In the Subsystems business area, the Group designs, develops, manufactures and markets subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to its business as a whole, the Subsystems segment does not meet the requirements for a reportable segment as defined by IFRS 8.

Since March 31, 2008, following the creation with Intel of Numonyx, a new independent semiconductor company from the key assets of its and Intel's Flash memory business ("FMG deconsolidation"), the Group has ceased reporting under the FMG segment.

Starting August 2, 2008, as a consequence of the creation of the joint venture company with NXP, the Group reorganized its segments. A new segment was created to report wireless operations; the product line Mobile, Multimedia & Communications Group ("MMC") which was part of segment Application Specific Groups ("ASG") was abandoned and its divisions were reallocated to different product lines. The remaining part of ASG is now comprised of Automotive Consumer Computer and Telecom Infrastructure Product Groups ("ACCI").

The new organization is as follows:

- Automotive Consumer Computer and Communication Infrastructure ("ACCI"), comprised of four product lines:
    - Home Entertainment & Displays ("HED"),
    - Automotive Products Group ("APG");
    - Computer and Communication Infrastructure ("CCI"); and
    - Imaging ("IMG", starting January 1, 2009).
- Industrial and Multi segment Sector ("IMS"), comprised of:
    - Analog, Power and Micro-Electro-Mechanical Systems ("APM"); and
    - Microcontrollers, non-Flash, non-volatile Memory and Smart Card products ("MMS").
- Starting February 3, 2009, as a consequence of the merger of ST-NXP Wireless and Ericsson Mobile Platforms to create ST-Ericsson with Ericsson, the Wireless sector ("Wireless") has been adjusted and is comprised of:
    - Wireless Multi Media ("WMM");
    - Connectivity & Peripherals ("C&P");
    - Cellular Systems ("CS");
    - Mobile Platforms ("MP");

  in which, since February 3, 2009, the Group reports the portion of sales and operating results of ST-Ericsson as consolidated in the Group's revenue and operating results, and

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

The Group has restated its results in prior periods for illustrative comparisons of its performance by product segment. The preparation of segment information according to the new segment structure requires management to make significant estimates, assumptions and judgments in determining the operating income of the segments for the prior reporting periods. Management believes that the restated 2008 presentation is consistent with 2009 and is using these comparatives when managing the Group.

Starting January 1, 2010 there was a new organization change within the Wireless sector, which is now comprised of the following lines:

- 2 GE TD-SCDMA & Connectivity;
- 3G Multimedia & Platforms;
- LTE & 3G Modem Solutions;

in which the Group reports the portion of sales and operating results of ST-Ericsson as consolidated in the Group's revenue and operating results, and

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

The Group's principal investment and resource allocation decisions in the Semiconductor business area are for expenditures on research and development and capital investments in front-end and back-end manufacturing facilities. These decisions are not made by product segments, but on the basis of the Semiconductor Business area. All these product segments share common research and development for process technology and manufacturing capacity for most of their products.

The following tables present the Group's consolidated net revenues and consolidated operating income by semiconductor product segment. For the computation of the segments' internal financial measurements, the Group uses certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Additionally, in compliance with the Group's internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges.

Net revenues by product group and product line

In millions of USD	December 31, 2009	December 31, 2008
Automotive products Group (“APG”)	1,051	1,460
Computer and Communication Infrastructure (“CCI”)	932	1,077
Home Entertainment & Displays (“HED”)	787	1,086
Imaging (“IMG”)	417	499
Others	11	7
Automotive Consumer Computer and Communication Infrastructure (ACCI)	**3,198**	**4,129**
Analog, Power and Micro-Electro-Mechanical Systems (“APM”)	1,887	2,393
Microcontrollers, non-Flash, non-volatile Memory and Smart Card products (“MMS”)	752	936
Others	2	-
Industrial and Multi segment sector	**2,641**	**3,329**
Cellular Systems (“CS”)	748	321
Connectivity & Peripherals (“C&P”)	416	416
Mobile Platforms (“MP”)	300	-
Wireless Multi Media (“WMM”)	1,110	1,293
Others	11	-
Wireless	**2,585**	**2,030**
Flash Memory Group (FMG)	**-**	**299**
Others[(1)]	**86**	**55**
Total consolidated net revenues	**8,510**	**9,842**

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

Operating income (loss) by product groups and reconciliation to operating income (loss)

In millions of USD	December 31, 2009	December 31, 2008
Automotive Consumer Computer and Communication Infrastructure (ACCI)	(91)	136
Industrial and Multi segment sector	113	482
Wireless	(356)	(65)
Flash Memory Group (FMG)	-	16
Total operating income of product groups	**(334)**	**569**
Strategic R&D and other R&D programs	(22)	(24)
Phase-out and start-up costs	(39)	(17)
Impairment and restructuring charges	(291)	(481)
Unused capacity charges	(322)	(57)
Subsystems and other Product Groups	-	3
Acquired IP R&D and other non-recurring purchase accounting(1)	-	(185)
Other non-allocated provisions(2)	(15)	(6)
Total operating loss Others(3)	**(689)**	**(767)**
Adjustment on acquired IP R&D	(24)	64
Net impact of capitalized development costs	186	139
Timing difference on recognition of restructuring provisions	26	47
Adjustment related to treatment of foreign currency translation difference upon transfer of Flash memory assets	-	111
Differences arising in business combinations	(23)	(74)
Derivative instruments not designated as hedge instruments under IFRS	(7)	25
Impacts of differences in gross value of goodwill on impairment charges	6	10
Other non-allocated expenses and IFRS/US GAAP adjustments	(1)	15
Total IFRS/US GAAP impact on operating income (loss)	**163**	**337**
Total operating income (loss)	**(860)**	**139**

(1) In 2008 non-recurring purchase accounting items were related to Genesis business combination with In-Process R&D charge for $21 million and to the Wireless business acquisition from NXP for $164 million, composed of $76 million as In-Process R&D charge and $88 million as inventory step-up charge.

(2) Includes unallocated expenses such as certain corporate level operating expenses and other costs.

(3) Operating loss of “Others” includes items such as unused capacity charges, impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses such as: strategic or special research and development programs, acquired In-Process R&D, certain corporate level operating expenses, certain patent claims and litigation, and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group, including, beginning in the second quarter of 2008, the remaining FMG costs.

The following is a summary of operations by entities located within the indicated geographic areas for 2009 and 2008. Net revenues represent sales to third parties from the country in which each entity is located. A significant portion of property, plant and equipment expenditures is attributable to front-end and back-end facilities, located in the different countries in which the Group operates. As such, the Group mainly allocates capital spending resources according to geographic areas rather than along product segment areas.

Net revenues by geographical area

In millions of USD	December 31, 2009	December 31, 2008
The Netherlands	1,553	2,737
France	139	178
Italy	121	185
USA	798	1,032
Singapore	4,697	4,939
Japan	300	492
Other countries	902	279
Total net revenues	**8,510**	**9,842**

Property, plant and equipment net by geographical area

In millions of USD	December 31, 2009	December 31, 2008
The Netherlands	24	14
France	1,714	1,809
Italy	850	1,000
Other European countries	158	229
USA	74	217
Singapore	546	675
Malaysia	264	306
Other countries	548	570
Total property, plant and equipment, net	**4,178**	**4,820**

Payment for purchase of tangible assets by geographical area

In millions of USD	December 31, 2009	December 31, 2008
The Netherlands	8	5
France	242	462
Italy	44	138
Other European countries	29	66
USA	6	2
Singapore	27	106
Malaysia	35	104
Other countries	60	100
Total purchase of tangible assets	**451**	**983**

Depreciation and amortization by geographical area

In millions of USD	December 31, 2009	December 31, 2008
The Netherlands	242	182
France	440	500
Italy	249	287
Other European countries	233	93
USA	62	81
Singapore	207	195
Malaysia	83	79
Other countries	113	87
Total depreciation and amortization	**1,629**	**1,504**

29. Expenses by nature

Expenses recorded as cost of sales and research and development and selling, general and administrative are detailed as follows:

In millions of USD	December 31, 2009	December 31, 2008
Depreciation and amortization	1,629	1,530
Employee benefit expenses	3,086	3,353
Purchase of materials and subcontracting services	3,087	4,061
Changes in inventories	553	(211)
Transportation	118	128
Royalties and patents	92	101
Advertising costs	9	11
Other expenses	972	690
Total cost of sales, research and development, and selling, general and administrative	**9,546**	**9,663**

Employee benefit expenses are detailed as follows:

In millions of USD	December 31, 2009	December 31, 2008
Wages and salaries	2,340	2,547
Social security costs	581	690
Share-based compensation expense	38	78
Pension costs	127	38
Total employee benefit expenses	**3,086**	**3,353**
Of which included in:		
Cost of sales	**1,195**	**1,448**
Selling, general and administrative	**694**	**742**
Research and development	**1,197**	**1,163**

30. Other income / expenses

Other income consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Research and development funding	201	83
Foreign exchange forward contracts	59	(3)
Settlement of patent litigation	16	-
Net foreign exchange gain	-	20
Gain on sale of non-current assets	3	4
Change in fair value of interest swap	-	15
Other	-	12
Total other income	**279**	**131**

Other expenses consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Start-up / Phase out costs	39	17
Patent litigation costs	21	24
Write-off of ST-NXP wireless call option	-	24
Change in fair value of interest swap	8	-
Net foreign exchange loss	5	-
Other expenses	5	1
Total other expenses	**78**	**66**

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

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

Patent costs include legal and attorney fees and payment for claims, patent pre-litigation consultancy and legal fees, netted against settlements, which primarily includes reimbursements of prior patent litigation costs.

31. Finance income / costs

Total finance income and finance costs consisted of the following:

In millions of USD	December 31, 2009	December 31, 2008
Interest income on restricted cash	15	15
Interest income on short-term bank deposits	13	55
Numonyx bank guarantee amortization	17	13
Interest income on floating rate notes	8	37
Interest income on auction-rate securities	7	14
Interest income on long-term subordinated note	16	11
Total finance income	**76**	**145**
Interest expense on bank borrowings and senior bonds	34	64
Interests on convertible bond	21	45
Finance lease interest expense	4	5
Bank charges and fees	4	7
Total finance costs	**63**	**121**

The liability component of the 2016 convertible bond bears interests at an effective interest rate of 4.92%. In the first half of 2009, the Group recomputed the amount of interest and consequently recorded a cumulative positive adjustment since issuance of $20 million.

32. Components of other comprehensive income

In millions of USD	December 31, 2009	December 31, 2008
Cash flow hedges:		
Gains / (losses) arising during the year	(36)	2
Reclassification adjustments for gains / (losses) included in the income statement	29	4
	(7)	6
Available-for-sale financial assets:		
Gains / (losses) arising during the year	12	(10)
Reclassification adjustments for losses included in the income statement	-	-
	12	(10)

33. Income tax

The major components of income tax benefit (expense) for the years ended December 31, 2008 and 2009 are:

Consolidated income statement

In millions of USD	December 31, 2009	December 31, 2008
The Netherlands taxes- current	4	(1)
Foreign taxes- current	(54)	(153)
Current taxes	**(50)**	**(154)**
Foreign deferred taxes	126	165
Income tax benefit (expense)	**76**	**11**

Consolidated statement of other comprehensive income (deferred tax related to items charged or credited directly to equity during the year)

In millions of USD	December 31, 2009	December 31, 2008
Net gain (loss) on revaluation of cash flow hedges	1	1
Unrealized gain (loss) on available-for-sale financial assets	(1)	-
Income tax charged directly to equity	**-**	**1**

A reconciliation between income tax benefit and the product of loss before tax multiplied by the Netherlands' statutory tax rate for the years ended December 31, 2009 and 2008 is as follows:

In millions of USD	December 31, 2009	December 31, 2008
Loss before income tax	**(1,300)**	**(529)**
Income tax benefit at the Netherlands' statutory tax rate of 25.5% (2008:25.5%)	331	135
Non-deductible, non-taxable and other permanent differences	(34)	-
Loss on investments in associates	(78)	(139)
Impact of final tax assessments relating to prior years	21	48
Effects of change in tax rates on deferred taxes	(7)	-
Current year credits	76	66
Other tax and credits	(4)	(16)
Benefits from tax holidays	2	34
Current year tax risk	(23)	(31)
Impact of FMG deconsolidation	-	(77)
Earnings (losses) of subsidiaries taxed at different rates	(208)	(9)
Income tax benefit	**76**	**11**

In 2009 and 2008, the line "Earnings (losses) of subsidiaries taxed at different rates" includes a decrease of $123 million and $99 million, respectively, related to significant losses in countries subject to tax holidays. In 2009, the Group received $121 million for research tax credits for the period prior to January 1, 2009 resulting in a decrease in deferred tax assets of the same amount.

The tax holidays represent a tax exemption period aimed to attract foreign technological investment in certain tax jurisdictions. The effect of the tax benefits on basic earnings per share was nil in 2009 (2008: $0.04 per share) These agreements are present in various countries and include programs that reduce up to and including 100% of taxes in years affected by the agreements. The Group's tax holidays expire at various dates through the year ending December 31, 2019.

Deferred tax assets and liabilities consisted of the following

In millions of USD	December 31, 2009	December 31, 2008
Tax loss carry forwards and investment credits	398	271
Inventory valuation	34	29
Impairment charges and restructuring	98	114
Fixed assets depreciation in arrears	53	64
Receivables for government funding	18	17
Pension service costs	41	48
Share awards	17	35
Commercial accruals	7	9
Other temporary differences	65	35
Deferred tax assets	**731**	**622**
Accelerated fixed assets depreciation	66	86
Acquired intangible assets	153	165
Advances of government fundings	13	17
Other temporary differences	61	51
Deferred tax liabilities	**293**	**319**
Net deferred income tax asset	**438**	**303**

For a particular tax-paying component of the Group and within a particular tax jurisdiction, all current and non-current deferred tax assets and liabilities are offset and presented as a single amount. The Group does not offset deferred tax assets and liabilities attributable to different tax-paying component or to different tax jurisdictions.

As at December 31, 2009, the Group has short-term and long-term deferred tax assets. The timing for recovery is expected as follows:

In millions of USD	December 31, 2009	December 31, 2008
Deferred tax assets to be recovered within 12 months	179	196
Deferred tax assets to be recovered beyond 12 months	552	426
Deferred tax assets	731	622
Deferred tax liabilities to be incurred within 12 months	28	28
Deferred tax liabilities to be incurred beyond 12 months	265	291
Deferred tax liabilities	293	319
Net deferred income tax asset	438	303

	Dec 31, 2007	Exchange differences	Income statement benefit (expense)	Tax charged to equity	Acquisition of subsidiaries	Dec 31, 2008	Exchange differences	Income statement benefit (expense)	Dec 31, 2009
Deferred tax assets									
Tax losses	144	(12)	79	-	60	271	(4)	131	398
Impairment charge and restructuring	102	(1)	(13)	-	26	114	(1)	(15)	98
Fixed asset depreciation	61	(4)	7	-		64	(2)	(9)	53
Other	151	(18)	39	1	-	173	(6)	15	182
Total deferred tax assets	**458**	**(35)**	**112**	**1**	**86**	**622**	**(13)**	**122**	**731**
Deferred tax liabilities									
Accelerated tax depreciation	(110)	3	21	-	-	(86)	1	19	(66)
Acquired intangible assets	(83)	-	(82)	-		(165)	-	12	(153)
Other	(51)	9	22	-	(48)	(68)	5	(11)	(74)
Total deferred tax liabilities	**(244)**	**12**	**(39)**	**-**	**(48)**	**(319)**	**6**	**20**	**(293)**
Net deferred tax	**214**	**(23)**	**73**	**1**	**38**	**303**	**(7)**	**142**	**438**

As at December 31, 2009, the Group has gross deferred tax assets on tax loss carry forwards and investment credits that expire starting 2010, as follows:

Year	In millions of USD
2010	9
2011	23
2012	57
2013	16
Thereafter	293
Total	**398**

As at December 31, 2009, deferred tax assets not recognized in the statement of financial position amounted to $1,337 million (2008: $1,278 million) and are detailed as follows:

- $1,096 million (2008: $1,086 million) relating to an agreement granting the Group certain tax credits for capital investments purchased through the year ended December 31, 2006. Any unused tax credits granted under the agreement will continue to increase yearly by a legal inflationary index of 1.45% (2008: 5.36%). The credits may be utilized through 2020 or later depending on the Group meeting certain program criteria. In addition to this agreement, from 2007 onwards, the Group has continued and will continue to receive tax credits on the yearly capital investments, which may be used to offset that year's tax liabilities and increases by the legal inflationary rate. However, pursuant to the inability to use these credits currently and in future years, the Group did not recognize in 2009 these deferred tax assets in the statement of financial position (2008: nil).

- $241 million (2008: $192 million) of tax loss carry forwards corresponding to net operating losses acquired in business combinations, or generated in on-going operations and that will more likely than not, not be utilized against future profits.

34. Earnings per share

For the period ended December 31, 2009 and 2008, earnings (losses) per share ("EPS") were calculated as follows:

In millions of USD	December 31, 2009	December 31, 2008
Basic EPS		
Net result	(1,003)	(519)
Weighted average shares outstanding	876,928,190	891,955,940
Basic EPS	**(1.14)**	**(0.58)**
Diluted EPS		
Net result	(1,003)	(519)
Net result adjusted	(1,003)	(519)
Weighted average shares outstanding	876,928,190	891,955,940
Dilutive effect of stock options	-	-
Dilutive effect of non-vested shares	-	-
Dilutive effect of convertible debt	-	-
Number of shares used for diluted EPS	876,928,190	891,955,940
Diluted EPS	**(1.14)**	**(0.58)**

As at December 31, 2009, if the Group had reported an income, outstanding stock options would have included anti-dilutive shares totaling 37,943,832 shares (2008: 39,431,433 shares).

There was also the equivalent of 38,404,118 common shares outstanding for convertible debt, out of which 5,624 for the 2013 bonds and 38,398,494 for the 2016 bonds, with no dilutive effect. None of these bonds have been converted to shares during 2009.

35. Related party

Transactions with significant shareholders, their affiliates and other related parties were as follows:

In millions of USD	December 31, 2009	December 31, 2008
Sales and other services	356	325
Research and development expenses	(201)	(63)
Other purchases	(167)	(77)
Other income and expenses	-	(7)
Accounts receivable	58	63
Accounts payable	60	65

For the years ended December 31, 2009, December 31, 2008, the related party transactions were primarily with significant shareholders of the Group, or their subsidiaries and companies in which management of the Group perform similar policymaking functions. These include, but are not limited to: Areva, France Telecom Orange, Finmeccanica, Cassa Depositi e Prestiti, Flextronics, Oracle and Thomson. The related party transactions presented in the table above also include transactions between the Group and its associates as listed in Note 10.

Since the formation of ST-Ericsson, the Group purchases R&D services from ST-Ericsson AT ("JVD"). For the year ended December 31, 2009, the total R&D services purchased from ST-Ericsson AT amounted to $150 million and outstanding trade payables amounted to $30 million as at December 31, 2009.

Upon FMG deconsolidation and the creation of Numonyx, the Group performed until November 2008 certain purchasing, service and invoicing on-behalf of Numonyx. The Group had a net payable balance of $7 million as at December 31, 2008 as the result of these transactions. Additionally the Group recorded in 2007 costs amounting to $26 million to create the infrastructure necessary to prepare Numonyx to operate immediately following the FMG deconsolidation. These costs were reimbursed by Numonyx in 2008 following the closing of the transaction. Upon creation, Numonyx also entered into financing arrangements for a $450 million term loan and a $100 million committed revolving credit facility from two primary financial institutions. Intel and the Group have each granted in favor of Numonyx a 50% debt guarantee not joint and several. This debt guarantee is described in details in Note 14.2. The final terms at the closing date of the agreements on assets to be contributed included rights granted to Numonyx to use certain assets retained by the Group. The Group recorded a provision amounting $65 million (2008: $87 million) to reflect the value of such rights granted to its associate. The parties also retained the obligation to fund the severance payment ("trattamento di fine rapporto") due to certain transferred employees which qualifies as a defined benefit plan. As at December 31, 2009 the liability amounted to $31 million (2008: $35 million). Finally, the Group recorded in 2008 a net long-term receivable amounting to $6 million corresponding to a tax credit Numonyx will pay back to the Group once cashed-in from the relevant taxing authorities. As at December 31, 2009, this receivable is still outstanding.

Additionally the Group incurred in 2008 and 2007 amounts on transactions with Hynix Semiconductor Inc., with which the Group had until March 30, 2008 an associate, Hynix Numonyx joint venture (formerly Hynix ST joint venture). In 2007 and 2006, Hynix Semiconductor Inc. increased its business transactions with the Group in order to supply products on behalf of the joint venture, which was not ready to fully produce and supply the volumes of specific products as requested by the Group. The amount of purchases and other expenses from Hynix Semiconductor Inc. was $161 million in 2007. The amount of sales and other services made in 2007 was $2 million. These transactions significantly decreased in 2008 upon the transfer of the joint venture to Numonyx. The amount of purchases and other expenses and the amount of sales and other services from Hynix Semiconductor Inc. was $2 million and $5 million in 2008, respectively. The Group had no significant payable or receivable balance as at December 31, 2008.

Besides, the Group participates in an Economic Interest Group ("E.I.G.") in France with Areva and France Telecom to share the costs of certain research and development activities, which are not included in the table above. The share of income (expense) recorded by the Group as research and development expenses incurred by E.I.G was not material in 2009 (2008: $9 million). As at December 31, 2009 and 2008, the Group had no receivable or payable amount.

The Group made no contribution in 2009 (2008: $1 million) to the ST Foundation, a non-profit organization established to deliver and coordinate independent programs in line with its mission. Certain members of the Foundation's Board are senior members of the Group's management.

The individual remuneration paid to the Sole member of the Managing Board was as follows:

In millions of USD	December 31, 2009	December 31, 2008
Wages and salaries	1	1
Bonus	1	1

The total amount paid as compensation in 2009 and 2008 to the 25 executive officers of the Group, including the Sole Member of the Managing Board were as follows:

In millions of USD	December 31, 2009	December 31, 2008
Wages and salaries	11	12
Bonus	7	5
Other benefits	3	2
Termination benefits	2	-
Social charges	3	4
Total compensation	**26**	**23**

The Group's 25 executive officers, including the sole Member of the Managing Board, were granted in 2009 for free 1,067,000 non-vested shares subject to the achievement of performance objectives. The weighted average grant date fair value of non-vested shares granted to employees under the 2009 Employee Plan was $7.54.

The Group's 25 executive officers, including the sole Member of the Managing Board, were granted in 2008 for free 1,016,000 non-vested shares subject to the achievement of performance objectives. The weighted average grant date fair value of non-vested shares granted to employees under the 2008 Employee Plan was $10.64.

The bonus paid to the executive officers corresponds to a Corporate Executive Incentive Program (the "EIP") that entitles selected executives to a yearly bonus based upon the individual performance of such executives. The maximum bonus awarded under the EIP is based upon a percentage of the executives' salary and is adjusted to reflect the Groups' overall performance. The participants in the EIP must satisfy certain personal objectives that are focused on return on net assets, customer service, profit, cash and market share.

The executive officers and the Managing Board were covered in 2009 and 2008 under certain Group life and medical insurance programs, pension, state-run retirement and other similar benefit programs and other miscellaneous allowances that are included in the $8 million (2008: $6 million) of social charges and other benefits.

At the end of the year 2005, the Compensation Committee recommended and the Supervisory Board decided to grant an additional pension benefit plan to the Group's sole member of the Managing Board and a limited number of senior executives that have made key contributions to the Group's success. Pursuant to this plan, the Group will make annual contributions of $200,000 to both its former and current sole members of the Managing Board, $150,000 to its Chief Operating Officer and up to $100,000 to

each other beneficiary per year. In order to meet the Group's future payment obligations under this plan or to insure for them, the Group paid an amount of $1 million in 2009 (2008: $2 million).

Individual remuneration paid to Supervisory Board Members in 2009 and 2008 was recorded as follows:

In Euros	2009	2008
Bruno Steve	97,375	109,000
Didier Lamouche	86,250	88,500
Alessandro Ovi	75,875	81,875
Tom de Waard(1)	157,250	164,750
Matteo Del Fante	-	23,250
Gerald Arbola	146,875	161,500
Didier Lombard	88,125	98,250
Douglas Dunn	96,875	97,625
Raymond Bingham	98,375	94,625
Antonio Turicchi	146,875	144,250
Total	**993,875**	**1,063,625**

(1) Compensation, including attendance fees of $2,000 per meeting of our Supervisory Board or committee thereof, was paid to Clifford Chance LLP

Share awards granted to Supervisory Board members and Professionals in 2009 and 2008 were as follows:

	2009		2008	
	Number of share awards granted	Grant price	Number of share awards granted	Grant price
B.Steve	15,000	€1.04	15,000	€1.04
R.Bingham	15,000	€1.04	15,000	€1.04
A.Turicchi(1)	15,000	€1.04	15,000	€1.04
D.Lamouche	15,000	€1.04	15,000	€1.04
T.de Waard	15,000	€1.04	15,000	€1.04
G.Arbola	15,000	€1.04	15,000	€1.04
D.Lombard	15,000	€1.04	15,000	€1.04
D.Dunn	15,000	€1.04	15,000	€1.04
A.Ovi	15,000	€1.04	15,000	€1.04
L.Chessa	7,500	€1.04	7,500	€1.04
C.Duval	7,500	€1.04	7,500	€1.04
B.Loubert	7,500	€1.04	7,500	€1.04
A.Novelli(1)	7,500	€1.04	7,500	€1.04

(1) In 2008, these Supervisory Board members or Professionals waived their right to the share awards they were granted.

36. Commitments and contingencies

The Group's commitments as at December 31, 2009 were as follows:

In millions of USD	Total	2010	2011	2012	2013	2014	There-after
Operating leases	387	104	71	41	30	26	115
Purchase obligations	741	604	62	37	20	18	-
Of which:							
Equipment purchase	267	267	-	-	-	-	-
Foundry purchase	182	182	-	-	-	-	-
Software, technology licenses and design	292	155	62	37	20	18	-
Other obligations	532	263	135	125	6	2	1
Total	1,660	971	268	203	56	46	116

As a consequence of the Group's July 10, 2007 announcement concerning the planned closures of certain of its manufacturing facilities, the shut-down of its plants in the United States is on-going and negotiations with some of its suppliers continue. As no final date has been set, some of the contracts as reported above have been terminated. The termination fees for the sites still in operation have not been taken into account.

Operating leases are mainly related to building and equipment leases. The amount disclosed is composed of minimum payments for future leases from 2010 to 2014 and thereafter. The Group leases land, buildings, plants and equipment under operating leases that expire at various dates under non-cancellable lease agreements. In 2009, operating lease expenses amounted to $148 million (2008: $75 million).

Purchase obligations are primarily comprised of purchase commitments for equipment, for outsourced foundry wafers and for software licenses.

Other obligations primarily relate to firm contractual commitments with respect to partnership and cooperation agreements.

Other commitments

The Group has issued guarantees totaling $733 million related to its subsidiaries' debt. Furthermore, the Group has umbrella facilities for an amount of $480 million extendable to its subsidiaries on a fully guaranteed basis. In addition, the Group and Intel have each granted in favor of Numonyx, a 50% guarantee not joint and several, for indebtedness related to the financing arrangements entered into by Numonyx for a $450 million term loan and a $100 million committed revolving credit facility.

Subject to the terms of the revolving facility agreement signed on December 4, 2009 between the Group and Telefonaktiebolaget LM Ericsson as lenders on one side and ST-Ericsson SA as borrower on the other side, the Group committed itself to make available to the borrower the amount of $25 million as a revolving facility.

37. Financial risk management objectives and policies

The Group is exposed to changes in financial market conditions in the normal course of business due to its operations in different foreign currencies and its ongoing investing and financing activities. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury) reporting to the Chief Financial Officer. Simultaneously, a Treasury Committee, chaired by the CFO, steers treasury activities and ensures compliance with corporate policies approved by the Board of Directors. Treasury activities are thus regulated by the Group's policies, which define procedures, objectives and controls. The policies focus on the management of financial risk in terms of exposure to market risk, credit risk and liquidity risk. Treasury controls are subject to internal audits. Most treasury activities are centralized, with any local treasury activities subject to oversight from head treasury office. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. It provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The majority of cash and cash equivalent is held in U.S. dollars and Euro and is placed with financial institutions rated at least a single "A" long term rating from two of the major rating agencies, meaning at least A3 from Moody's Investor Service and A- from Standard & Poor's and Fitch Ratings. Marginal amounts are held in other currencies. Foreign currency operations and hedging transactions are performed only to hedge exposures deriving from industrial and commercial activities.

Market risk

Foreign exchange risk

The Group conducts its business on a global basis in various major international currencies. As a result, the Group is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities at the Group's subsidiaries.

Management has set up a policy to require the Group's subsidiaries to hedge their entire foreign exchange risk exposure with the Group through financial instruments transacted by Corporate Treasury. To manage their foreign exchange risk arising from foreign-currency-denominated assets and liabilities, entities in the Group use forward contracts and purchased currency options, transacted by Corporate Treasury. Foreign exchange risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. These instruments do not qualify as hedging instruments. In addition, forward contracts and currency options are also used by the Group to reduce its exposure to U.S. dollar fluctuations in Euro-denominated forecasted intercompany transactions that cover a large part of its research and development, selling general and administrative expenses as well as a portion of its front-end manufacturing production costs of semi-finished goods. The derivative instruments used to hedge the forecasted transactions relating to front-end manufacturing production costs, meet the criteria for designation as cash flow hedge. The hedged forecasted transactions are all highly probable of occurrence for hedge accounting purposes.

It is the Group's policy to keep the foreign exchange exposures in all the currency pairs hedged month by month against the monthly standard rate. Each month end, the forecasted flows for the coming month are hedged together with the fixing of the new standard rate. For this reason the hedging transactions will have an exchange rate very close to the standard rate at which the forecasted flows will be recorded on the following month. As such, the foreign exchange exposure of the Group, which consists of the balance sheet positions and other contractually agreed transactions, is always equivalent to zero and any movement of the foreign exchange rates will not therefore influence the exchange effect on consolidated statements of income items. Any discrepancy from the forecasted values and the actual results is constantly monitored and prompt actions are taken, as needed.

The hedging activity of the Group and the impact on the financial statements is described in details in note 14.4.

The following sensitivity analysis was based on recognized assets and liabilities, including non-monetary items, of STMicroelectronics and its subsidiaries. At December 31, 2009 if the Euro had strengthened by 300 pips against the US dollar with all other variables held constant, net result for the year would have been $33 million higher (2008: $33 million higher), mainly as a result of foreign exchange gains on derivative instruments designated as cash flow hedge. If the Euro had weakened by 300 pips against the US dollar with all other variables held constant, impact in net income would have been $4 million lower for the year, mainly as a result of not exercised currency options. Equity would have been approximately $80 million higher/lower if the Euro strengthened/weakened, arising mainly from translation of net assets from subsidiaries which functional currency is the Euro.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Since all the liquidity of the Group is invested in floating rate instruments, the Group's interest rate risk arises from the mismatch of fixed rate liabilities and floating rate assets.

At December 31, 2009, if interest rates had been 20 basis points higher/lower with all other variables held constant, net income for the year would have been $6 million higher/lower respectively, mainly as a result of a high level of liquid assets in relation to debt.

During 2009 and 2008, the Group's borrowings at variable rate were denominated in Euros and in US dollars.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and loan notes) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group selects banks and/or financial institutions that operate with the Group based on the criteria of long term rating from at least two major Rating Agencies and keeping a maximum outstanding amount per instrument with each bank group not to exceed 20% of the total.

Due to the credit market turmoil, the Group has decided to further tighten the counterparty concentration and credit risk profile. The maximum outstanding counterparty risk has been reduced and currently does not exceed 15% for major international banks with large market capitalization.

The Group monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. If certain customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and external ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored. Sales to customers are primarily settled in cash. At December 31, 2009 and 2008, one customer, the Nokia Group of companies, represented 20.8% and 16.7% of trade accounts receivable, net respectively. Any remaining concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their dispersion across many geographic areas.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, short-term deposits and marketable securities, the availability of funding from committed credit facilities and the ability to close out market positions. The Group's objective is to maintain a significant cash position and a low debt to equity ratio, which ensure adequate financial flexibility. Liquidity management policy is to finance the Group's investments with net cash provided from operating activities.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

A maturity analysis of interest-bearing loans and borrowings is shown is note 14.3.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as the net financial position of the Group, defined as the difference between total cash position (cash and cash equivalents, marketable securities – current and non-current-, short-term deposits and restricted cash) net of total financial debt (bank overdrafts, current portion of long-term debt and long-term debt), divided by total equity attributable to the shareholders of the Group.

38. Events after the reporting period

Agreement to sell our investment in Numonyx

On February 10, 2010, the Group announced that, together with its partners Intel Corporation and Francisco Partners, has entered into a definitive agreement with Micron Technology Inc. ("Micron"), pursuant to which Micron will acquire Numonyx in an all-stock transaction. Upon the closing of the transaction, which is subject to customary regulatory approvals, and based on Micron's closing stock price on February 9, 2010 of $9.08 per share, the Group will receive – in exchange for its 48.6% stake in Numonyx and the cancellation of the 30-year note due to the Group by Numonyx – approximately 66.6 million shares of Micron common stock (taking into account a payable of $77.8 million due by the Group to Francisco Partners). At closing, Numonyx will redeem the full amount of its outstanding $450 million term loan, while simultaneously terminating the guarantee of the $225 million debt issued by the Group. There is no guaranty as to when, or if, the transaction will close.

2016 Convertible Bond repurchase

During January 2010, the Group repurchased the equivalent of $215 million principal amount for a cash consideration of $212 million. The Group allocated the consideration paid to the separate components of the convertible bonds using a method consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible instrument was issued. As a result of this transaction, the Group recognized a loss of $14 million in January 2010 corresponding to the difference between the carrying amount of the liability component of the convertible debt and its fair value. An amount of $28 million was recognized as a reduction of the equity component of the 2016 convertible bond in January 2010.

U.S. Federal Court affirms the Group's award against Credit Suisse

In connection with its legal action to recover from Credit Suisse the amount invested in unauthorized auction rate securities against the Group's instructions, the Group received on March 23, 2010, a court ruling affirming the unanimous arbitration award in its favor for more than US$431 million, including collected interest, entered in February 2009 by FINRA.

The ruling of the federal district court in New York denied Credit Suisse's motion to vacate the award, also granting the Company's petition to affirm the award and directing Credit Suisse to pay the Company the unpaid balance. Based on the ruling the Group should receive approximately US$354 million, which include approximately US$23 million of interest to date, in addition to the approximately US$75 million previously received in December upon selling a portion of these securities. Credit Suisse has the right to appeal this decision.

Company Financial Statements

- Company Balance sheets as at December 31, 2009 and 2008
- Company Statements of Income for the year ended December 31, 2009 and 2008
- Notes to STMicroelectronics N.V. Company Financial Statements
- Other Information
- Auditor's Report
- Appropriation of Result
- Proposed Cash Dividends
- Branches
- Subsequent Events

STMicroelectronics N.V Company Balance Sheet

(Before proposed appropriation of income)

		As at				As at	
In millions of U.S. dollars	Note	Dec. 31, 2009	Dec. 31, 2008	In millions of U.S. dollars	Note	Dec. 31, 2009	Dec. 31, 2008
ASSETS				SHAREHOLDERS' EQUITY AND LIABILITIES			
Non-current assets:				Shareholders' equity	13		
Goodwill	4	227	148	Issued and paid in capital		1,364	1,331
Other intangibles assets	4	742	694	Additional paid in capital		2,037	1,719
Property, plant and equipment	5	14	11	Retained earnings		3,755	4,524
Investments in subsidiaries	6	6,472	8,035	Legal reserve		1,255	1,123
Investments in associates	7	303	510	Other Reserves		958	581
Restricted cash for equity investments	16	250	250	Result for the year		(1,003)	(519)
Available-for-sale financial assets	8	243	439	Total shareholders' equity		8,366	8,759
Long-term loans and receivables		8	6	Provisions			
Other non-current assets		19	21	Retirement benefit obligations	20	8	5
Subtotal non-current assets		8,278	10,114	Deferred tax liabilities	15	85	132
				Total Provisions		93	137
Long-term deferred tax assets	15	31	73	Long-term liabilities			
Total non-current assets		8,309	10,187	Long-term debt	14	1,326	1,495
Current assets				Other non-current liabilities	16	136	450
Inventories	9	42	62	Total long-term liabilities		1,462	1,945
Trade account receivable	10	173	251	Short-term liabilities			
Group companies short-term loans	11	289	592	Current portion of long-term debt	14	103	29
Other group companies	12	742	1,397	Trade accounts payable		16	30
Other Receivables		56	56	Group companies short term notes payable	12	24	25
Other current assets		20	73	Other group companies payable	12	984	2,317
Available for sale financial assets	8	660	357	Other payables and accrued liabilities		127	213
Cash and cash equivalents		894	500	Accrued income tax		10	20
Total current assets		2,876	3,288	Total short-term liabilities		1,264	2,634
TOTAL ASSETS		11,185	13,475	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		11,185	13,475

The accompanying notes are an integral part of these financial statements.

STMicroelectronics N.V. Company Statement of Income

	Year Ended Dec. 31, 2009	Year Ended Dec. 31, 2008
(In millions of U.S. dollars)		
Result after taxes	(400)	(1,395)
Result from subsidiaries	(603)	876
Net Result	**(1,003)**	**(519)**

The accompanying notes are an integral part of these financial statements.

STMicroelectronics N.V. Notes to STMicroelectronics' Financial Statements

General

A description of STMicroelectronics N.V. ("STMicroelectronics"), its activities and group structure are included in the Consolidated Financial Statements, prepared on the basis of accounting policies that conform to International Financial Reporting Standards ("IFRS") as endorsed by European Union. STMicroelectronics holds investments in subsidiaries operating in the semiconductor manufacturing industry. Additionally, STMicroelectronics operates through a branch in Switzerland, which markets a broad range of semiconductor integrated circuits and devices used in a wide variety of microelectronic applications.

Basis of Presentation

In accordance with article 2:362 Part 8 of the Netherlands Civil Code, STMicroelectronics N.V. ("STMicroelectronics") has prepared its company financial statements in accordance with accounting principles generally accepted in the Netherlands applying the accounting principles as adopted in the consolidated financial statements and further described in details in the consolidated financial statements (Note 8).

The functional and presentation currency of STMicroelectronics is the U.S. dollar.

All balances and values are in millions of U.S. dollars, except otherwise noted.

Summary of Significant Accounting Policies

Subsidiaries

Subsidiaries are all entities over which STMicroelectronics has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether STMicroelectronics controls another entity.

Subsidiaries are accounted for under the equity method from the date of acquisition, being the date on which the Company obtains control and continue to be accounted for under the equity method until the date that such control ceases.

Valuation of Subsidiaries

Investments in subsidiaries are stated at net asset value as STMicroelectronics effectively controls the operational and financial activities of these investments. The net asset value is determined on the basis of the IFRS accounting principles applied by STMicroelectronics in its consolidated financial statements.

STMicroelectronics records a provision for negative net asset values in its subsidiaries when STMicroelectronics is fully or partially liable for the debts of its subsidiaries. Guarantees given by STMicroelectronics to its subsidiaries are further described in note 18 and 20.

Associates

Associates include all entities over which STMicroelectronics has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. These investments are accounted for by the equity method of accounting and are initially recognized at cost. They are presented on the face of the consolidated balance sheet as “Investments in associates”.

The Company’s share in its associates' profit and loss is recognized in the income statement as “Share of gain (loss) of associates” and in the balance sheet as an adjustment against the carrying amount of the associate, and its share of post acquisition movement in reserves is recognized in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When STMicroelectronics’s share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivable, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between STMicroelectronics and its associates are eliminated to the extent of the Company’s interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are consistent with the policies adopted by STMicroelectronics.

Intangible Assets

1 —	Goodwill	Technologies and licenses, internally developed software and purchase software	Capitalized development costs	Total
HISTORICAL COST				
Balance at January 1, 2009	148	536	740	1424
Additions	79	128	244	451
Disposal		(7)		(7)
Impairments		(12)	(85)	(97)
Balance at December 31, 2009	**227**	**645**	**899**	**1,771**
ACCUMULATED AMORTIZATION				
Balance at January 1, 2009	-	(367)	(215)	(582)
Disposal		(42)		(42)
Charge for the year		(72)	(155)	(227)
Impairments		13	36	49
Balance at December 31, 2009	**-**	**(468)**	**(334)**	**(802)**
NET BOOK VALUE				
At December 31 , 2009	**227**	**177**	**565**	**969**
At December 31, 2008	**148**	**169**	**525**	**842**

Tangible Assets

2 —	Furniture and fixtures	Computer and R&D equipment	Other	Total
HISTORICAL COST				
Balance at January 1, 2009	2	17	4	23
Additions		20		20
Disposals				
Balance at December 31, 2009	2	37	4	43
ACCUMULATED DEPRECIATION				
Balance at January 1, 2009	(1)	(8)	(3)	(12)
Charge for the year		(5)		(5)
Additions		(12)		(12)
Balance at December 31, 2009	(1)	(25)	(3)	(29)
NET BOOK VALUE				
At December 31, 2009	**1**	**12**	**1**	**14**
At December 31, 2008	**1**	**9**	**1**	**11**

Investments in Subsidiaries

3 —	2009	2008
Balance January 1,	8,035	6,907
Income from subsidiaries	(603)	876
Changes in other reserves of subsidiaries	310	116
Dividends paid	(657)	(1,026)
Capital increase (net of capital decreases)	(677)	1,349
Translation effect of exchange rates	64	(187)
Balance at December 31	**6,472**	**8,035**

The investments in significant consolidated subsidiaries as at December 31, 2009 are presented below:

Legal Seat	Name	Percentage ownership (direct or indirect)
Australia – Sydney	STMicroelectronics PTY Ltd	100
Belgium – Zaventem	ST-Ericsson Belgium N.V.	50
Belgium – Zaventem	Proton World International N.V.	100
Brazil – Sao Paolo	STMicroelectronics Ltda	100
Brazil – Sao Paulo	Incard do Brazil Ltda	50
Canada – Ottawa	STMicroelectronics (Canada), Inc.	100
Canada – Thorn hill	Genesis Microchip (Canada) Co.	100
China – Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
China – Beijing	Beijing T3G Technology Co. Ltd	50
China – Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China – Shanghai	STMicroelectronics (Shanghai) R&D Co. Ltd	100
China – Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China – Shanghai	Shanghai NF Trading Ltd	50
China – Shanghai	Shanghai NF Semiconductors Technology Ltd	50
China – Shenzhen	Shenzhen STS Microelectronics Co. Ltd	60
China – Shenzhen	STMicroelectronics (Shenzhen) Co. Ltd	100
China – Shenzhen	STMicroelectronics (Shenzhen) Manufacturing Co. Ltd	100
China – Shenzhen	STMicroelectronics (Shenzhen) R&D Co. Ltd	100
Czech Republic – Prague	STMicroelectronics Design and Application s.r.o.	100
Czech Republic – Prague	STN Wireless Sro	50

Legal Seat	Name	Percentage ownership (direct or indirect)
Finland – Helsinki	ST-Ericsson R&D OY	50
Finland – Lohja	ST-Ericsson OY	50
France – Crolles	STMicroelectronics (Crolles 2) SAS	100
France – Grenoble	STMicroelectronics (Grenoble 2) SAS	100
France – Grenoble	ST-Ericsson (Grenoble) SAS	50
France – Montrouge	STMicroelectronics S.A.	100
France – Paris	ST-Ericsson (France) SAS	50
France – Rousset	STMicroelectronics (Rousset) SAS	100
France – Tours	STMicroelectronics (Tours) SAS	100
Germany – Grasbrunn	STMicroelectronics GmbH	100
Germany – Grasbrunn	STMicroelectronics Design and Application GmbH	100
Germany – Grasbrunn	ST-NXP Wireless GmbH i.L.	50
Holland – Amsterdam	STMicroelectronics Finance B.V.	100
Holland – Amsterdam Luchthaven	ST-Ericsson Wireless N.V.	50
Holland – Eindhoven	ST-Ericsson B.V.	50
Holland – Eindhoven	ST-Ericsson Holding B.V.	50
Hong Kong – Hong Kong	STMicroelectronics LTD	100
India – Bangalore	NF Wireless India Pvt Ltd	50
India – New Delhi	STMicroelectronics Marketing Pvt Ltd	100
India – Noida	STMicroelectronics Pvt Ltd	100

Legal Seat	Name	Percentage ownership (direct or indirect)
India – Noida	ST-Ericsson India Pvt Ltd	50
Ireland – Dublin	NXP Falcon Ireland Ltd	50
Israel – Netanya	STMicroelectronics Ltd	100
Italy – Agrate Brianza	ST Incard S.r.l.	100
Italy – Agrate Brianza	ST-Ericsson Srl	50
Italy –- Agrate Brianza	STMicroelectronics S.r.l.	100
Italy – Aosta	DORA S.p.a.	100
Italy – Catania	CO.RI.M.ME.	100
Italy – Naples	STMicroelectronics Services S.r.l.	100
Japan – Tokyo	STMicroelectronics KK	100
Japan – Tokyo	ST-Ericsson KK	50
Korea – Seoul	ST-Ericsson (Korea) Ltd	50
Malaysia –- Kuala Lumpur	STMicroelectronics Marketing SDN BHD	100
Malaysia – Muar	STMicroelectronics SDN BHD	100
Malaysia – Muar	ST-Ericsson SDN.BHD	50
Malta – Kirkop	STMicroelectronics (Malta) Ltd	100
Mexico – Guadalajara	STMicroelectronics Marketing, S. de R.L. de C.V.	100
Mexico – Guadalajara	STMicroelectronics Design and Applications, S. de R.L. de C.V.	100
Morocco – Casablanca	STMicroelectronics S.A.S. (Maroc)	100
Morocco – Rabat	Electronic Holding S.A.	100

Legal Seat	Name	Percentage ownership (direct or indirect)
Morocco – Rabat	ST-Ericsson (Maroc) SAS	50
Norway –-Grimstad	ST-Ericsson A.S.	50
Philippines – Calamba	STMicroelectronics, Inc..	100
Philippines – Calamba	ST-Ericsson (Philippines) Inc.	50
Philippines – Calamba	Mountain Drive Property, Inc.	20
Singapore – Ang Mo Kio	STMicroelectronics ASIA PACIFIC Pte Ltd	100
Singapore – Ang Mo Kio	STMicroelectronics Pte Ltd	100
Singapore – Ang Mo Kio	ST-Ericsson Asia Pacific Pte Ltd	50
Spain – Madrid	STMicroelectronics Iberia S.A.	100
Sweden – Kista	STMicroelectronics A.B.	100
Sweden – Kista	STMicroelectronics Wireless A.B.	50
Sweden – Stockholm	ST-Ericsson A.B.	50
Switzerland – Geneva	STMicroelectronics S.A.	100
Switzerland – Geneva	INCARD S.A.	100
Switzerland – Geneva	INCARD Sales and Marketing S.A.	100
Switzerland – Geneva	ST-Ericsson S.A.	50
Switzerland – Zurich	ST-Ericsson Holding AG	50
Taiwan – Taipei	ST-Ericsson (Taiwan) Ltd	50
Thailand – Bangkok	STMicroelectronics (Thailand) Ltd	100
Turkey – Istanbul	STMicroelectronics Elektronik Arastirma ve Gelistirme Anonim Sirketi	50
United Kingdom – Bristol	Inmos Limited	100

Legal Seat	Name	Percentage ownership (direct or indirect)
United Kingdom – Bristol	ST-Ericsson (UK) Ltd	50
United Kingdom – Marlow	STMicroelectronics Limited	100
United Kingdom – Marlow	STMicroelectronics (Research & Development) Limited	100
United Kingdom – Reading	Synad Technologies Limited	100
United Kingdom –- Southampton	NF UK, Ltd	50
United States – Carrollton	STMicroelectronics Inc.	100
United States – Carrollton	ST-Ericsson Inc.	50
United States – Carrollton	Genesis Microchip Inc.,	100
United States – Carrollton	Genesis Microchip (Del) Inc.	100
United States –- Carrollton	Genesis Microchip LLC	100
United States –- Carrollton	Genesis Microchip Limited Partnership	100
United States –- Carrollton	Sage Inc.	100
United States –- Carrollton	Faroudja Inc.	100
United States –- Carrollton	Faroudja Laboratories Inc.	100

Legal Seat	Name	Percentage ownership (direct or indirect)
United States – Wilmington	STMicroelectronics (North America) Holding, Inc.	100
United States – Wilsonville	The Portland Group, Inc.	100

Investments in Associates

4 —	December 31, 2009	December 31, 2008
Beginning of the year	**510**	**-**
Acquisition of investments:		
Numonyx Holdings B.V.	-	1,035
ST-Ericsson AT Holding AG	99	**-**
Others	-	15
Share of gain/ (loss) of associates	(306)	(540)
End of the year	**303**	**510**

As of December 31, 2009, STMicroelectronics owns 48.6% of Numonyx Holdings B.V. and 49.9% of ST-Ericsson AT Holding and accounts for these investments in associates using the equity method.

Numonyx

The Company has a 48.6% interest in Numonyx. Numonyx is a private entity that is not listed on any public exchange. The following table illustrates summarized financial information of the Company's investment in Numonyx:

In millions of USD	2009	2008
Share of Numonyx's unaudited IFRS statement of financial		
Non-current assets	640	693
Current assets	642	784
Equity	**679**	**808**
Non-current liabilities	434	420
Current liabilities	169	249
Share of Numonyx's unaudited IFRS revenue and profit		
Revenue	813	566
Profits	(130)	(58)
Carrying amount of the investment	**223**	**496**
Initial value of investment	966	966
Cumulated share of profit or loss	(188)	(58)
Amortization of basis differences	72	4
Value of financial guarantee	69	69
Cumulated impairment losses	(696)	(485)

The Company accounts for its share in Numonyx under the equity method based on the actual results of the venture. In the valuation of Numonyx investment under the equity method, the Company applies a one-quarter lag reporting. Therefore revenue and profit (loss) in the table above correspond to the results of Numonyx for the fourth quarter of 2008 and the first three quarters of 2009The Numonyx transaction closed on March 30, 2008. At closing, through a series of steps, the Company contributed its flash memory assets and businesses as previously announced, for 109,254,191 common shares of Numonyx, representing a 48.6% interest in equity valued at $966 million, and $156 million in long-term subordinated notes.

The Company evaluates at the end of each reporting period basis the fair value of the investment in Numonyx based upon estimated discounted future cash flows. In the first half of 2009, the Company recorded an impairment charge of $211 million resulting from a re-assessment by the Company of the fair value of its investment in Numonyx following the deterioration of the global economic situation and of the memory market segment, as well as a revision by Numonyx of its 2009 projected results.

The Company's current maximum exposure to loss as a result of its involvement with Numonyx is limited to its equity investment, its investment in subordinated notes and its debt guarantee obligation.

For more details on the Numonyx transaction and related balances, please see our Notes to consolidated financial statements. Numonyx Holdings B.V. is registered in the Netherlands.

ST-Ericsson AT Holding

On February 3, 2009, the Company announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms ("EMP") and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Company received an interest in ST-Ericsson AT Holding AG ("JVD") that was valued at $99 million. JVD, in which the Company owns 50% less a controlling share held by Ericsson, is the parent Company of a group of entities that perform fundamental R&D activities for the ST-Ericsson venture. The Company has a significant influence and therefore accounts for JVD under the equity method. The following table illustrates summarized financial information of the Company's investment in JVD:

In millions of USD	**2009**
Share of JVD's unaudited IFRS statement of	
Non-current assets	26
Current assets	17
Equity	10
Non-current liabilities	6
Current liabilities	27
Share of JVD's unaudited IFRS revenue and	
Revenue	121
Profits	(8)
Carrying amount of the investment	**67**
Initial value of investment	99
Cumulated share of profit or loss	(8)
Amortization of basis difference	(24)

Available-for-Sale Financial Assets

Movements on available-for-sale financial assets are presented as follows:

	December 31, 2009	December 31, 2008
Beginning of the year	796	844
Long term subordinated notes	16	168
Sale of listed debt securities (floating rate notes)	-	(90)
Purchase of unlisted equity securities	-	18
Impairment on unlisted equity securities	(2)	(7)
Purchase of marketable securities	300	-
Change in fair value of listed debt securities (floating rate notes)	4	(10)
Change in fair value of long term subordinate notes	(11)	-
Net losses on auction rate notes recognized in statements of income	(200)	(127)
End of the year	**903**	**796**
Less: non-current portion	(243)	(439)
Current portion	**660**	**357**

Long-term subordinated notes

The Company received upon the creation of Numonyx long-term subordinated notes amounting to $156 million at inception, bearing interest at market rates and with a maturity as at March 30, 2038. These long-term notes yield 9.5% interest, generally payable in kind for seven years and in cash thereafter. In liquidation events in which proceeds are insufficient to pay off the term loan, revolving credit facilities and the Francisco Partners' preferential payout rights, the subordinated notes will be deemed to have been retired. These notes are also classified as available-for-sale financial assets. The nominal value of the notes was accreted since inception by $27 million of paid-in-kind interests receivable, of which $16 million was recognized in 2009. Changes in fair value were recognized as a separate component in equity and corresponded to a pre-tax cumulative $11 million deferred loss as of December 31, 2009. This decline in fair value was not assessed to be significant and prolonged as the Company expects to recover the debt securities' entire amortized cost basis

Investments in debt securities

As at December 31, 2009, the Company had investments in quoted marketable debt instruments for an aggregate value of $702 million (2008: $599 million). Government bonds have a Aaa rating and the floating rate notes excluding impaired debt securities have an average rating of Aa2/A+.

Available-for-sale financial assets include the following:

	December 31, 2009	December 31, 2008
Listed securities:		
Floating-rate Notes in U.S. dollars	360	357
Debt securities	300	-
Unlisted securities:		
Auction rate Securities in U.S. dollars	42	242
Unlisted equity securities:		
Equity securities – Euro zone countries	10	10
Equity securities – US	191	187
Total	**903**	**796**

Available-for-sale financial assets are denominated in the following currencies:

	December 31, 2009	December 31, 2008
Euro	10	10
US dollar	893	786
Total	**903**	**796**

For further details on STMicroelectronics's available-for-sale financial asset, see the consolidated financial statements of STMicroelectronics.

Inventories

The balance for inventories contains only finished goods.

Trade Receivables

Trade accounts receivable consisted of the following:

	December 31, 2009	December 31, 2008
Trade accounts receivable	175	253
Provision	(2)	(2)
Total	**173**	**251**

Trade receivables are expected to be recovered within one year.

Group Companies Short-term Loans

Group companies short-term loans consisted of the following:

	December 31, 2009	December 31, 2008
ST Incard SA (Switzerland)		
Loan due 2010 bearing interest at 3-month EURIBOR + 0.50%	45	63
STMicroelectronics Ltd. (Israel)		
Loan due 2010 bearing interest at 3-month LIBOR.....	4	5
STMicroelecronics Finance B.V (Netherlands)		
Loan due 2010 bearing interest at 1-month EURIBOR – 0.40%	59	311
STMicroelectronics Inc. (USA)		
Loan due 2010 bearing interest at 3-month LIBOR + 0.375%...	179	212
STMicroelectronics Design & Application s.r.o. (Czech Republic)		
Loan due 2010 bearing interest at 3-month PRIBOR + 0.0625%	2	-
STMicroelectronics A.S. (Turkey)		
Loan due 2009 bearing interest at 3-month LIBOR plus 0.0625%	-	1
Total short-term intercompany loans……	**289**	**592**

Other group companies receivables and payables

5 —	December 31, 2009	December 31, 2008
Trade receivables	631	1,230
Other receivables (advances)	111	167
Total group companies Receivables	**742**	**1,397**
Trade payables	542	1,343
Other payables	442	974
Other group companies payables	984	2,317
Short-term notes payable	24	25
Total group companies Payables	**1,008**	**2,342**

Group companies short-term notes payable consisted of the following:

	December 31, 2009	December 31, 2008
STMicroelectronis A.B (Sweden)		
Note due 2010 bearing interest at 3-month STIBOR + 0.50%	1	4
Proton World International N.V. (Belgium)		
Note due 2010 bearing interest at 3-month EURIBOR + 0.00625%	23	21
Total short-term intercompany notes payable	**24**	**25**

Shareholder's equity

6 —	Issued and paid in capital	Additional paid in capital	Retained earnings	Treasury Shares	Other Reserves	Legal Reserve	Result for the year	Total
Balance January 1, 2009	1,331	1,719	4,524	(482)	1,063	1,123	(519)	8,759
Net Result.....			(519)				519	-
Rights acquired on vested stock awards.....				105				105
Stock-based compensation..			(105)		36			(69)
Business combination.....		318						318
Dividends paid.....			(105)					(105)
Net result.....							(1,003)	(1,003)
Unrealized gain (loss) on debt securities					9			9
Development expenditures ..			(40)			40		-
Unrealized gain (loss) on derivatives, net of tax.....						(5)		(5)
Convertible debt equity component……..					260			260
Translation adjustment*	33				(33)	97		97
Balance December 31, 2009	**1,364**	**2,037**	**3,755**	**(377)**	**1,335**	**1,255**	**(1,003)**	**8,366**

* The share capital of STMicroelectronics is denominated in euros and the period-end balance is translated into U.S. dollars at the year-end exchange rate (Euro/USD 1.4406). The translation differences are taken to Other reserves.

The authorized share capital of STMicroelectronics is € 1,810 million consisting of 1,200,000,000 common shares and 540,000,000 preference shares, each with a nominal value of € 1.04. As at December 31, 2009 the number of shares of common stock issued was 910,319,305 shares (910,307,305 at December 31, 2008).

As of December 31, 2009 the number of shares of common stock outstanding was 878,333,566 (874,276,833 at December 31, 2008).

The euros equivalent of the issued share capital at December 31, 2009 amounts to euros 946,731,917 (2008: euros 946,719,597). For the changes in issued and paid in capital, additional paid in capital and other reserves; see the consolidated financial statements of STMicroelectronics.

Other reserves and legal reserve consist of fair value of services provided under share award schemes, unrealized gains or losses on marketable securities classified as available-for-sale and foreign currency translation adjustments, all net of tax.

Treasury stock

Following the authorization by the Supervisory Board, announced on April 2, 2008, to repurchase up to 30 million shares of its common stock, STMicroelectronics acquired 29,520,220 shares as at December 31, 2008, for a total amount of approximately $313 million, also reflected at cost as a reduction of the shareholders' equity. This repurchase intents to cover the transfer of shares to employees upon vesting of future share based remuneration programs.

The treasury shares have been designated for allocation under STMicroelectronics's share based remuneration programs on non-vested shares including such plans as approved by the 2005, 2006, 2007, 2008 and 2009 Annual General Meeting of Shareholders. As of December 31, 2009, 10,934,481 of these treasury shares were transferred to employees under STMicroelectronics's share based remuneration programs of which 4,044,733 in the year ended December 31, 2009, following the full vesting of the 2006 stock-award plan, the vesting of the first and second tranches of the 2007 stock-award plan, the vesting of the first tranche of the 2008 stock-award plan together with the acceleration of the vesting of a limited number of stock-awards.

As of December 31, 2009, STMicroelectronics owned a number of treasury shares equivalent to 31,985,739.

Non Distributable Reserve

The amount of the non distributable reserve was $2,619 million and $2,454 million in the year 2009 and 2008, respectively and it represents the amount of issued and paid-in capital and legal reserve of STMicroelectronics.

Long-term debt

Long-term debt consisted of the following:

	December 31, 2009	December 31, 2008
Long-term portion of convertible debt 2016	753	822
Long-term credit facilities	573	673
Total long-term debt	**1326**	**1,495**
Current portion of convertible debt 2013	-	-
Current portion of credit facilities	103	29
Total current portion on long-term debt	**103**	**29**

Convertible debt

In February 2006, the Company issued $1,131 million principal amount at maturity of zero coupon senior convertible bonds due in February 2016. The bonds were issued at 100% of principal with a yield to maturity of 1.5% and resulted in net proceeds to the Company of $974 million less transaction fees. The bonds are convertible by the holder at any time prior to maturity at the adjusted conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. The holders can also redeem the convertible bonds on February 23, 2011 at a price of $1,077.58, on February 23, 2012 at a price of $1,093.81 and on February 24, 2014 at a price of $1,126.99 per one thousand dollar face value of the bonds.

In December 2009, the Company repurchased the equivalent of $98 million principal amount for a cash consideration of $103 million. The Company allocated the consideration paid to the separate components of the convertible bonds using a method consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the convertible instrument was issued. As a result of this transaction, the Company recognized a loss of $7 million corresponding to the difference between the carrying amount of the liability component of the convertible debt and its fair value. An amount of $11 million was recognized as a reduction of the equity component of the 2016 convertible bond.

In respect to the 2016 convertible bond and its share conversion option, the Company classified the share conversion option as equity rather than in other non-current liability, based on the fact that the Company will, under no circumstances, settle the share conversion option in cash or other assets.

Credit facilities

The Company had unutilized committed medium term credit facilities with core relationship banks totalling $500 million. In addition, the aggregate amount of the Company's and its subsidiaries' total available short-term credit facilities, excluding foreign exchange credit facilities, was approximately $759 million as at December 31, 2009. In addition, ST-Ericsson had $25 million of unutilized committed line from Ericsson as parent Group. The Company also had two committed credit facilities with the European Investment Bank as part of R&D funding programs. The first one, for a total of €245 million for R&D in France was fully drawn in U.S. dollars for a total amount of $341 million, of which $49 million were paid back as at December 31, 2009. The second one, signed on July 21, 2008, for a total amount of €250 million for R&D projects in Italy, was fully drawn in U.S. dollars for $380 million as at December 31, 2009. The Company maintains also uncommitted foreign exchange facilities totaling $714 million at December 31, 2009. At December 31, 2009 and 2008, amounts available under the short-term lines of credit were not reduced by any borrowing.

Long-term debt credit facilities

	Year ended December 31, 2009	Year ended December 31, 2008
Balance at January, 1	**701**	**205**
Credit facilities increase		516
Credit facilities repayment	(29)	(20)
Balance at December, 31	**672**	**701**
Out of which short-term	103	29
Out of which long-term	569	673

Deferred tax assets and liabilities

Deferred tax assets and liabilities consisted of the following:

	December 31, 2009	December 31, 2008
Development costs amortization	-	52
Tax loss carry forward	28	19
Other temporary differences	3	2
Deferred tax assets	31	73
Development costs capitalization	(76)	(123)
Other temporary differences	(9)	(9)
Deferred tax liabilities	(85)	(132)
Net deferred income tax asset / (liability)	**(54)**	**(59)**

Other non-current liabilities

Other non-current liabilities consist of the following:

	December 31, 2009	December 31, 2008
Share conversion option of convertible debt 2016 classified as financial liability (note 14.1)	-	274
Debt financial guarantee in favor of Hynix	17	17
Debt guarantee in favor of Numonyx	39	56
Numonyx capacity rights (non-current portion)	47	63
Other non-current liabilities	33	40
Total	**136**	**450**

Due to regulatory issues STMicroelectronics could not directly provide to Hynix (see note 14.1 to our consolidated financial Statements) with the $250 million long-term financing as originally planned. As a result, in 2006, STMicroelectronics entered into a ten-year term debt guarantee agreement with an external financial institution through which STMicroelectronics guaranteed the repayment of the loan by the joint venture to the bank. The debt guarantee was evaluated under IAS 39. It resulted in the recognition of a $17 million liability, corresponding to the fair value of the guarantee at inception of the transaction. The liability was originally recorded against the value of the equity investment, and is now reclassified as noncurrent asset after the disposal of investment.

Upon creation, Numonyx entered into financing arrangements for a $450 million term loan and a $100 million committed revolving credit facility from two primary financial institutions. The loans have a four-year term. Intel and STMicroelectronics have each granted in favor of Numonyx a 50% debt guarantee that is not joint and several. In the event of default and failure to repay the loans from Numonyx, the banks will exercise STMicroelectronics's rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the assets. At inception of the transaction, the debt guarantee was fair valued at $69 million in accordance with IAS 39. The same amount was also added to the value of our investment in Numonyx as described in note 14.2 to our Consolidated Financial Statements. The Guarantee is being amortized on a pro-rata basis over its four-year term.

The terms of the agreement for the inception of Numonyx that included rights granted to Numonyx to use certain assets retained by the Company. As at December 31, 2009, the value of such rights totaled $65 million (2008: $87 million) of which $47 million (2008: $63 million) was classified as a non-current liability.

Loans and banks

STMicroelectronics has revolving lines of credit agreements with several financial institutions totaling $500 million at December 31, 2009 (2008: $275 million). At December 31, 2009 no amounts were drawn on these available lines of credit (2008: nil).

STMicroelectronics maintains also uncommitted foreign exchange facilities of $714 million.

Guarantees and contingencies

Guarantees given by STMicroelectronics to its affiliates for the benefit of third parties amounted to approximately $ 1,640 million at December 31, 2009 as detailed in Note 20 (2008: $1,670 million).

There is no other type of contingencies as of December 31, 2009 and 2008.

Wages, salaries and social charges

7 —	2009	2008
Wages and salaries	37	47
Social charges	4	6
Pension service costs	6	5
Complementary pension scheme for executives	1	2
Other employee benefits	2	1
	50	61

The average number of persons employed by STMicroelectronics during the year ended December 31, 2009 was 198 out of which 186 outside The Netherlands (2008: 223 out of which 208 outside The Netherlands).

Commitments

STMicroelectronics's commitments as of December 31, 2009 were as follows:

In million US$	**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**
Operating leases	**63**	5	4	4	4	4	42
Purchase obligations	**760**	383	180	155	24	18	-
Of which Software, technology licenses and design	*292*	*155*	*62*	37	*20*	*18*	-
Of which other purchasing obligations	*468*	*228*	*118*	*118*	*4*	-	-
Long term debt obligations (including current portion)	1,469	103	900	103	103	103	157
Pension obligations	8	2	-	1	-	2	3
Other non-current liabilities	165	1	13	82	4	4	61
Total	**2,465**	**494**	**1,097**	**345**	**135**	**131**	**263**

Other commitments

STMicroelectronics has issued guarantees totaling $1,640 million related to its subsidiaries debt and other obligations. Out of this, $720 million related to STMicroelectronics Finance B.V.'s obligation under the €500 million floating rate senior bond due in 2013. Also included in this amount is the $275 million guarantee not joint and several for 50% of Numonyx credit facilities.

Related party transactions

Transactions with significant shareholders, their affiliates and other related parties were as follows:

	December 31, 2009	December 31, 2008
Sales & other services	68	80
Other purchases	(66)	(48)
Accounts receivable	13	38
Accounts payable	(8)	(34)

Remuneration to managing board and supervisory board members

For details on the remuneration to Managing Board and Supervisory Board members, see the consolidated financial statements of STMicroelectronics (Note 35).

Auditors' fees

The following audit fees were expensed in the income statement in the reporting period:

In U.S. dollars	2009	2008
Audit of the financial statements	7,494,914	5,384,962
Other audit procedures	155,867	15,360
Tax services	3,883	40,880
Total:	**7,654,664**	**5,441,202**

The fees listed above relate only to the procedures applied to STMicroelectronics and its consolidated group entities by PricewaterhouseCoopers.

April 16, 2010

Carlo Bozotti (President and Chief Executive Officer)

Antonino Turicchi (Chairman)

Gérald Arbola (Vice Chairman)

Raymond Bingham

Douglas Dunn

Didier Lamouche

Didier Lombard

Alessandro Ovi

Bruno Steve

Tom de Waard

Other information

Auditors' report

The report of the auditors, PricewaterhouseCoopers Accountants N.V., is presented in the pages 346 and 347 of this annual report.

Appropriation of results – provisions in company's articles of association

The Managing Directors, with the approval of the Supervisory Board, are allowed to allocate net profit to a reserve fund. The Articles of Association provide that the net result for the year, after deduction of the aforementioned allocation to the reserve fund, is subject to the disposition by the AGM.

In the case that a net loss for the year exceeds retained earnings, no dividend payments are allowed until the loss has been recovered from net profit in future years.

Proposed 2009 cash dividend and retained earnings and dividend policy

Upon the proposal of the Managing Board, the Supervisory Board decided to recommend to the 2010 AGM a cash dividend.

This recommendation is consistent with STMicroelectronics's dividend policy as communicated and discussed at the 2005 AGM whereby:

a. STMicroelectronics seeks to use its available cash in order to develop and enhance its position in the very capital-intensive semiconductor market while at the same time managing its cash resources to reward its shareholders for their investment and trust in STMicroelectronics.

b. Based on its annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes each year to the Supervisory Board the allocation of its earnings involving whenever deemed possible and desirable in line with STMicroelectronics's objectives and financial situation, the distribution of a cash dividend, and

C. The Supervisory Board, upon the proposal of the Managing Board, decides each year, in accordance with this policy, which portion of the profits shall be retained in reserves to fund future growth or for other purposes and makes a proposal to the shareholders concerning the amount, if any, of the annual cash dividend.

Branches

The company has a branch in Geneva, Switzerland.

Subsequent events

- Agreement to sell our investment in Numonyx

On February 10, 2010, the Group announced that, together with its partners Intel Corporation and Francisco Partners, has entered into a definitive agreement with Micron Technology Inc. ("MicroN"), pursuant to which Micron will acquire Numonyx in an all-stock transaction. Upon the closing of the transaction, which is subject to customary regulatory approvals, and based on Micron's closing stock price on February 9, 2010 of $9.08 per share, the Group will receive – in exchange for its 48.6% stake in Numonyx and the cancellation of the 30-year note due to the Group by Numonyx – approximately 66.6 million shares of Micron common stock (taking into account a payable of $77.8 million due by the Group to Francisco Partners). At closing, Numonyx will redeem the full amount of its outstanding $450 million term loan, while simultaneously terminating the guarantee of the $225 million debt issued by the Group. There is no guaranty as to when, or if, the transaction will close.

- 2016 Convertible Bond repurchase

During January 2010, the Group repurchased the equivalent of $215 million principal amount for a cash consideration of $212 million. The Group allocated the consideration paid to the separate components of the convertible bonds using a method consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible instrument was issued. As a result of this transaction, the Group recognized a loss of $14 million in January 2010 corresponding to the difference between the carrying amount of the liability component of the convertible debt and its fair value. An amount of $28 million was recognized as a reduction of the equity component of the 2016 convertible bond in January 2010.

- U.S. Federal Court affirms the Group's award against Credit Suisse

In connection with its legal action to recover from Credit Suisse the amount invested in unauthorized auction rate securities against the Group's instructions, the Group received on March 23, 2010, a court ruling affirming the unanimous arbitration award in its favor for more than US$431 million, including collected interest, entered in February 2009 by FINRA.

The ruling of the federal district court in New York denied Credit Suisse's motion to vacate the award, also granting the Company's petition to affirm the award and directing Credit Suisse to pay the Company the unpaid balance. Based on the ruling the Group should receive approximately US$354 million, which include approximately US$23 million of interest to date, in addition to the approximately US$75 million previously received in December upon selling a portion of these securities. Credit Suisse has the right to appeal this decision.

Auditor's report

To: the General Meeting of Shareholders of STMicroelectronics N.V.

Report on the financial statements

We have audited the accompanying financial statements for the year ended 31 December 2009 of STMicroelectronics N.V., Amsterdam as set out on pages 190 to 343. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2009, the company statement of income for the year then ended and the notes.

The Managing Board's responsibility

The Managing Board of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Directors' Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements set out on pages 190 to 312, give a true and fair view of the financial position of STMicroelectronics N.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements, set out on pages 313 to 343, give a true and fair view of the financial position of STMicroelectronics N.V. as at 31 December 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Directors' Report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 19 April 2010
PricewaterhouseCoopers Accountants N.V.

Paul R. Baart RA

Important Dates

April 27th, 2010:	Q1 2010 Earnings Release
April 28th, 2010:	Q1 2010 Earnings Conference Call
May 25th, 2010:	2010 Annual General Meeting of Shareholders

Please consult our website www.st.com for the latest important dates.