STMICROELECTRONICS N.V.

STATUTORY ANNUAL REPORT

DECEMBER 31, 2007

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THIS 2007 STATUTORY ANNUAL REPORT HAS BEEN APPROVED FOR PRESENTATION TO THE STMICROELECTRONICS ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DULY SIGNED ON APRIL THE 1st 2008 BY:

THE MANAGING BOARD

__________/s/______________
- Carlo Bozotti

THE SUPERVISORY BOARD

__________/s/_______________
- Gérald Arbola

___________/s/______________
- Bruno Steve

___________/s/______________
- Tom de Waard

___________/s/______________
- Matteo del Fante

___________/s/______________
- Douglas Dunn

___________/s/______________
- Didier Lamouche

___________/s/______________
- Didier Lombard

____________/s/_____________
- Matteo del Fante

____________/s/_____________
- Alessandro Ovi

THE MANAGING BOARD IN 2007

Carlo Bozotti (1952)

President and Chief Executive Officer, serving as the Sole Member of the Managing Board upon his appointment at the 2005 annual general meeting of shareholders held on March 18, 2005.
Italian nationality

THE SUPERVISORY BOARD IN 2007

Gérald Arbola (1948) — Chairman
First appointed 2004
Managing Director of Areva S.A.
Current term expires at the 2008 AGM
French nationality

Bruno Steve (1941) — Vice Chairman
First appointed 1989
Former Managing Director of Finmeccanica
Current term expires at the 2008 AGM
Italian nationality

Tom de Waard (1946)
First appointed 1998
Partner of Clifford Chance
Current term expires at the 2008 AGM
Dutch nationality

Matteo del Fante (1966)
First appointed 2005
Chief Financial Officer of Cassa Depositi e Prestiti S.p.A. in Rome
Current term expires at the 2008 AGM
Italian nationality

Douglas Dunn (1944)
First appointed 2001
Chairman of the Board of Directors of ARM Holdings plc
Current term expires at the 2009 AGM
British nationality

Didier Lamouche (1959)
First appointed in 2006
Chairman and CEO of Groupe Bull
Current term expires at the 2009 AGM
French nationality

Didier Lombard (1941)
First appointed 2004
Chairman and Chief Executive Officer of France Telecom
Current term expires at the 2008 AGM
French nationality

Ray Bingham(1947)
First Appointed in 2007
Current term expires at the 2010 AGM
American Nationality
Managing Director with General Atlantic LLC

Alessandro Ovi (1944)
First Appointed 1994
Special Advisor to the President of the European Community
Current term expires in 2010 AGM
Italian Nationality

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. This independence is also reflected in the requirement that members of the Supervisory Board be neither a member of the Managing Board nor an employee of the Company. In fulfilling their duties under Dutch law, our Supervisory Board members serve the best interests of all the Company's shareholders, as well as those of our business. The Supervisory Board supervises and advises the Managing Board in performing its management tasks and setting the direction of the Company's affairs and business. The members of the Supervisory Board are carefully selected on the basis of their combined expertise, their knowledge of the Company and its affairs, and of the business in which we operate. 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 through 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, further supervises the structure and management of systems of internal business controls and the financial reporting process. It determines the remuneration of the sole member of the Managing Board within the remuneration policy adopted by the general meeting of shareholders. The activities of the Supervisory Board Committees in 2007 are described in this report.

Meetings and activities of the Supervisory Board

The Supervisory Board met 12 times in the course of 2007, including meetings by telephone conference; as outlined by the table below, all of its members who were in office during the full year participated in 11 or more of these meetings. The sole member of the Managing Board, President and Chief Executive Officer ("CEO") assisted by the Chief Operating Officer ("COO"), the Chief Financial Officer ("CFO") and the Director of Strategy were also present at the meetings of the Supervisory Board except when they discussed the composition, functioning and remuneration of the Managing Board. On several occasions other members of the executive management team gave presentations on their area of business to the Supervisory Board.

Number of Meetings Attended in 2007(1)	Full Board	Audit Committee	Compensation Committee	Strategic Committee	Nomination and Corporate Governance Committee	Ad Hoc Committee
Gérald Arbola	12	1(2)	6	9	6	1
Raymond Bingham(3)	6	6	—	—	—	—
Tom de Waard	11	11	6	—	6	2
Matteo del Fante(4)	12	11	3	—	3	1
Douglas Dunn	11	9	—	5	—	1
Didier Lamouche(4)	11	11	—	—	—	—
Didier Lombard	12	1(2)	6	9	3	—
Alessandro Ovi(3)	7	—	—	6	—	—
Bruno Steve	12	—	5	9	5	1
Antonino Turicchi(3)	5	—	1	3	3	—
Robert M. White(3)	5	5	—	3	—	—

(1) Includes meetings attended by way of conference call.
(2) Messrs. Arbola and Lombard attended an extraordinary Audit Committee by way of conference call.
(3) Messrs. Antonino Turicchi and Robert M. White were Supervisory Board members until the Company's 2007 annual shareholders' meeting, at which time they were succeeded by Messrs. Raymond Bingham and Alessandro Ovi.
(4) Appointed as non-voting observers to Audit Committee.

The remuneration of the Supervisory Board members is described in Note 36 to the Company's 2007 Consolidated Financial Statements.

Biographies of the Supervisory Board members are available in Annex 1 of this Supervisory Board Report as well as on the Company's website.

In 2007, the Supervisory Board's activities included, *inter alia*:

- Approval of major transactions including (i) the decision to enter into an agreement with Intel and Francisco Partners which led to the creation of Numonyx ; (ii) an agreement with IBM on next generation 32 nm and 22 nm CMOS process technology ; (iii) an agreement with Nokia on 3G integrated circuits and modem technologies and (iv) the acquisition of Genesis Microchiop Inc. that were presented by the Managing Board and its staff members to the Supervisory Board.
- Review of the Company's strategy and future plans, particularly in the field of (i) flash memories following the decision to set up as of January 1st, 2007 a new product group comprising old activities relating to flash memories including research and development as well as front end and back end productions and (ii)in the field of advanced CMOS process R&D, following the announcement by Freescale Semiconductor and NXP Semiconductors to terminate their participation to the Crolles 2 Alliance at the end of 2007.
- Review of the Company's technology and new product roadmap.
- Approval of the Company's consolidated accounts, profit and loss accounts, balance sheet and cash-flow statement in U.S. GAAP, as published quarterly by the management, including review and approval of the associated press release.
- Authorization for issue of the Company's Dutch Statutory accounts under IFRS

- Approval prior to the 2007 AGM, of the proposal to appoint members to the Supervisory Board, as well as the appointment of members for the Committees of the Supervisory Board.

- Approval of the effective compensation for Mr. Carlo Bozotti as CEO and Mr. Alain Dutheil as COO, outside the presence of Mr. Bozotti and Mr. Dutheil for 2007. Determination of the CEO and COO bonus for 2006 upon review of the CEO performance in 2006 with respect to the defined performance criteria, outside the presence of Mr. Bozotti and Mr. Dutheil.

- Approval of the terms and conditions and the list of beneficiaries as recommended by the Compensation Committee of the Key Employee Unvested Stock Award Plan for 2007.

- Review of the Company's long-term strategy and business prospects, and approval of the General guidelines as well as of the Company's 2008 Budget.

- Review of the proposals by the Nominating and Corporate Governance Committee regarding nominations of Supervisory Board members for 2008 AGM.

- Approval of the plan to propose to the AGM to fix compensation fees for Supervisory Board members and professionals in Euros instead of USD, as recommended by the Compensation Committee.

- Approval of a specific guarantee to be issued in favor of €255 million credit facility granted to ST Srl.

The Supervisory Board's committees were also very active in 2007.

Compensation Committee

The Compensation Committee, whose members are Messrs. Arbola (Chairman), de Waard, del Fante, Lombard and Steve, met six times in 2007.

Among its main activities, the Compensation Committee proposed (i) the performance criteria which must be met by the CEO in order to benefit from the bonus which has been approved by the shareholders' meeting as part of the Managing Board compensation policy as well as the performance criteria to be met by the COO for eligibility to his 2007 bonus and (ii) performance criteria, which must be met by the Company, for the CEO as well as all other employees participating in the key employee unvested stock award plans, to benefit from such awards. In particular the Compensation Committee recommended the targets for the base bonus to be based to new product introductions, market share and budget targets, and criteria on corporate governance. In addition the Compensation Committee recommended that in view of the challenges facing the Company in 2007, a special additional bonus of up to 60% of base salary be considered if certain targets linked to technology R&D, and deconsolidation of the flash memory activities, Crolles II new agreement and new organization are met. Concerning the targets to be met for vesting of the share awards, these are based on sales, operating income and return on net assets.

With regard to the 2006 Key Employee unvested stock award plan, the Compensation Committee monitored the performance of the criteria relating to the vesting of such awards and noted that the targets in terms of sales, profits and return on net assets which had been set in the prior year had been met.

In addition the Compensation Committee confirmed that all Unvested Stock Awards would vest upon change of control, as decided by the Supervisory Board in 2006, but upon the request of the Managing Board, the Compensation Committee proposed to the Supervisory Board that the transfer of the Company's employees to Numonyx should not be considered as a "change of control" so that such employees, so long as they remain employed by Numonyx, can continue to benefit from the vesting conditions of all unvested stock awards granted to them prior to their transfer to Numonyx.

Furthermore, in 2007, the Compensation Committee decided to recommend to the Supervisory Board that the compensation of the Supervisory Board members and the professionals be paid in Euros instead of U.S. dollars, thus changing the compensation structure as follows: (i) Chairman, Vice Chairman and President of the Audit Committee would receive €115,000, while all other Supervisory Board members would receive €57,500; and (ii) Audit Committee members would receive an additional €7,500, while members of the other committees would receive €3,500. The Compensation Committee decided to propose to maintain the amount of stock-based compensation for Supervisory Board members and professionals as in 2007. The committee reported to the Supervisory Board on the activities carried on a regular basis.

Strategic Committee

The Strategic Committee, whose members are Messrs. Arbola (Chairman), Dunn, Lombard, Ovi and Steve, met nine times in 2007, in the presence of the CEO, the COO, the Director of Strategic Planning and the CFO. Among its main activities, the Strategic Committee reviewed the Company's long-term plans and prospects and various possible scenarios and opportunities to meet the challenges of the semiconductor market, including the evaluation of possible acquisitions or divestitures.

The Strategic Committee focused on the Company's key challenges which concerned in particular the new organization of the Company's Product Segment Groups effective January 1st, 2007 including the new Flash Memories Group which comprises all Flash Memory operations including research & development, product related activities, front-end and back-end manufacturing marketing and sales, as well as the Company's R&D programs in the field of advanced CMOS technologies, following the announcement by Freescale Semiconductor and NXP Semiconductors of their desire to terminate their participation for the end of 2007. During 2007 the Strategic Committee met with the directors of the Company's new Mobile Multimedia and Communications Group, the Home Entertainment and also Displays Group as well as the Computer Peripherals Group.

The Strategic Committee monitored the negotiations which led to the announcement in May 2007 of the Company's decision to contribute its Flash Memory Business to a new independent flash memory company named Numonyx. The Company and its partners currently plan to finalize the transaction on 30th March 2008.

The Strategic Committee reviewed the Company's various future options concerning advanced CMOS process R&D which led to its decision to enter into an agreement with IBM to co-develop 32-nm and 22-nm core CMOS at IBM's East Fishkill (United States) facility as well as to continue to develop with IBM state-of-the-art derivative technologies at Crolles2.

The Strategic Committee also reviewed the Company's challenges linked to the weakening of the U.S. Dollar and market conditions which led to the announcement of a new restructuring plan in June 2007, as well as internal growth opportunities, which led to the announcement of a significant acquisition in the field of wireless IP and to the decision to launch a public tender offer on Genesis Microchip, a provider of integrated digital TV products, whose acquisition is intended to strengthen the Company's product offering in the digital consumer market. The committee reported on a regular basis to the Supervisory Board regarding its activities.

Audit Committee

The current members of the Audit Committee are Messrs. De Waard (Chairman), Bingham and Dunn, and the current non-voting observers are Messrs. del Fante and Lamouche. The Audit Committee met 11 times in 2007. At many of these meetings, the Audit Committee received presentations on current financial and accounting issues and had the opportunity to interview the CEO, CFO, General Counsel, external and internal auditors. On several occasions, 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 the internal audit function. The Audit Committee reviewed the annual Consolidated Financial Statements in U.S. GAAP for the year ended December 31, 2007, and the associated press release published on January 23, 2008.

The Audit Committee reviewed the external auditors' statement of independence with them. The Audit Committee also approved the compensation of the external auditors for 2006 and approved the scope of their audit, audit-related and non-audit-related services for 2007. Additionally, in anticipation of the expiration of the current mandate of the current auditors at the Company's next annual general shareholders' meeting, the Audit Committee reviewed its options and decided to recommend to the Supervisory Board to propose to shareholders to renew the mandate of the Company's current auditors for an additional two year period. The Audit Committee noted that in line with the rotation requirement for independence, the group lead engagement partner will change in 2008. Furthermore, the Audit Committee held separate meetings and discussed with them critical accounting policies with the external auditors, outside the presence of management.

An external U.S. law firm appointed by the Audit Committee concluded in 2007 its independent investigation to determine the nature of the fraud perpetrated by the Company's former head of treasury operations, which led to his arrest at the end of 2006 and sentencing in February 2008, and to report on the Company's internal controls and practices. This investigation involved several meetings with current and former senior management and an examination of extensive documentation. The Audit Committee met several times to discuss the results of this investigation and the final recommendations were shared at an extraordinary Audit Committee meeting to which all members of the Supervisory Board were invited. Pursuant thereto, several initiatives were recommended to management to improve the Company's internal controls. Of note, in December 2007 the Company appointed a Chief Compliance Officer.

At the end of each quarter, prior to each Supervisory Board meeting to approve the Company's results and quarterly earnings press release, the Audit Committee reviewed the Company's 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 the Company's quarterly "Operating and Financial Review and Prospects" and interim 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 the Company's Consolidated Financial Statements contained in this Form 20-F, as well as the Company's financial reporting using IFRS as presented in its Annual Report to Shareholders for the annual shareholders meeting held in April 2007.

Also in 2007, the Audit Committee reviewed with the Company's auditors the Company's compliance with Section 404 of the Sarbanes-Oxley Act, noting that this was the first year where, as a foreign registrant, the Company was required to assess its compliance with Section 404. Pursuant to such review, the Audit Committee noted that the auditors had issued an unqualified 404 opinion as no material weakness in internal reporting over financial reporting were identified. In addition, the Audit Committee regularly discussed the progress of implementation of internal control over financial reporting and reviewed management's conclusions as to the effectiveness of internal control.

Furthermore, the Audit Committee monitored the Company's compliance with the European Directive and applicable provisions of Dutch law that require the Company to prepare a set of accounts pursuant to IFRS in advance of the Company's annual shareholders' meetings. In this respect, the Audit Committee has approved the Company's decision to continue to report its Consolidated Financial Statements under U.S. GAAP, while complying with its reporting obligations under IFRS by preparing a complementary set of the Company's accounts.

In connection with the Numonyx transaction, the Audit Committee reviewed with management and the auditors the impact of such transaction on the Company's consolidation obligations as well as the impairment charges resulting from the announcement of this transaction.

As part of each of its quarterly meetings the Audit Committee reviewed the Company's significant business risks as presented by Management, and whistleblowing reports regarding financial accounting or reporting issues, including independent investigative reports provided by internal audit or outside consultants on such matters. Finally the Audit Committee sponsored various initiatives in the area of corporate ethics, including a specific program prepared by an outside consultant, considered by the Audit Committee to be well suited for the Company's employees. The committee reported on a regular basis to the Supervisory Board on its activities.

Nominating and Corporate Governance Committee

The current members of the Nominating and Corporate Governance Committee, which met six times in 2007, are Messrs. De Waard (Chairman), Arbola, del Fante, Lombard and Steve.

The Nominating and Corporate Governance Committee met to evaluate candidates for the Supervisory Board member position up for renewal at the 2007 annual shareholders' meeting and decided to recommend a proposal of Messrs. Dunn and Bingham for a three-year term. In the fourth quarter of 2007, the Nominating and Corporate Governance Committee discussed the Managing Board and the five Supervisory Board positions for which proposals for appointment are to be made at the 2008 annual general shareholders' meeting. The committee reported to the Supervisory Board on the activities carried on a regular basis.

Proposed Supervisory Board Member re-appointments and appointments

The Supervisory Board, upon the proposal of its Nominating Committee, recommends to the general meeting of shareholders the re-appointment for a three year term, to expire at the 2011 annual meeting of shareholders, of Messrs. Gérald Arbola, Didier Lombard, Bruno Steve and Tom de Waard.

The Supervisory Board, upon the proposal of its Nominating Committee, also recommends to the general meeting of shareholders the appointment of Mr. Antonino Turicchi for a three year term to expire at the 2011 annual meeting of shareholders.

Proposed 2008 Cash Dividend and Retained Earnings and Dividend Policy

Upon the proposal of the Managing Board, the Supervisory Board decided to recommend to the 2008 AGM a cash dividend of $0.36 per share, compared to last year’s cash dividend distribution of $0.30 per share.

The dividend will be paid in four equal quarterly installments in May, August and November 2008 and February 2009 to shareholders of record in the month of each quarterly payment.

This recommendation is consistent with the Company’s dividend policy as communicated and discussed at the 2005 Annual General Meeting of Shareholders (“2005 AGM”) whereby:

- The Company 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 the Company;

- 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 the Company’s objectives and financial situation, the distribution of a cash dividend; and

- 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.

Proposed re-appointments of Auditors

The Supervisory Board upon the proposal of its Audit Committee recommends the reappointment of PriceWaterhouseCoopers Accountants N.V. as external auditors for a two year term to expire at the end of our 2010 annual meeting of the shareholders.

Financial Statements 2007

The financial statements of the Company for 2007, as presented by the Managing Board, have been audited by Pricewaterhouse Coopers Accountants N.V., independent auditors. Their report has been included in the Other Information section of this Annual Report. The Company has approved the financial statements for submission to the annual general meeting of shareholders.

Adoption of a Record Date for all shareholders

Consistent with recently enacted Dutch legislation and the modification of Article 30.4 of our Articles of Association approved by our 2007 Annual Shareholders meeting, the Supervisory Board has decided to adopt a registration date for all shareholders to attend our shareholders meeting, and, consistent with past practice for our shareholders holding shares registered on the New York Stock Exchange, to fix such registration date thirty dates prior to our annual shareholders meeting, i.e. on April 14th 2008 for our 2008 annual general meeting.

Other Resolutions submitted to the 2008 annual general meeting of shareholders

As in the past, the Supervisory Board has prepared with the Managing Board, the resolutions to be submitted for adoption at the Company's annual general meeting of shareholders to beheld on May 14, 2008 in Amsterdam, the Netherlands. The text of the proposed resolutions and shareholder information is available on the Company's website.

The resolutions are in line with the resolutions presented for shareholder adoption at prior annual general meetings of shareholders.

Conclusion

Finally, the Supervisory Board, in conjunction with the Managing Board, prepared the agenda for the upcoming 2008 annual general meeting of shareholders. The Supervisory Board also voted on April 1st, 2008 to adopt this report and recommend for adoption of the proposed resolutions. The agenda, proposed resolutions and other information regarding the upcoming 2008 annual general meeting of shareholders are available on the Company's website and in print to any shareholder upon request.

Approved by the Supervisory Board Members on April 1st, 2008.

ANNEX 1

Current members of ST's Supervisory Board

Gérald Arbola was appointed to our Supervisory Board at the 2004 annual shareholders' meeting and was reelected at the 2005 annual shareholders' meeting. Mr. Arbola was appointed the Chairman of our Supervisory Board on March 18, 2005. Mr. Arbola previously served as Vice Chairman of our Supervisory Board from April 23, 2004 until March 18, 2005. Mr. Arbola is also Chairman of our Supervisory Board's Compensation Committee and Strategic Committee, and serves on its 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 and his reappointment 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 boards of directors of AREVA NC, AREVA NP, and Areva T&D Holdings. Mr. Arbola is a graduate of the Institut d'Etudes Politiques de Paris and holds an advanced degree in economics. Mr. Arbola 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.

Bruno Steve has been a member of our Supervisory Board since 1989 and was appointed Vice Chairman of our Supervisory Board on March 18, 2005, and previously served as Chairman of our Supervisory Board from March 27, 2002 through March 18, 2005, from July 1990 through March 1993, and from June 1996 until May 1999. He also served as Vice Chairman of the Supervisory Board from 1989 to July 1990 and from May 1999 through March 2002. Mr. Steve serves on our Supervisory Board's Compensation Committee as well as on its Nominating and Corporate Governance and Strategic Committees. He was with Istituto per la Ricostruzione Industriale-IRI S.p.A. ("IRI"), 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 Statutory Auditors of Selex S. & A. S. S.p.A., Chairman of Surveillance Body of Selex S. & A. S. S.p.A and member of Statutory Auditors of Pirelli Tyres S.p.A. 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.

Raymond Bingham was appointed to the Supervisory Board at the 2007 annual shareholders' meeting and serves on the Audit 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 and Flextronics International, Ltd.

Matteo del Fante was appointed to our Supervisory Board at our 2005 annual shareholders' meeting. Mr. del Fante is also a non-voting observer on its Audit Committee. Mr. del Fante has served as the Chief Financial Officer of CDP in Rome since the end of 2003. Prior to joining CDP, Mr. del Fante held several positions at JPMorgan Chase in London, England, where he became Managing Director in 1999. During his 13 years with JPMorgan Chase, Mr. del Fante worked with large European clients on strategic and financial operations. Mr. del Fante obtained his degree in Economics and Finance from Università Bocconi in Milan in 1992, and followed graduate specialization courses at New York University's Stern Business School. Mr. del Fante was the Vice Chairman until his resignation on November 15, 2006 of the Supervisory Board of ST Holding, our largest shareholder.

Tom de Waard has been a member of our Supervisory Board since 1998. Mr. de Waard was appointed Chairman of the Audit Committee by the Supervisory Board in 1999 and Chairman of the Nominating and Corporate Governance Committee in 2004 and 2005, respectively. He also 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 a member of the Supervisory Board of BE Semiconductor Industries N.V. ("BESI") and of its audit and nominating committees. He is also chairman of BESI's compensation committee. Mr. de Waard is a member of the board of the foundation "Stichting Sport en Zaken."

Douglas Dunn has been a member of our Supervisory Board since 2001. He is a member of its Audit Committee since such date. 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 effective October 1, 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), TomTom N.V. (Netherlands) and OMI, a privately-held company (Ireland), and also serves as a non-executive director on the board of SOITEC (France).

Didier Lamouche has been a member of our Supervisory Board since 2006. Mr. Lamouche is currently a non-voting observer on the Audit Committee of our Supervisory Board. Dr. Lamouche is a graduate of Ecole Centrale de Lyon and holds a PhD in semiconductor technology. He has 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 December 2004, 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 CAMECA and SOITEC.

Didier Lombard was first appointed to our Supervisory Board at the 2004 annual shareholders' meeting and was reelected at our 2005 annual shareholders' meeting. He serves on the Compensation and Strategic Committees of our Supervisory Board. Mr. Lombard was appointed Chairman and Chief Executive Officer of France Telecom in March 2005. 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 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 is also a member of the Board of Directors of Thales and Thomson, one of our important 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.

Alessandro Ovi was a member of our Supervisory Board from 1994 until his latest term expired at our 2005 annual shareholders' meeting. He was reappointed to the Supervisory Board at our 2007 annual shareholders' meeting. 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 served on the boards of Telecom Italia S.p.A, Finmeccanica S.p.A., and Alitalia S.p.A. Until April 2000, Mr. Ovi 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.

REPORT OF THE MANAGING BOARD

Dear Shareholder,

2007 has been a year committed to delivering on our most important business and strategic initiatives in order to further strengthen and reshape ST into a stronger and more competitive industry leader.

In 2007 we continued our growth, and our sales passed the 10 billion dollar mark. Actually we grew faster than the average of the world's top ten players in the industry and also our performance in terms of operating profit evolution was better than the top ten average.

Last year we confirmed our position as the world's #1 supplier in Power Management and in Industrial applications. We are also the world leader in set-top box applications. And we are among the world's top three suppliers in vital sectors such as Wireless and Automotive. Overall, we are in the top three worldwide positions for over 80% of our sales.

In the course of the year, we undertook a number of important initiatives, which can be summarized as follows:

- We made the decision to divest our Flash Memory activities by combining our business with the NOR business of Intel and announced the planned creation of a new semiconductor company in the area of Flash memories, named Numonyx. We completed this transaction as of March 30, 2008.
- We entered into a significant agreement with Nokia in the field of 3G wireless modem technology.
- We negotiated and signed an agreement with IBM to collaborate on 32nm and 22nm CMOS manufacturing process involving technology development
- We committed to a new program to optimize our cost structure, which involves the closing of three manufacturing operations over the next two to three years.
- We broadened our expertise in the digital consumer marketplace with the acquisition of Genesis Microchip Inc. bringing important intellectual property to our resources in digital TV.

Product Segment Reorganization

To meet the evolving requirements of the market, as well as pursue a strategic repositioning in Flash memory, effective January 1st, 2007 we reorganized our product segment groups in Application Specific Product Groups ("ASG"), Industrial and Multimedia Sector ("IMS") and Flash Memories Group ("FMG"). Our sales and operating income were consequently split into three reporting segments:

- ASG is comprised of the Mobile, Multimedia & Communications Group ("MMC"), the Home Entertainment & Displays Group ("HED"), the Automotive Product Group ("APG") and the Computer Peripherals Group ("CPG");
- IMS is comprised of the Analog, Micro-Electronic-Mechanical Systems ("MEMS"), and Power Group ("AMP") and the Microcontrollers, Memories and Smartcards Group ("MMS"); and
- FMG incorporates all of the Flash memory operations (both NOR and NAND), including technology R&D, all product related activities, front-end and back-end manufacturing, marketing and sales worldwide.Effective March 30th, 2008 our FMG activities have been transferred to Numonyx.

U.S. GAAP and Dutch Statutory Annual Reports

As a Dutch company registered in the Netherlands, our statutory report as provided to you for approval at our annual shareholders meeting comprises, as required by Dutch law our results of operations and Consolidated Financial Statements reported according to IFRS accounting standards. We wish to draw your attention to the fact that our results using IFRS differ significantly from our results as reported using U.S. GAAP, in particular with respect to capitalization and amortization of development expenses required under IFRS, the impairment and restructuring charges recognition and the accounting for compound financial instruments.

We report our quarterly, semi-annual and annual financial results to our investors and the general public using Consolidated Financial Statements prepared under U.S. GAAP, which is the accounting standard we have used since our creation in 1987. A copy of our U.S. GAAP annual report for 2007, based on Form 20F, quarterly releases and other information can be obtained from our offices and are also available on ST's web site at www.st.com.

In 2008, we will also prepare for the first time, as required by Dutch law, a semi-annual set of accounts using IFRS reporting standards.

Full Year 2007 Results Highlights

Despite the significant decline in average selling prices that challenged the semiconductor industry in 2007, as I mentioned before, we reached the $10 billion revenue milestone. Our 2007 revenues were characterized by a significantly high volume demand and improved product mix. Overall, our revenues increased about 2% to $10,001 million compared to $9,854 million in 2006. Revenue growth was led by IMS with revenues higher by 10.4%.

While ASG revenues increased 1% for the full year, our largest segment saw significant and constant improvement over the course of 2007, after a more than seasonal decline in the first quarter of the year. FMG revenues decreased 13%.

Excluding FMG, revenues increased 4.4%.

Gross profit was $3,460 million or 34.6% of net revenues in 2007, compared to $3,481 million, or 35.3% of net revenues in 2006. Our cost of sales registered a 2.6% increase year-over-year, slightly above the yearly growth for revenues, which resulted from the negative impact of the effective U.S. dollar exchange rate on our manufacturing costs - since a large part of our manufacturing activities is located in the Euro zone - and also from a higher number of units sold.

In synthesis, the exchange ratio variations more than offset the positive contribution from operations.

Research and development costs for 2007 were $1,555 million, or 15.5% of net revenues, compared to $1,388 million, or 14.1% of net revenues in 2006. Research and development expenses increased compared to 2006 mainly due to the unfavorable impact of the U.S. dollar exchange rate since a large part of our activities are located in Europe.

Selling, general, and administrative expenses increased modestly and decreased as a percentage of sales in 2007 compared to 2006. Selling, general and administrative expenses were $1,091 million or 10.9% of net revenues in 2007, compared to $1,083 million or 11.0% of net revenues in 2006. The 0.7% increase in selling, general and administrative expenses was largely due to the higher expenses associated with increased activities.

We recorded an operating loss and net loss in 2007 arising from our decision to divest our FMG operations. Specifically, we reported an operating loss of $406 million and a net loss of $433 million in 2007 or $0.49 per share, mainly due to the provisions associated with the impairment and restructuring charges for the planned disposal of the FMG assets held for sale and in part for the new manufacturing restructuring plan launched in 2007. Total impairment, restructuring charges and other related closure costs were $1,346 million in 2007, compared to $68 million in 2006. In 2007, the impact of impairment, restructuring charges, and other one-time items (net of taxes) was estimated to be $1.3 per diluted share.

Net cash from operating activities for 2007 was $2,349 million compared to $2,687 million in 2006. Net operating cash flow totaled $841 million, up from $666 million in 2006.

For ST, the effective average exchange rate of the Euro to the U.S. dollar was $1.35 for €1.00 in 2007 compared to $1.24 for €1.00 in 2006.

Total capital expenditures in 2007 were $1,141 million, which were financed entirely by net cash generated from operating activities.

2007 Key Announcements

- We announced in May 2007 that we had entered into a definitive agreement with Intel Corporation and Francisco Partners L.P. to create a new independent semiconductor company from the key assets of the Company's Flash Memory Group and Intel's flash memory business, which was named Numonyx. Under the terms of this agreement which closed on March 30th, 2008, we sold our flash memory assets and businesses in NOR and NAND, including our Phase Change Memory resources and NAND joint venture interest, to a new company, named Numonyx, while Intel also sold to Numonyx its NOR assets and certain assets related to PCM resources. In exchange, we received, at closing, a 48.6% equity ownership stake in the new company; Intel received a 45.1% equity ownership stake; and Francisco Partners L.P invested $150 million in cash in consideration of a 6.3% ownership interest in the form of preferred stock with certain liquidation preferences.

- We completed a transaction with Nokia to deepen our collaboration on the licensing and supply of integrated circuit designs and modem technologies for 3G and its evolution. As part of the agreement, a part of Nokia's Integrated Circuit (IC) operations was transferred to us. The multifaceted agreement is intended to enable us to design and manufacture in volume 3G chipsets based on Nokia's modem technologies, energy management and RF (radio frequency) technologies, and deliver complete solutions to Nokia and the open market. The transaction also involved the transfer to us of approximately 185 Nokia employees in Finland and the UK. Nokia has awarded us a design win of an advanced 3G HSPA (high-speed packet access) chipset supporting high data rates, which would be the first contribution of the acquired IC design operations. This design win represents our first win of a complete 3G chipset.

- Confirming our commitment to invest in the development of advanced manufacturing technology, we signed an agreement with IBM to collaborate on the development of next generation process technology that is used in semiconductor development and manufacturing. The agreement includes 32-nm and 22-nm CMOS process technology development, design enablement and advanced research adapted to the manufacturing of 300-mm silicon wafers. In addition, it includes both the core bulk CMOS technology and value-added derivative SoC technologies and aims to position both companies at the leading edge of technology development. Our agreement with IBM also includes collaboration on IP development and platforms to speed the design of SoC devices in these technologies.

- We committed to a new program to optimize our cost structure, which involves the closing of three manufacturing operations. Over the next two to three years we will wind down operations of our 200-mm wafer fab in Phoenix (Arizona), our 150-mm wafer fab in Carrollton (Texas) and our back-end packaging and test facility in Ain Sebaa (Morocco). We expect these measures to generate savings of approximately $150 million per year in the cost of goods sold once the plan is completed. The total impairment and restructuring charges for this program are expected to be in the range of $270 million and $300 million, of which approximately $250 million is estimated to be cash charges.

- We acquired effective control of Genesis Microchip Inc. ("Genesis Microchip") under the terms of a tender offer announced on December 11, 2007 and on January 24, 2008, we completed a second-step merger in which the remaining common shares of Genesis Microchip that had not been acquired through the tender offer were converted into the right to receive the same $8.65 per share price paid in the tender offer. Payment of approximately $340 million for the acquired shares was made through a wholly-owned subsidiary that was merged with and into Genesis Microchip promptly thereafter. Additional direct costs associated with the acquisition are estimated to be approximately $2 million.

Corporate Governance, Sustainable Excellence, Internal Controls and Compliance

In 2007, we launched a program focusing on sustainable excellence and compliance. The deployment of a phased ethics training program throughout all levels of our organization, was based on our "Principles for Sustainable Excellence" ("PSE"). Our Principles require us to focus on employees, customers, shareholders and global business partners when integrating and executing all our business activities. Further, we introduced a process to enable our employees to report matters relating to ethics violations through a confidential reporting line. We also created the position of Chief Compliance Officer, who reports directly to the Managing Board and acts as Executive Secretary, and we formed an Ethics Committee, whose current chair is our Chief Compliance Officer, to provide advice to management and employees about our Principles for Sustainable Excellence and other ethical issues.

As regards Internal Controls, in 2007 we successfully completed an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures which, as a company listed on the NYSE we were required to perform so as to comply with Section 404 of the U.S. Sarbanes Oxley Act. We also confirmed that our management had concluded that our internal control over financial reporting was effective as of December 31, 2007 to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external reporting purposes under US GAAP.

Challenges and Main Strategic Initiatives

The semiconductor industry is currently undergoing several significant structural changes, characterized by a slower growth rate, strong emergence of new applications, and new competitors particularly from Asia and convergence of products. Also as a semiconductor supplier based in Europe we are facing strong challenges, due to the continued rise of the Euro compared to the US dollars, which impacts our profitability as our costs are primarily denominated in Euro while our selling prices are primarily denominated in US Dollars.

In this challenging environment our strategy is designed to focus on several complementary key elements, such as broad, balanced market exposure; product innovation; customer-based initiatives; global integrated manufacturing infrastructure; reduced asset intensity; and research and development partnerships. We also intend to remain vigilant in the management of our assets and we will continue to take the necessary actions and portfolio efforts required to further improve our operating leverage.

Our vision is to become the undisputed leader in multimedia convergence and power applications, dedicating significant resources to product innovation and increasingly becoming a solution provider. We are indeed working hard and deploying the resources we need to develop the new devices and the core platforms we selected to spearhead our future growth in some of the fastest growing markets of the microelectronics industry with solutions for our customers.

Looking towards 2008, I want to share our vision on our main strategic initiatives, by making certain forward looking statements which of course are subject to certain risks and uncertainties, as highlighted in Annex 2 to this Report.

We are moving along four main axes:

(i) The first one is, quite naturally, improving our sales figure. And thanks to the accelerated wave of new products we are launching, and to the ongoing multiple initiatives with customers, at all levels, I am convinced that in 2008 we can outperform the market.

(ii) The second one is portfolio management. The most important action here is of course the deconsolidation of memories we have recently achieved. But we will also be less tolerant vis-a-vis those product families which are presently not performing at an adequate level. Additionally, we will continue our policy of selective acquisitions with the aim of complementing our portfolio with new product families and IPs. The recent acquisition of Genesis Microchip is an excellent example.

(iii) The third axis will see us progressing along the line of simplifying and optimizing our manufacturing structure. We have made significant progress from the configuration we had in 2005, with 25 manufacturing centers, and we are moving towards decreasing that number by some ten units.

(iv) The fourth and last axis is our progress towards an asset lighter configuration, bringing the percentage of sales dedicated to capital investments down from the above 20% of the recent past, and from the 11.4% of 2007. We reconfirm our target to have capital expenditures represent approximately 10% of sales in 2008. The most significant of our 2008 capital expenditure projects are expected to be:

  - full capacity ownership of our 300-mm fab in Crolles, through the buy-back of the Alliance partners tools, as far as front-end facilities are concerned, and

  - to prepare room for future years of capacity growth by completing the new production area in Muar and the new plant in Longgang (China), for back-end facilities.

  Furthermore we will strengthen our ability to serve customers with products based on proprietary technologies, such as our mixed signal and mixed power processes, and will continue to grow our capacity dedicated to the very fast growing area of MEMS devices.

Conclusion

Let me conclude by highlighting that 2007 was a special year for ST since it marked the 20th anniversary for our Company. Twenty important years in which we grew our sales approximately by a factor of 12, with a compound annual growth rate of approximately 13%, while in the same period the market grew slightly above 10% a year. And in doing so, we climbed some 10 positions in the world's rankings.

2007 was also a year of significant progress on our strategic roadmap. First, in memory through the creation of Numonyx, then in process R&D by joining the IBM consortia, and in our cost structure efforts and restructuring, we have made important decisions to further strengthen ST. We also made clear and measurable progress in reducing the capital intensity of our Company and have likewise driven significant cash flow improvement in 2007.

Seen from a broader perspective, those moves, together with all the other I mentioned earlier, have in common the effect of making ST a more focused and agile player, in terms of manufacturing, R&D, products and applications. A company, more than ever, capable to fight on equal terms with the best of the world's competition. And a company capable to grow on average significantly faster than the industry.

Carlo Bozotti

Annex 1

Below is a list of the main risks factors which may affect the result and performance of ST, and the ability of management to predict the future:

- our ability to address changes in the exchange rates between the U.S. dollar and the Euro, in particular with the further weakening of the U.S. dollar which impacts our gross margin since our fixed costs are incurred in Euros, when our selling prices are mainly in U.S. dollars as well as changes in the exchange rates between the U.S. dollar and the currencies of the other major countries in which we have our operating infrastructure;
- the attainment of anticipated benefits of cooperative research and development alliances and our ability to secure new process technologies in a timely and cost effective manner so that the resultant products can be commercially viable and acceptable in the marketplace;
- our ability, in an intensively competitive environment and cyclical industry, to design competitive products, to secure timely acceptance of our products by our customers, to adequately operate our manufacturing facilities at sufficient levels to cover fixed operating costs, and to achieve our pricing expectations for high-volume supplies of new products in whose development we have been, or are currently, investing;
- the results of actions by our competitors, including new product offerings and our ability to react thereto;
- pricing pressures, losses or curtailments of purchases from key customers all of which are highly variable and difficult to predict; and
- the ability of our suppliers to meet our demands for supplies and materials and to offer competitive pricing.

Our Annual Report filed with the SEC on March 3, 2008 under cover of Form 20-F, which is available on our web site, contains a more detailed list of risk factors which may affect our business and operations, and future performance.

CORPORATE GOVERNANCE

Since our creation in 1987, we have demonstrated a consistent commitment to the principles of good corporate governance, 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 early adoption of policies on important issues such as "business ethics" and "conflicts of interest" and our strict policies to comply with applicable regulatory requirements concerning financial reporting, insider trading and public disclosures;

- Our compliance with United States, French and Italian securities laws, because our shares are listed in these jurisdictions, and with Dutch securities laws, because we are a company incorporated under the laws of the Netherlands, as well as 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 the ST 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 ST employees of concerns regarding questionable accounting or auditing matters;

  Our Principles for Sustainable Excellence, which we distributed to all employees in 2007 and 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, also set up in 2007, whose mandate is to provide advice to management and employees about our Principles of Sustainable Excellence and other ethical issues; and

  Our recent appointment of a 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, STMicroelectronics N.V. (the "Company" or "ST"), became subject to the Dutch Corporate Governance Code effective January 1, 2004. As we are listed on the NYSE, Euronext Paris, the Borsa Italiana in Milan, and also in Luxembourg but not in the

Netherlands, our corporate governance principles and guidelines seek to achieve compliance with the relevant practices in a variety of jurisdictions, always keeping in mind the best interests of the shareholders, employees and other stockholders. As a result the corporate governance practices differ in certain cases from the "best practices" recommended by the Dutch Corporate Governance Code. However, by explaining the corporate governance practices in the Corporate Governance Charter, the Company has endeavored to comply with the Dutch Corporate Governance 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 interest. Our Charter was discussed with and approved by our shareholders at our 2004 AGM. The ST Corporate Governance Charter is periodically reviewed with our Supervisory Board and updated and expanded whenever necessary or advisable. We are committed to inform our shareholders of any significant changes in our corporate governance policies and practices at our AGM. Along with our Supervisory Board Charter (which includes the charters of our Supervisory Board Committees) which was last updated by our Supervisory Board in December 2006 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

ST's corporate governance provisions, as highlighted by the ST Corporate Governance and Supervisory Board Charters posted on the website under "Corporate Governance" can differ from the best practice provisions in the Dutch Corporate Governance Code. In particular, ST believes that Supervisory Board members' compensation should include stock-based compensation in order to ensure that they best identify with the interests of all shareholders in line with international practices (best practice provision III.7.1 of the Dutch Corporate Governance Code) and to attract new members with an international background.

ST's Supervisory Board and Corporate Governance

ST has adopted a profile for its Supervisory Board members, the composition of the Supervisory Board committees, as well as a definition of independence regarding the status of Supervisory Board members which is described in the Supervisory Board Charter. Since the Company's creation in 1987, STMicroelectronics Holding N.V. ("ST Holding"), through its wholly-owned subsidiary STMicroelectronics Holding II B.V. ("ST Holding II"), has always been one of the major shareholders, and some of the members of the Supervisory Board have or have had long-standing relationships with both the shareholders and with the Company. Such relationships are described in their biographies, which are posted on our website. One of the Company's Supervisory Board members has been in office since 1989, which is more than twelve years (best practice provision III.3.5). Additionally, the Chairman of the Supervisory Board is also the President of the Company's Supervisory Board's Compensation Committee. This is due to the system of alternating the position of President of the Supervisory Board (best practice provision III.5.11 of the Dutch Corporate Governance Code).

The 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 attached to the Supervisory Board report, have existing relationships or past relationships with Areva, Cassa Depositi e Prestiti ("CDP") and/or Finmeccanica, who are currently parties to the ST Holding Shareholders' Agreement as described below. 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 ST's stakeholders and of ST's business and must act independently in their supervision of ST's management.

Our Supervisory Board held several meetings in 2003 to discuss the new Dutch Corporate Governance Code, the implementing rules and corporate governance standards of the SEC and of the NYSE. In 2003 it created an Ad Hoc Committee which considered our independence criteria, Corporate Governance Charter and Supervisory Board Charter. Based on the work of the Ad Hoc Committee, our Supervisory Board also considered, with respect to corporate governance standards, our unique history as a European company incorporated in the Netherlands following the combination of the Italian and French semiconductor businesses, as well as our shareholding structure, with over 72% of our shares held by the public and approximately 27.5% indirectly held by French and Italian state-controlled companies.

Based on all these factors, in 2005, the Supervisory Board established the following independence criteria for its members: Supervisory Board members must have no 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.

The Supervisory Board also adopted specific bars to independence. On that basis, the Supervisory Board in March 2005 concluded, in its business judgment that all members qualified as independent based on the criteria set forth above. The same conclusion has been confirmed in March 2007.

The above mentioned independence criteria differ to a certain extent from best practice provision III.2.2 of the Dutch Corporate Governance Code.

On November 27, 2006, our Supervisory Board approved entering into an option agreement with an independent foundation, Stichting Continuïteit ST (the "Stichting"), to terminate a substantially similar option agreement dated May 31, 1999, as amended, between our Company and ST Holding II. 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 our Company. Our Supervisory Board approved the new option agreement to reflect changes in Dutch legal requirements, not in response to any hostile takeover attempt. On February 7, 2007, the 31 May 1999 option agreement, as amended, was terminated. On January 22, 2007 the new option agreement with the Stichting was concluded. The new option agreement provides for the issuance of up to a maximum 540,000,000 preference shares, the same number as the agreement it is replacing. 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% of the issued common stock) or an offer on our ordinary shares, which are unsupported by our Managing Board and our Supervisory Board and which the board of the Stichting determines would be contrary to the interests of the Company, the Company's 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 the interests of the Company, the Company's shareholders or other stakeholders.

Commitment to Corporate Governance

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 interest between the Company on the one hand and members of the Supervisory Board and Managing Board on the other hand.

For example, in 2005 our Managing Board requested that our Supervisory Board decide upon the renewal of a contract for the provision of various telecom-related services with Equant, a subsidiary of France Telecom. One of our Supervisory Board members is Chairman and CEO of France Telecom. The Supervisory Board noted the Managing Board's assessment of the positive commercial benefits of such contract and noted that the contract was concluded at normal and competitive conditions and was based on a long-standing proven business relationship between Equant and us. Additionally in 2005, our Managing Board requested that our Supervisory Board decide upon a development and license agreement to be concluded with Quadrics Limited, a company owned by Alenia Aeronautica that is in turn owned by Finmeccanica, one of our principal shareholders. The Supervisory Board noted that the contract was concluded in the ordinary course of business at normal conditions and that it was considered mutually beneficial for Quadrics Limited and us. Additionally, one of our Supervisory Board members is a member of the Board of Directors of Thomson, which is one of our strategic customers. One of our Supervisory Board members is non executive Chairman of the Board of Directors of ARM Holdings PLC, with whom we have key technology license agreements, and non executive director of SOITEC one of our customers, one is a member of the Supervisory Board of BE Semiconductor Industries N.V. ("BESI"), one of our suppliers and one is director of Oracle Corporation ("Oracle") one of our suppliers, and Flextronics one of our customers. We believe that the transactions with Orange (a subsidiary of France Telecom), Thomson, ARM, SOITEC, BESI, PeopleSoft (a subsidiary of Oracle), Flextronics and CEA are made on an arm's length basis in line with market practices and conditions with neither Orange, Thomson, ARM, SOITEC, BESI, PeopleSoft, Flextronics International or CEA nor us benefiting from terms any more favorable than those which could be obtained in a *bona fide* transaction with a third party (best practice provisions III.6.4, II.3.2., II.3.3. and II.3.4. have consequently been complied with).

INTERNAL CONTROL

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

The effectiveness of the Company's 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 the Company's 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 the Company's 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 have also adopted Corporate Standard Operating Procedures to describe the operational flow of actions (outlining responsibilities for each step) 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 also 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.

Our management has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007 based on the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, and in accordance with the requirements of best practice provision II.1.4 of the Dutch Corporate Governance Code and the recommendation of the Corporate Governance Monitoring Committee on the application thereof, our Managing Board, to the best of its knowledge, believes that with regard to financial reporting risks, our internal risk management and controls systems provide a reasonable level of assurance that they do not contain material inaccuracies, have operated effectively in the year 2007 and that there are no indications that they will not operate properly in the current year. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements, fraud and non-compliance with laws and regulations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to the financial statement preparation and presentation.

In addition to the aforementioned statement, our Managing Board has issued a statement regarding the adequacy and effectiveness of the Company's internal controls over financial reporting in the Company's Annual Report on Form 20-F regarding the 2007 financial year, as filed with the Securities and Exchange Commission (the "SEC") on March 3, 2008, in accordance with and as required by the Sarbanes-Oxley Act, Section 404.

Our internal risk management and control systems were discussed on several occasions with the Audit Committee and the Supervisory Board during 2007.

Main Risk Factors

The business performance and results of ST and the ability of management to predict the future are also affected by several risks factors such as those described below:

- Downturns and swings in the semiconductor industry, which can negatively affect our results of operations and financial conditions;

- Reduction in demand or increase in production capacity for semiconductor products may lead to overcapacity, which in turn may require plant closures, asset impairments, restructuring charges and inventory write-offs.

- future developments of the world semiconductor market, in particular the future demand for semiconductor products in the key application markets and from key customers served by our products;

- pricing pressures, losses or curtailments of purchases from key customers all of which are highly variable and difficult to predict;

- changes in the exchange rates between the U.S. dollar and the Euro and between the U.S. dollar and the currencies of the other major countries in which we have our operating infrastructure;

- our ability to manage in an intensely competitive and cyclical industry where a high percentage of our costs are fixed and difficult to reduce in the short term, including our ability to adequately utilize and operate our manufacturing facilities at sufficient levels to cover fixed operating costs;

- our ability to perform the announced strategic repositioning of our Flash memories business in line with the requirements of our customers and without adverse effect on existing alliances or other agreements relating to this business;

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

- Reduction in the amount of public funding available to us, changes in existing public funding programs or demands for repayment may increase our costs and impact our results of operations;

- the anticipated benefits of research and development alliances and cooperative activities, as well as the uncertainties concerning the modalities, conditions and financial impact beyond 2007 of the R&D and manufacturing activities in Crolles 2 following the termination of our current agreement with NXP Semiconductors, and Freescale Semiconductor;

- Regulation 1907/2006 of December 18, 2006 requires registration, evaluation, authorization and restriction of a large number of chemicals ("REACH"). The REACH process started on June 1, 2007. The implementation of any such legislation 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.

- the ability of our suppliers to meet our demands for supplies and materials and to offer competitive pricing;

- significant variations in our gross margin compared to expectations based on changes in revenue levels, product mix and pricing, capacity utilization, variations in inventory valuation, 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 and execution of the manufacturing ramp and associated costs, including start-up costs;

- changes in the economic, social or political environment, including military conflict 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;

- 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;

- our ability to obtain required licenses on third-party intellectual property on reasonable terms and conditions, the impact of potential claims by third parties involving intellectual property rights relating to our business, and the outcome of litigation;

- the results of actions by our competitors, including new product offerings and our ability to react thereto; and

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

Our Annual Report on Form 20-F as filed with the SEC on March 3, 2008, which is available on our website, contains a more detailed list of risk factors which may affect our business and operations, and future performance.

EXECUTIVE SUMMARY

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

While STMicroelectronics N.V. is the parent company, we also conduct our operations through our subsidiaries. With the exception of our subsidiaries in Shenzhen, China, in which we own 60% of the shares and voting rights; Hynix, ST (China), a joint venture company, in which we own a 33% equity participation; Shanghai Blue Media Co. Ltd (China), in which we own 65%; and Incard do Brazil, in which we own 50% of the shares and voting rights, STMicroelectronics N.V. owns directly or indirectly 100% of all of our significant operating subsidiaries' shares and voting rights, which have their own organization and management bodies, and are operated independently in compliance with the laws of their country of incorporation. We provide certain administrative, human resources, legal, treasury, strategy, manufacturing, marketing and other overhead services to our consolidated subsidiaries pursuant to service agreements for which we receive compensation.

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor products used in a wide variety of microelectronic applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Based on provisional 2007 results published by iSuppli, we believe that we were number one in industrial products, number two in analog products, number three in wireless and automotive electronics, and number four in NOR flash. Based on most recent results, we also believe we ranked as a leading supplier of semiconductors in 2007 for set-top boxes, power management devises and for the inkjet printer market.

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. Consequently, from 1994 through 2007, our revenues grew at a compounded annual growth rate of 10.8% compared to 7.3% for the industry as a whole.

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 include differentiated application-specific products (which we define as being our dedicated analog, mixed-signal and digital ASIC and Application Specific Standard Products ("ASSP") offerings and semicustom devices) that we organized under our Application Specific Product Groups ("ASG"); power devices, microcontrollers, discrete products, special nonvolatile memory and Smartcard products organized under our Industrial and Multisegment Sector ("IMS") and Flash Memories Group ("FMG"). Our ASG products, which are generally less vulnerable to market cycles than standard commodity products, accounted for 54.4% of our net revenues in 2007. Our IMS product accounted for 31.4% of our net revenues in 2007, while sales of our FMG products accounted for 13.6% of our net revenues in 2007.

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 oxide semiconductor ("DMOS") technology and Bipolar, CMOS and DMOS ("BCD technologies") for intelligent power applications and embedded memory technologies. This broad technology portfolio, a cornerstone of our strategy for many years, enables us to meet the increasing demand for SoC and System-in-Package ("SiP") solutions. Complementing this depth and diversity of process and design technology is our broad intellectual property portfolio that we also use to enter into important patent cross-licensing agreements with other major semiconductor companies.

Effective January 1, 2007, to meet the evolving requirements of the market together with the pursuit of a strategic repositioning in Flash memory, we reorganized our product segment groups into the ASG, IMS and FMG. Since this date, we report our sales and operating income in three segments:

- the ASG is comprised of the Mobile, Multimedia & Communications Group ("MMC"), the Home Entertainment & Displays Group ("HED"), the Automotive Product Group ("APG") and the Computer Peripherals Group ("CPG");

- IMS is comprised of the Analog, Micro-Electronic-Mechanical Systems ("MEMS"), and Power Group ("AMP") and the Memories, Microcontrollers and Smartcards Group ("MMS"); and

- the FMG incorporates all the Flash memory operations (both NOR and NAND), including Technology R&D, all product related activities, front-end and back-end manufacturing, marketing and sales worldwide.

Our principal investment and resource allocation decisions in the semiconductor business area are for expenditures on technology research and development as well as capital investments in front-end and back-end manufacturing facilities, which are planned at the corporate level; therefore, our product segments share common research and development for process technology and manufacturing capacity for most of their products. However, in view of the contemplated FMG business disposal, FMG has incorporated since January 1, 2007 all the Flash memory operations (both NOR and NAND), including Technology R&D, all product related activities, front-end and back-end manufacturing, marketing and sales worldwide.

In the past three years, we have pursued various initiatives to reshape our company by (i) establishing a less capital-intensive business model; (ii) repositioning our product portfolio in order to improve financial returns; (iii) improving our manufacturing competitiveness through the restructuring of our production capacity with a view to increased overall efficiencies; (iv) improving our research and development effectiveness through a program focusing on our key products and redeployment of certain resources with the aim to improve time-to-market; (v) promoting sales expansion for mass market applications and new major key accounts with a special focus on the Chinese and Japanese markets; and (vi) reorganizing our management team, setting up and expanding our executive committee and recently creating a new function of Chief Compliance Officer.

Major Shareholders

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 December 31, 2007:

	Common Shares Owned	
Shareholders	**Number**	**%**
STMicroelectronics Holding II B.V. ("ST Holding II")	250,704,754	27.5
Public	568,492,104	62.5
Brandes Investment Partners	80,563,681	8.9
Treasury shares	10,532,881	1.1

Our principal shareholders do not have different voting rights from those of our other shareholders.

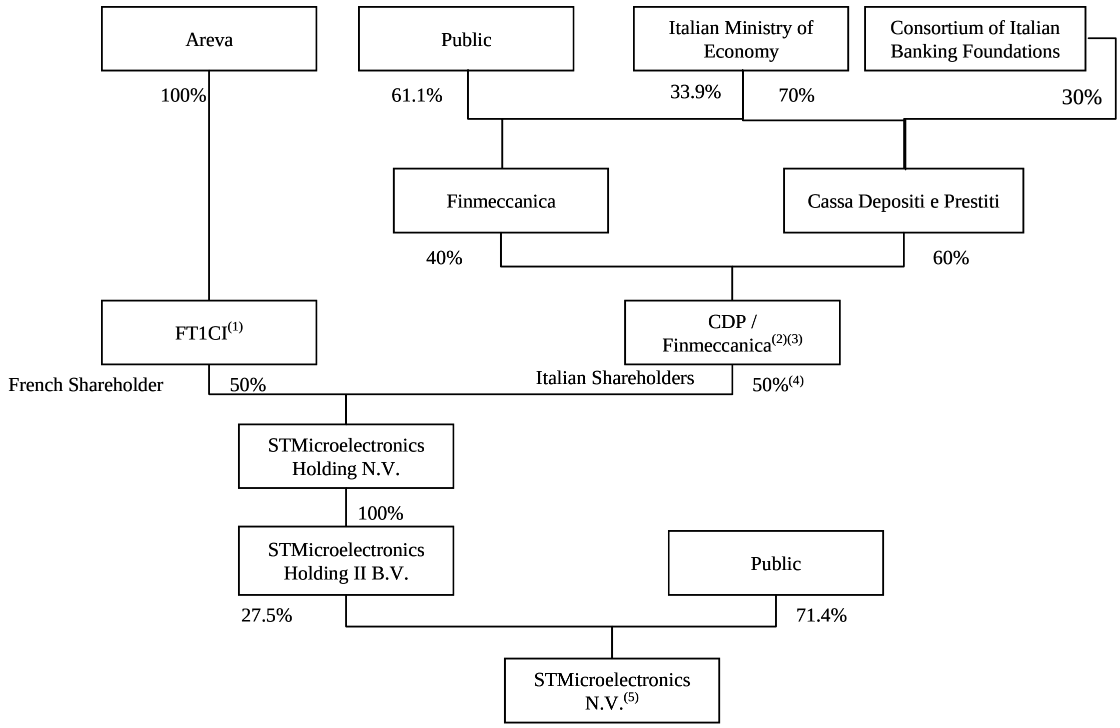
ST Holding II is a wholly-owned subsidiary of STMicroelectronics Holding N.V. ("ST Holding"). As of December 31, 2007, FT1CI (the "French Shareholder") and a consortium of Italian shareholders (the "Italian Shareholders") made up of CDP and Finmeccanica directly held 50% each in ST Holding based on voting rights. CDP held 30% in ST Holding and Finmeccanica held 20% in ST Holding based on voting rights. The indirect interest of FT1CI and the Italian Shareholders 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 indirectly held 99,318,236 of our common shares, representing 10.9% of our issued share capital as of December 31, 2007, CDP indirectly held 91,644,941 of our common shares, representing 10.1% of our issued share capital as of December 31, 2007 and Finmeccanica indirectly held 59,741,577 of our common shares, representing 6.5% of our issued share capital as of December 31, 2007. Any disposals or, as the case may be, acquisitions by ST Holding II on behalf of respectively FT1CI, CDP and Finmeccanica, will decrease or, as the case may be, increase the indirect interest of respectively FT1CI, CDP and Finmeccanica 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 was, as of December 31, 2007, the sole shareholder of FT1CI. Areva (formerly known as CEA-Industrie) is a corporation controlled by CEA. Areva is listed on Euronext Paris in the form of Investment Certificates. CDP is an Italian corporation 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. Finmeccanica is a listed Italian holding company majority owned by the Italian Ministry of Economy and Finance and the public. Finmeccanica is listed on the Italian Mercato Telematico Azionario ("MTA") and is included in the S&P/MIB 30 stock index.

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 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, 2007	250,704,754	27.5
December 31, 2006	250,704,754	27.5
December 31, 2005	250,704,754	27.6

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

The chart below illustrates the shareholding structure as of December 31, 2007:



(1) FT1CI owns 50% of ST Holding and indirectly holds 99,318,236 of our common shares.
(2) Not a legal entity, purely for illustrative purposes.
(3) CDP and Finmeccanica own 50% of ST Holding and indirectly hold 91,644,941 and 59,741,577 of our common shares, respectively.
(4) CDP owns 30% of ST Holding, while Finmeccanica owns 20% of ST Holding.
(5) The 71.4% owned by the public includes the 8.9% shareholding of Brandes Investment Partners.
(6) ST Holding II owns 27.5% of our shares, the Public owns 71.4% of our shares and we hold the remaining 1.2% as treasury shares.

Strategy

The semiconductor industry is undergoing 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 and video products and games;
- the increasing importance of the Asia Pacific region, particularly in China, and other emerging countries, which represents the fastest growing regional market;
- 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; and
- the recent consolidation process and increased participation of private equity firms, which may lead to further strategic repositionings and reorganization amongst industry players.

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

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

Product innovation. We aim to be leaders in multimedia 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 digital consumer, cellular phone and car navigation; and (ii) power applications, which are driving system solutions for customer specific applications, as well as a wide client base in the field of industrial applications, motor control, factory automation, lighting, power supply and automotive, all of which require less research and development effort and manufacturing capital intensity than more advanced and complex application-specific devices.

We also dedicate significant resources to new product development. We have identified our key product offerings in each of the targeted market segments and have concentrated our R&D resources to develop leading-edge products for each. Examples include: digital-base band and multi-media solutions for wireless, digital consumer products focused on set-top boxes and digital TVs, SoC offerings in data storage and system-oriented products for the multisegment sector. We are also targeting new end markets, such as medical applications.

Finally, we have decided to strategically reposition our participation in the Flash memory business in order to achieve the appropriate economies of scale which are demanded in this competitive segment, which will also result in reducing our exposure to the capital intensity of the industry.

Customer-based initiatives. There are three tenets to our sales strategy. First, we work with our key customers to identify evolving needs and new applications and to develop innovative products and product features. We have formal alliances with certain strategic customers that allow us and our customers (with whom we jointly share certain product developments) to exchange information and which give our customers access to our process technologies and manufacturing infrastructure. We have formed alliances with customers including Alcatel-Lucent, Bosch, Hewlett-Packard, Marelli, Nokia, Nortel, Pioneer, Seagate, Siemens VDO, Thomson and Western Digital. Our strategic alliances have been historically a major growth driver for us. In 2005, 2006 and 2007, revenues from strategic customer alliances accounted for approximately 44%, 41% and 40% respectively of our net revenues. 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 penetration has historically been quite low. Finally, 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. In addition, we have focused on two regions as key ingredients in future sales growth, Greater China and Japan, where we have recently launched new marketing initiatives.

Global integrated manufacturing infrastructure. We have a diversified, leading-edge manufacturing infrastructure, comprising front-end and back-end facilities, capable of producing silicon wafers using our broad process technology portfolio, including our CMOS, BiCMOS and BCD technologies as well as our discretes 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. We have also developed relationships with outside contractors for foundry and back-end services.

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 Flash memories to meet the requirements of the market, we have recently 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 burden 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 11.4% of sales in 2007, with a target at about 10% of sales in 2008.

Research and development partnerships. The semiconductor industry is increasingly characterized by higher costs and technological risks involved in the research and development of state-of-the-art processes. These higher costs and technological risks have driven us to enter into cooperative partnerships, in particular for the development of basic CMOS technology: specifically, following the decision of Freescale Semiconductor and NXP Semiconductors to terminate their participation in the Crolles2 Alliance for the development of the CMOS technology at the end of December 2007, we reached an agreement with IBM to collaborate on the development of CMOS process technology for 32-nm and 22-nm nodes. We remain convinced that the shared R&D business development model contributes to the fast acceleration of semiconductor process technology development, and we therefore remain committed to our strategy of our alliances to reinforce cooperation in the area of technology development. Additionally, we maintain our commitment to develop proprietary derivatives from advanced CMOS technology. Furthermore, we are continuing our development in the proprietary process technologies in order to maintain our leadership in Smart Power, analog, discretes, MEMS and mixed signal processes.

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 design and 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 also have front-end manufacturing facilities in the U.S., Europe and Asia. Our more labor-intensive back-end facilities are located in Malaysia, Malta, Morocco, Singapore and China, enabling us to take advantage of more favorable production cost structures, particularly lower labor costs. Major design centers and local sales and marketing groups are within close proximity of key customers in each region, which we believe enhances our ability to maintain strong relationships with our customers.

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

Sustainable Excellence and Compliance. In 2007, we launched a program focusing on sustainable excellence and compliance. Ethics training deployed through all levels of our organizations are based on 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. Further, we introduced a process to enable our employees to report matters relating to ethics violations through a confidential reporting line and we formed an Ethics Committee, whose mandate is to provide advice to management and employees about our Principles for Sustainable Excellence and other ethical issues. We also created the position of Chief Compliance Officer in December 2007.

Return on capital employed. We remain focused on providing our shareholders with value creation, specifically measured in terms of return on net assets in excess of the weighted average cost of capital.

2007 Business Overview

In 2007, the semiconductor market was characterized by a solid increasing demand in units, supported by a strong economic environment, but with a significant decline in average selling prices, particularly in memory products. As a result, the 2007 growth rate for the semiconductor industry was lower than the 2006 growth rate.

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 ("MPU"), dynamic random access memories ("DRAM"), and optoelectronics devices).

Based upon recently published data by the World Semiconductor Trade Statistics ("WSTS"), semiconductor industry revenues increased year-over-year by approximately 3% for the TAM and 6% for the SAM in 2007 to reach approximately $256 billion and approximately $174 billion, respectively. This increase was driven by a robust demand in units while average selling prices declined compared to 2006.

Our 2007 revenues were characterized by a significantly high volume demand and improved products mix, which did not translate into an equivalent revenue performance due to the persisting negative impact of price pressure in the markets we serve. As a result, our revenues increased by approximately 2% to $10,001 million compared to $9,854 million in 2006. Strong growth in revenues was driven by a double-digit increase in digital consumer application and a mid-single contribution of Automotive application, while FMG revenues registered a double-digit revenues decrease. Our 2007 sales performance was below both the TAM and the SAM growth rates. Excluding Flash segment, our revenues increased about 4.3%. This performance was above the TAM without Flash, which increased about 2.6% but below the SAM without Flash, which increased by 5.1%.

With reference to the quarterly results, our fourth quarter 2007 revenues performance was above the TAM and the SAM on a sequential basis. On a year-over-year basis, our performance was above the TAM but below the SAM.

On a year-over-year basis, our fourth quarter 2007 revenues increased by approximately 10% to $2,742 million compared to $2,483 million in the fourth quarter of 2006, due largely to the ASG segment, which grew by approximately 13%, driven primarily by imaging products, data storage and application-specific wireless, and IMS revenues which improved by approximately 11% reflecting strength in MEMS and in advanced analog products. The revenues of the FMG segment continued to register a decline. On a year-over-year basis, the TAM and the SAM registered increases of approximately 3% and 12% respectively.

On a sequential basis, in the fourth quarter of 2007 revenues increased approximately 7% mainly due to the overall strength in the Telecom sector. Our net revenues performance was slightly above the mid-range of our guidance, which indicated a sequential growth between 4% and 9%. Sequentially, the TAM registered a decrease of approximately 1% while the SAM remained flat.

In 2007, our effective average U.S. dollar exchange rate was €1.00 for $1.35, which reflects the actual exchange rate levels and the impact of certain hedging contracts, compared to our 2006 effective average exchange rate of €1.00 for $1.24. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see "— Impact of Changes in Exchange Rates" below.

On a total year basis, our gross margin decreased from 35.8% in 2006 to 35.4% in 2007 due to the negative impact of declining selling prices and the weakening of the U.S. dollar, which offset the improvements coming from better manufacturing performance and improved products mix. In 2007, our gross margin also benefited from the suspended depreciation on our assets that were part of the FMG disposal and were classified as held for sale following the announcement of the transaction on May 22, 2007.

On a sequential basis, our gross margin increased from 35.2% to 36.9% in the fourth quarter 2007, due to improved manufacturing efficiency which also included the suspended depreciation on the FMG assets held for sale. Our fourth quarter gross margin was above the midpoint of our guidance that had indicated a gross margin of approximately 36.5% plus or minus one percentage point.

Our operating expenses combining selling, general and administrative expenses and research and development increased in 2007 compared to 2006 due to the unfavourable U.S. dollar impact, the higher spending in research and development and higher share-based compensation charges for our employees and members and professionals of the Supervisory Board.

Our total impairment and restructuring charges for 2007 were significantly higher compared to 2006 due to the impairment charge for the planned disposal of the FMG assets held for sale and for the new manufacturing restructuring plan launched in 2007.

In 2007, we benefited from a significant increase in funding for our research and development activities, which contributed to move "Other income and expenses, net" caption in our consolidated statements of income from a net expense of $35 million in 2006 to a net income of $48 million.

The combined effect of the above mentioned factors and the other operating items resulted in a negative impact on our operating income, mainly related to the impairment charge and other related closure costs of the planned disposal of the FMG assets held for sale; excluding the impairment and restructuring charges, our operating income registered a decrease in 2007 over 2006 mainly due to the weakening of the U.S. dollar and declining prices, which offset the benefit of the higher sales volume and of the improved products mix. On a quarterly basis, however, the fourth quarter 2007 operating income registered solid improvement both on a year-over-year and a sequential basis when excluding the impact of impairment and restructuring charges.

In summary, our financial results for 2007 compared to the results of 2006 were favourably impacted by the following factors:

- continuous improvement of our manufacturing performances;
- the suspension of depreciation on the FMG assets held for sale;
- higher sales volume and a more favorable products mix; and
- benefit of increased funding to our research and development activities.

Our financial results in 2007 were negatively affected by the following factors:

- the provision for the upcoming disposal of the FMG assets held for sale and other impairment and restructuring charges;
- the weakening of the U.S. dollar exchange rate; and
- negative pricing trends.

In 2007, we continued to invest in upgrading and expanding our manufacturing capacity but at a reduced capital expenditure to sales ratio. Total capital expenditures in 2007 were $1,140 million, which were financed entirely by net cash generated from operating activities. In fact, we generated $840 million of net operating cash flow during the year. At December 31, 2007, we had cash, cash equivalents, marketable securities (both current and non-current) and short-term deposits of $3,238 million of which approximately $415 million were invested in "auctin rate securities" that were partially impaired in the fourth quarter of 2007. Total debt and bank overdrafts were $2,220 million, of which $2,117 million was long-term debt.

Our fourth quarter 2007 financial results exceeded the mid-point of our outlook, both in terms of revenues with 6.9% sequential growth and in terms of gross margin which reached 36.9%. Sequential sales growth was driven by our strong Industrial products offering and improving Wireless positioning, both of which are areas of significant product-development focus for us.

Over the course of 2007 we made progress in strengthening our ASG segment. ASG's revenue growth of approximately 25%, comparing fourth quarter 2007 results with those of the year's first quarter, was in line with our earlier expectations and is evidence of our strengthening portfolio. Additionally, IMS, which includes Advanced Analog, MEMS, Smartcards and Microcontrollers, had sales growth over 10% in 2007, demonstrating the quality of our product portfolio and capability to increase market share in the industrial and analog markets.

While we continue to make significant improvements in a number of areas, such as our product portfolio competitiveness, capital intensity, manufacturing performance and cost structure, the financial benefits of our actions are difficult to see, as a rapidly weakening U.S. dollar has absorbed much of our progress. We remain vigilant in the management of our assets, especially in a weak U.S. dollar environment, and we will continue to take the necessary actions and portfolio efforts required to further improve our operating leverage.

We continue to emphasize a lighter asset strategy and are reconfirming our target to have capital expenditures represent approximately 10% of sales in 2008. Importantly, we have significantly increased our net operating cash flow during 2007, improving by 26% over the prior year to $840 million.

In the fourth quarter of 2007 we acquired a world-class product development team as part of our multifaceted agreement with Nokia to deepen our collaboration announced during the third quarter of 2007. This transaction has been accounted as a business purchase and booked during the fourth quarter of 2007 in our financial statements.

Business Outlook

Looking to the first quarter of 2008, in line with traditional seasonality, we expect net revenues to decline sequentially in the range between 5% and 11%, which represents a year-over-year improvement of about 11% at the midpoint. The gross margin is expected to be about 36.3%, plus or minus 1 percentage point.

This outlook refers to our entire company, including expected results from FMG for the full quarter and Genesis for the final two months; the amount of the loss may increase pending the final evaluation report being prepared by an independent firm, as well as the impact of any further deterioration in the market conditions of the Flash memory business and the credit markets generally. Our outlook is based on an assumed currency exchange rate of approximately \$1.46 to €1.00 for the first quarter of 2008, which reflects current exchange rate levels combined with the impact of existing hedging contracts.

DUTCH DECREE ON ARTICLE 10 OF THE TAKEOVER DIRECTIVE

Announcements on the basis of Article 1 of the Dutch Decree on Article 10 of the Takeover Directive:

a. The authorized share capital of STMicroelectronics N.V. (the "Company") amounts to EUR 1,809,600,000, divided into 1,200,000,000 ordinary shares and 540,000,000 preference shares, with a nominal value of EUR 1.04 per share. As of 31 December 2007, 910,293,420 ordinary shares were issued of which 10,532,881were repurchased. As of December 31, 2007, no preference shares were issued and outstanding.

b. The Company does not have restrictions on the transfer of its ordinary and preference shares.

c. Holdings in the Company that are subject to a disclosure obligation pursuant to Chapter 5.3 of the Dutch Financial Markets Supervision Act ("*Wet op het financieel* toezicht") are:

   (i) STMicroelectronics Holding N.V 250,704,754 ordinary shares or 27.55% (through its wholly-owned subsidiary STMicroelectronics Holding II B.V.) (diluted to 17.29% if the option for preference shares held by Stichting Continuïteit ST is fully exercised);

   (ii) Brandes Investment Partners 92,871,524 ordinary shares or 10.20% (diluted to 6.40% if the option for preference shares held by Stichting Continuïteit ST is fully exercised); and

   (iii) Stichting Continuïteit ST option for 540,000,000 preference shares, representing up to 37.24% if fully exercised.

d. The Company does not have special controlling rights attached to its ordinary or preference shares.

e. The Company does not have any scheme granting rights to employees to subscribe for or acquire shares in the Company's share capital or the share capital of a subsidiary where the control is not directly exercised by the employees, except for duly disclosed Employee Unvested Stock Award Plan, and Supervisory Board Stock Based Compensation Plan.

f. The Company does not have any restrictions on voting rights nor has it cooperated in the issuance of depositary receipts for shares. The Company's articles of association currently provide that in order to be able to attend a shareholders' meeting, address the meeting and, if applicable, exercise their voting rights at such meeting, shareholders and other persons entitled to attend shareholders' meetings must notify the Company in writing of their intention to do so no later than three business days prior to the meeting and at the place mentioned in the notice convening the shareholders' meeting. Shareholders and other persons entitled to attend shareholders' meetings may only exercise said rights at the meeting for the shares from which they can derive said rights both on the day of referred to above and on the day of the meeting. The Managing Board or the Supervisory Board may determine a registration date determining that shareholders and other persons entitled to attend shareholders' meetings are those persons who have such rights at a determined registration date and as such are registered in a register designated thereto by the corporate body convening the shareholders' meeting, regardless of who is a shareholders or otherwise a person entitled to attend at the time of the meeting if a registration date would not have been determined. The registration date cannot be set earliet that on the thirtieth day prior to the shareholders' meeting. In the notice convening the shareholders' meeting the time of the registration shall be mentioned as well as the manner in which shareholders and other persons entitled to attend shareholders' meetings can register themselves and the manner in which they can exercise their rights. On the Company's website, www.st.com, under the caption "Investor Information – Annual General Meeting – How to vote at Annual General Meeting" further information is provided for (beneficial) shareholders holding shares through Euroclear France or Cede & Co as nominee of the Depositary Trust Company.

g. The Company does not have any agreements with shareholders that may give rise to restrictions on the transfer of shares or restrictions of voting rights. The Company has been informed that the shareholders' agreement among STMicroelectronics Holding N.V.'s shareholders (the "STH Shareholders' Agreement"), to which the Company is not a party, governs relations between the Company's current indirect shareholders, Commissariat à l'Energie Atomique ("CEA"), Areva Group ("Areva"), Cassa Depositi e Prestiti S.p.A. ("CDP") and Finmeccanica S.p.A. ("Finmeccanica"), 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 STMicroelectronics Holding N.V. before STMicroelectronics Holding N.V. can make any decision with respect to certain actions to be taken by the Company. The STH Shareholders' Agreement permits the respective French and Italian indirect shareholders to cause STMicroelectronics Holding II B.V. to dispose of its stake in the Company at its sole discretion at any time from their current level, and to reduce the current level of their respective indirect interests in the Company's ordinary shares to 10.5%.

We were informed that on February 26, 2008, pursuant to its rights under the STH Shareholders' (FT1CI on one hand, and Finmeccanica and CDP on the other hand) Agreement to rebalance its shareholding, FT1CI agreed to purchase 26, 034, 141 of our common shares from Finmeccanica, with financing provided by CEA, which, as a result, has become a shareholder of FT1CI. There now exists a balance period between the shareholders through to March 17, 2011, and the 9.5% threshold respectively for our French and Italian shareholders increased to 10.5%. .

Furthermore, as permitted by the Company's 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 the Company and the Company's subsidiaries may give rise to a conflict of interest between the Company's 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 the Managing Board to respond as may be necessary in the rapidly changing environment of the semiconductor industry.

Furthermore, the Company's 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 the Company's ability to buy back shares may be limited by a recently enacted Dutch law that may require shareholders that own more than 30% of our voting rights to launch a tender offer for the Company's outstanding shares. Dutch law, however, requires members of the Supervisory Board to act independently in supervising our management and to comply with applicable Dutch and non-Dutch corporate governance standards.

On October 28, 2007, the Dutch legislation implementing Directive 2004/25/EC on takeover bids (the "Takeover Directive") entered into force. This new Dutch legislation requires a shareholder who (individually or jointly) obtains control to launch an offer to all of our other shareholders. Such control is deemed present if a (legal) person is able to exercise, alone or acting in concert, at least 30% of the voting rights in our shareholders' meeting. The acquisition of control does not require an act of the person who obtains control (e.g., if we repurchase shares as a consequence of which the relative stake of a major shareholder increases (and may result in control having been obtained)).
In the event control is acquired, whether or not by acting in concert, two options exist: (i) either a mandatory offer is launched or (ii) within 30 days the relevant stake is decreased below the 30% voting rights threshold, provided the voting rights have not been exercised during this period and our shares are not sold to a controlling shareholder. The Enterprise Chamber of the Amsterdam Court of Appeal ("Ondernemingskamer") may extend this period by an additional 60 days.
The new Dutch legislation contains a substantial number of exemptions to the obligation to launch a (mandatory) offer. One of those exemptions is that Stichting Continuïteit ST, an independent foundation, is allowed to cross the 30% voting rights threshold when obtaining our preference shares after the announcement of a public offer, but only for a maximum period of 2 years.

h. (i) Managing Board.

The Managing Board consists of such number of members as resolved by the shareholders' meeting upon the proposal of the Supervisory Board. The members of the Managing Board are appointed for three-year terms, as defined in the Company's articles of association, upon a non-binding proposal by the 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 the Managing Board were to consist of more than one member, the Supervisory Board would appoint one of the members of the Managing Board to be chairman of the Managing Board for a three-year term, as defined in the Company's articles of association (upon approval of at least three-quarters of the members of the Supervisory Board in office). The shareholders' meeting may suspend or dismiss one or more members of the Managing Board at a meeting at which at least one-half of the outstanding share capital is present or represented. If the 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. Such a quorum is not required if a suspension or dismissal is proposed by the Supervisory Board. In that case, a resolution to dismiss or to suspend a member of the Managing Board can be taken 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. The Supervisory Board may suspend members of the Managing Board, but a shareholders' meeting must be convened within three months after such suspension to confirm or reject the suspension.

(ii) Supervisory Board.

The Supervisory Board consists of at least six members, the number to be determined by the shareholders' meeting upon the proposal of the Supervisory Board. Members of the Supervisory Board are appointed by the shareholders' meeting for a three-year term, as defined in the Company's articles of association, upon the proposal of the 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 the Supervisory Board may be suspended or dismissed by the 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. The Supervisory Board may make a proposal to the shareholders' meeting for the suspension or dismissal of one or more of its members.

(iii) Amendment of the Company's articles of association.

The company's articles of association can be amended by the shareholders' meeting, upon the proposal of the 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 the relevant amendment affects the rights of holders of ordinary shares or holders of preference shares, the approval of the meeting of holders of ordinary shares and the meeting of holders of preference shares, respectively, is required.

i. For a complete overview of the powers of the Managing Board pursuant to the Company's articles of association, reference is made to the Company's articles of association, which are posted on the company's website, www.st.com. Hereinafter a description is provided for certain powers of the Managing Board as well as certain restrictions thereto.

Under Dutch law, the Managing Board is entrusted with the Company's general management and the representation of the Company. The Managing Board must seek prior approval from the shareholders' meeting for decisions regarding a significant change in the identity or nature of the Company. Under the Company's articles of association, the Managing Board must obtain prior approval from the 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 the Company's multi-year plans and the budget for the coming year, covering investment policy, policy regarding research and development, 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 the Supervisory Board. In addition, under the Company's articles of association, the Supervisory Board and the shareholders' meeting each may specify by resolution certain additional actions by the Managing Board that require its prior approval.

In accordance with the Company's corporate governance charter, which is posted on the Company's website, www.st.com under the caption "Investor Information – Corporate Governance at ST", the sole member of the Managing Board and the Executive Officers may not serve on the board of a public company without the prior approval of the Supervisory Board.

Pursuant to the charter adopted by the Supervisory Board, which is posted on the Company's website, www.st.com under the caption "Investor Information – Corporate Governance at ST", the following decisions by the Managing Board with regards to the Company and any of the Company's direct or indirect subsidiaries require prior approval from the Supervisory Board: (i) any modification of the Company's articles of association other than those of the Company's wholly-owned subsidiaries; (ii) any change in the Company's authorized share capital, issue, acquisition or disposal of the Company's own shares, change in any shareholder rights or issue of any instruments granting an interest in the Company's capital or profits other than those of the Company's wholly-owned subsidiaries; (iii) any liquidation or disposal of all or a substantial and material part of the Company's assets or any shares the Company holds in any of its subsidiaries; (iv) entering into any merger, acquisition or joint venture agreement (and, if substantial and material, any agreement relating to intellectual property) or formation of a new company; (v) approval of such company's draft consolidated balance sheets and financial statements or any profit distribution by such company; (vi) entering into any agreement that may qualify as a related-party transaction, including any agreement with STMicroelectronics Holding N.V., its wholly-owned subsidiary STMicroelectronics Holding II B.V., or its shareholders Areva through its wholly-owned subsidiary FT1CI, Cassa Depositi e Prestiti S.p.A. and Finmeccanica S.p.A.; (vii) the key challenges of the Company's five-year plans and its consolidated annual budgets, as well as any significant modifications to said plans and budgets, or any one of the matters set forth in article 16 paragraph 1 of the Company's 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 although their financing was provided for in the approved annual budget; and (ix) approval of the quarterly, semi-annual and annual consolidated financial statements prepared in accordance with U.S. GAAP and beginning with the 2005 annual accounts IFRS, prior to submission for shareholder adoption.

During a meeting held on September 23, 2000, the Supervisory Board authorized the Managing Board to proceed with acquisitions without prior consent of the Supervisory Board subject to a maximum amount of $25 million per transaction, provided the Managing Board keeps the Supervisory Board informed of progress regarding such transactions and gives a full report once the transaction is completed.

Pursuant to the Company's articles of association, the Managing Board cannot be designated by the shareholders' meeting as the corporate body authorized to issue shares, grant rights to subscribe for shares and to exclude existing shareholders' preemptive rights, but the Supervisory Board can be. Pursuant to a shareholders' resolution adopted at the Company's annual shareholders' meeting held on April 27, 2006, the 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 the company's authorized share capital as this shall read 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.

Currently the shareholders' meeting has not authorized the Managing Board to repurchase any shares in the Company's share capital. However, pursuant to article 5 paragraph 2 of the Company's articles of association, the Managing Board may, without being authorized thereto by the shareholders' meeting but subject to the approval of the Supervisory Board, acquire shares in the Company's own share capital in order to transfer those shares to the employees of the Company or a group company under a scheme applicable to such employees.

j. The Company is a party to an option agreement with Stichting Continuïteit ST (the "Stichting") regarding the Company's preference shares. On November 27, 2006, the Supervisory Board approved entering into an option agreement with an the Stichting, to terminate a substantially similar option agreement dated May 31, 1999, as amended, between the Company and STMicroelectronics Holding II B.V. The Managing Board and the Supervisory Board, along with the board of the Stichting, have declared that they are jointly of the opinion that the Stichting is independent of the Company. The Supervisory Board approved the new option agreement to reflect changes in Dutch legal requirements, not in response to any hostile takeover attempt. On February 7, 2007, the May 31, 1999 option agreement, as amended, was terminated. On February 22, 2007, the new option agreement with the Stichting was concluded. The new option agreement provides for the issuance of up to a maximum 540,000,000 preference shares, the same number as the May 31, 1999 option agreement, as amended. 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 the Managing Board and the Supervisory Board, such as a creeping acquisition (in such case up to 30% of the issued common stock) or an offer on the Company's ordinary shares, which are unsupported by the Managing Board and the Supervisory Board and which the board of the Stichting determines would be contrary to the interests of the Company, the Company's 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 the Managing Board and the Supervisory Board, as described above, occur and which the board of the Stichting determines to be contrary to the interests of the Company and the Company's shareholders and other stakeholders.

k. The employment contract of the Company's President and CEO provides that upon a change of control following a takeover bid (i) all unvested stock awards granted to him will fully vest and (ii) the bonus payable under the Company's 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.

LIQUIDITY AND FINANCIAL POSITION

At December 31, 2007, cash and cash equivalents totaled $1,855 million, compared to $1,659 million as of December 31, 2006. At December 31, 2007 and 2006, the Company had $0 million and $250 million invested in short term deposits with a maturity between three months and one year. These deposits are held at various banks with a A3/A- minimum long term rating. Interest on these deposits is paid at maturity with interest rates fixed at inception for the duration of the deposits. The principal will be repaid at final maturity. As at December 31, 2007, the Company had investments in debt securities amounting to $1,383 million, composed of $1,014 million invested in senior debt floating rate notes issued by primary financial institutions and $369 million invested in AAA-rated auction rate securities. The floating rate notes are reported as current assets on the line “Available-for-sale financial assets” on the consolidated balance sheet as at December 31, 2007 since they represent investments of funds available for current operations. The auction-rate securities are classified as non-current assets on the line “Available-for-sale financial assets” on the consolidated balance sheet as at December 31, 2007 since the Company intends to hold these investments beyond one year. In 2007, the Company invested $536 million of existing cash in floating rate notes with primary financial institutions with minimum Moody’s rating “A1” with a maturity between twenty one months and six years, of which $40 million were sold in 2007. In 2007, the Company purchased auction rate securities for a total amount of $172 million and sold $61 million of these debt securities. In addition, the Company determined that these financial assets were to be more properly classified on its consolidated balance sheet as “Available-for-sale financial assets” instead of “cash and cash equivalents”, as reported in previous periods and namely as of December 31, 2006. The revision of the December 31, 2006 consolidated balance sheet results in a decrease of “cash and cash equivalents” by $304 million with an offsetting increase to “Available-for-sale financial assets”, as further explained in note 29. All these debt securities are classified as available-for-sale and recorded at fair value as at December 31, 2007 and 2006, with changes in fair value, including temporary declines, recognized as a separate component of “other reserves” in the consolidated statement of changes in shareholders’ equity. As of December 31, 2007 the Company reported a pre-tax decline in fair value on the floating rate notes totaling $3 million. The Company estimated the fair value of these financial assets based on public quoted market prices. This change in fair value was recognized as a separate component of “other reserves” in the consolidated statement of changes in shareholders’ equity since the Company assessed that this decline in fair value was temporary and that the Company was in a position to recover the total carrying amount of these investments on subsequent periods. On the auction-rate securities, the Company reported an other-than-temporary decline in fair value amounting to $46 million, which was immediately recorded in the consolidated statement of income on the line “other-than-temporary impairment charge on marketable securities”, as further explained in note 4.

Changes in the instruments adopted to invest our liquidity in future periods may occur and may significantly affect our finance income (costs).

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.

Net cash from operating activities. Net cash from operating activities totalled $2,349 million in 2007, compared to $2,687 million in 2006.

Net cash used in investing activities. Net cash used in investing activities was $1,897 million in 2007, compared to $3,253 million in 2006. The main utilization of cash was for payments for purchases of tangible assets, amounting to $1,141 million in 2007 and compared to $1,555 million in 2006; the payments of marketable securities, net of proceeds from sale of marketable securities, amounting to $607 million in 2007 and compared to $764 million in 2006, and the investment in intangible and financial assets, amounting to $436 million in 2007 and compared to $398 in 2006. In 2007 and 2006, cash used for capital contributions to associates was $86 million and $213 million, respectively.

Capital expenditures for 2007 were principally allocated to:

- the completion of capacity ramp-up as per Alliance program in our 300-mm fab in Crolles (France) and the acquisition of a portion of the tools from our partners
- the upgrading and expansion of our 200-mm fab in Agrate (Italy) for BCDs and MEMS
- the completion of the program of capacity expansion and the upgrading to finer geometry technologies of our 200-mm front-end facility in Rousset (France)
- the capacity ramp-up for one of our discrete process families and upgrading of our 150-mm fabs in Singapore;
- the upgrading to leading edge technologies, down to 45 nm, of our 200-mm R&D fab in Agrate (Italy)
- the capacity expansion for 65 nm, Nand and Nor Flash Memories, of our 200-mm fab in Singapore
- the capacity expansion of our back-end plants in Muar (Malaysia) and Shenzhen (China)

Capital expenditures for 2006 were principally allocated to:

- the expansion of the 300-mm front-end joint project with Philips Semiconductor International B.V. and Freescale Semiconductor Inc., in Crolles2 (France).
- the facilitization of a portion of our 300-mm front-end plant in Catania (Italy);
- the capacity expansion and the upgrading to finer geometry technologies of our 200-mm front-end facility in Rousset (France);
- the capacity expansion and upgrading of our 200-mm front-end facilities in Singapore;
- the upgrading of our 200-mm fab and pilot line in in Agrate (Italy); and
- the capacity expansion of our back-end plants in Muar (Malaysia), Shenzhen (China) and Bouskoura (Morocco);

Net operating cash flow. We define net operating cash flow as net cash from operating activities minus net cash used in investing activities, excluding restricted cash, payment for purchases of and proceeds from the sale of marketable securities and investment in and proceed from short-term deposits. We believe net operating cash flow provides useful information for investors because it measures our capacity to generate cash from our operating activities to sustain our investments for our operating activities. Net operating cash flow is determined as follows from our Consolidated Statements of Cash Flow:

	2007	2006
Net cash from operating activities	2,349	2,687
Net cash used in investing activities	(1,508)	(2,021)
Net operating cash flow	**841**	**666**
Restricted cash, payment for purchase and proceeds from sale of marketable securities and investment in and proceed from short-term deposits	(389)	(1,232)

Due to the capacity of our operating activities to generate cash in excess of our investing activities, we generated net operating cash flow of $841 million in 2007, compared to net operating cash flow of $666 million in 2006.

Net cash used in financing activities. Net cash used in financing activities was $296 million in 2007 compared to a net cash proceed of $143 million in 2006. The major item of the cash used in 2007 was the payment of the dividends amounting to $269 million. The major item of the cash used in 2006 was the repurchase of substantially all outstanding 2013 Convertible Bonds for an amount paid of $1,377 million aggregate principal amount. The major items of cash proceeds in 2006 were related to the issuance of zero coupon senior convertible bonds due in 2016 for an amount of $974 million and to the issuance of floating rate senior bonds due in 2013 for a principal amount of €500 million.

Capital Resources

Net financial position

We define our net financial position as the difference between our total cash position (cash and cash equivalents, marketable securities, short-term deposits and restricted cash) net of total financial debt (bank overdrafts, current portion of long-term debt and long-term debt). We believe our net financial position 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 and cash equivalents and the total level of our financial indebtedness. The net financial position is determined as follows from our Consolidated Balance Sheets as December 31, 2007 and 2006 :

	2007	2006
Cash and cash equivalents	1,855	1,659
Marketable securities and short term deposits	1,383	1,014
Restricted cash for equity investments	250	218
Total cash position	3,488	2,891
Bank overdrafts	—	—
Current portion of long-term debt	(103)	(136)
Long-term debt	(1,887)	(1,740)
Total financial debt	(1,990)	(1,876)
Net financial position	1,498	1,015

The net financial position (total cash position net of total financial debt) as of December 31, 2007 amounted to a net financial position of $1,498 million, compared to a net financial position of $1,015 million as of December 31, 2006. The improvement of the net financial position mainly results from favourable net operating cash flow generated during 2007.

Pursuant to the terms of the convertible bonds due 2013, the Company was required to purchase, at the option of the holders, 1,397,493 convertible bonds, at a price of $985.09 each between August 7 and August 9, 2006. This resulted in a cash payment of $1,377 million. The Company may be required to purchase, at the option of the holder, the outstanding convertible bonds for cash on August 5, 2008 and/or August 5, 2010 at a price of $975.28 and $965.56 per convertible bond, respectively. The outstanding long term debt corresponding to the 2013 convertible debt amounted to approximately $2 million as at December 31, 2007, corresponding to the remaining 2,505 bonds.

In February 2006, the Company issued $974 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 a conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. This conversion rate has been adjusted from 43.118317 shares per one thousand dollar face value of the bonds at issuance, as the result of the extraordinary cash dividend approved by the Annual General Meeting of Shareholders held on April 26, 2007. This new conversion has been effective since May, 21, 2007. In the event of any change in control, the holder has the right to require the Company to purchase for cash all or any part of the holder’s convertible bonds at its accreted value. 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 dollars face value of the bonds. The Company can call the bonds at any time after March 10, 2011 subject to the Company’s share price exceeding 130% of the accreted value divided by the conversion rate for 20 out of 30 consecutive trading days. The Company may redeem for cash at the principal amount at issuance plus accumulated gross yield all, but not a portion, of the convertible bonds at any time if 10% or less of the aggregate principal amount at issuance of the convertible bonds remain outstanding in certain circumstances or in the event of changes to the tax laws of the Netherlands or any successor jurisdiction.

On March 17, 2006, STMicroelectronics Finance B.V. (“ST BV”), a wholly owned subsidiary of the Company, issued floating rate senior bonds with a principal amount of Euro 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 Company, 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 Company to repurchase all or a portion of the bonds outstanding.

At December 31, 2007, the aggregate amount of our long-term debt was approximately $1,887 million, including $779 million of 2016 Bonds and €500 million of Floating Rate Senior Bonds due 2013.

Financial Outlook

We currently expect that capital spending will represent approximately 10% of sales in 2008. We have the flexibility to modulate our investments up or down in response to changes in market conditions. At December 31, 2007, we had $812 million in outstanding commitments for equipment purchases for 2008.

The most significant of our 2008 capital expenditure projects are expected to be: (a) for the front-end facilities: (i) full capacity ownership of our 300-mm fab in Crolles, through the buy-back of the Alliance partners tools; (ii) a specific program of capacity growth devoted to MEMS in Agrate (Italy) and mixed technologies in Agrate and Catania (Italy) to support the significant growth opportunity in these technologies; (iii) focused investment both in manufacturing and R&D in France sites to secure and develop our system oriented proprietary technologies portfolio (HCMOS derivatives and mixed signal) required by our strategic customers; and (b) for the back-end facilities, the capital expenditures will mainly be dedicated to the technology evolution to support the ICs path to package size reduction in Shenzhen (China) and Muar (Malaysia) and to prepare the room for future years capacity growth by completing the new production area in Muar and the new plant in Longgang (China).

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 (including state support), 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 for expansion plans, our working capital requirements, R&D and industrialization costs.

The zero coupon senior convertible bonds due in February 2016 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 a conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. This conversion rate has been adjusted from 43.118317 shares per one thousand dollar face value of the bonds at issuance, as the result of the extraordinary cash dividend approved by the Annual General Meeting of Shareholders held on April 26, 2007. This new conversion has been effective since May, 21, 2007. In the event of any change in control, the holder has the right to require the Company to purchase for cash all or any part of the holder's convertible bonds at its accreted value. 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 dollars face value of the bonds. The Company can call the bonds at any time after March 10, 2011 subject to the Company's share price exceeding 130% of the accreted value divided by the conversion rate for 20 out of 30 consecutive trading days. The Company may redeem for cash at the principal amount at issuance plus accumulated gross yield all, but not a portion, of the convertible bonds at any time if 10% or less of the aggregate principal amount at issuance of the convertible bonds remain outstanding in certain circumstances or in the event of changes to the tax laws of the Netherlands or any successor jurisdiction.

Market Risk — About Financial Instruments

We are exposed to changes in financial market conditions in the normal course of business due to our operations in different foreign currencies and our ongoing investing and financing activities. Market risk is the uncertainty to which future earnings or asset/liability values are exposed due to operating cash flows denominated in foreign currencies and various financial instruments used in the normal course of operations. The major risks to which we are exposed are related to the fluctuations of the U.S. dollar exchange rate compared to the euro and the other major currencies, the coverage of our foreign currency exposures, the variation of the interest rates and the risks associated to the investments of our available cash. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

Our Income Statement is exposed to the fluctuations of the exchange rates such as the U.S. dollar, the euro and the other major currencies since our revenues are mainly denominated in U.S. dollars while a large part of our costs is denominated in euros or other major currencies. We enter into cash flow hedges to cover a portion of our costs denominated in euros. Our balance sheet is also exposed to these exchange rates fluctuations since the functional currency of our subsidiaries is generally the local currency and as such, foreign exchange fluctuations are generating adjustments for the translation into U.S. dollar consolidated reporting of their assets and liabilities.

We have exposures in foreign currencies since our operating cash flows are denominated in various foreign currencies as a result of our international business activities and certain of our borrowings are exposed to changes in foreign exchange rates. The functional currency of our subsidiaries is either the local currency or the U.S. dollar. We continuously evaluate our foreign currency exposures based on current market conditions and the business environment. In order to mitigate the impact of changes in foreign currency exchange rates, we enter into forward exchange and currency options contracts. The magnitude and nature of such outstanding instruments are detailed in Note 35 to our Consolidated Financial Statements. Forward contracts and currency options outstanding as of December 31, 2007 have remaining terms of 2 days to 5 months, which mature on average after less than 2 months. The notional amounts of outstanding foreign exchange forward contracts and currency options totalled $737 million and $824 million in 2007 and 2006, respectively. The principal currencies covered are the U.S. dollar, the euro, the Japanese yen, the myr and the Singapore dollar. The risk of loss associated with these forward contracts is equal to the exchange rate differential from the date the contract is made until the time it is settled while the risk of loss linked to the currency options is limited to the premium paid to purchase the options.

We are exposed to changes in interest rates primarily as a result of our borrowing activities which include long-term debt used to fund business operations. We borrow in U.S. dollars as well as in other currencies from banks and other sources. We primarily enter into debt obligations to support general corporate and local purposes including capital expenditures and working capital needs. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions, and other factors. The principal risks are related to interest rates variations to which we are exposed in regard to our long-term obligations. We primarily utilize fixed-rate debt and do not expect changes in interest rates to have a material effect on income or cash flows in 2008.

We place our cash and cash equivalents, or a part of it, with high credit quality financial institutions with at least a single “A” rating, mainly on a short-term basis; 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.

We do not anticipate any material adverse effect on our financial position, result of operations or cash flows resulting from the use of our instruments in the future. There can be no assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

The information above summarizes our market risks associated with cash equivalents, debt obligations, and other significant financial instruments as of December 31, 2007. The information above should be read in conjunction with Note 35 to the Consolidated Financial Statements.

STATUTORY FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME FOR THE PERIODS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND DECEMBER 31, 2006

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

STMICROELECTRONICS N.V. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

In million of U.S. dollars except per share amounts	Note	Year Ended December 31, 2007	Year Ended December 31, 2006
Sales	38	9,966	9,838
Other revenues	38	35	16
Total revenues		**10,001**	**9,854**
Cost of sales	26	(6,541)	(6,373)
Gross profit		**3,460**	**3,481**
Selling, general and administrative	26	(1,091)	(1,083)
Research and development	26	(1,555)	(1,388)
Other income	24	184	138
Other expenses	24	(58)	(92)
Impairment, restructuring charges and other related closure costs	25	(1,346)	(68)
Operating profit (loss)		**(406)**	**988**
Impairment charge on marketable securities	4	(46)	-
Finance income	27	155	143
Finance costs	27	(105)	(96)
Share of gain (loss) of associates	3	10	(7)
Profit (loss) before income tax		**(392)**	**1,028**
Income tax expense	28	(41)	(62)
Net result		**(433)**	**966**
Attributable to:			
Equity holders of the Company		**(439)**	**964**
Minority interest		**6**	**2**
Earnings (loss) per share (Basic)	23	**(0.49)**	**1.08**
Earnings (loss) per share (Diluted)	23	**(0.49)**	**1.07**

The accompanying notes are an integral part of these consolidated financial statements.

STMICROELECTRONICS N.V. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In million of U.S. dollars	Note	As at December 31, 2007	As at December 31, 2006
ASSETS			
Non-current assets:			
Property, plant and equipment	13	5,045	6,426
Goodwill	11	243	176
Intangible assets	12	843	729
Deferred income tax assets	28	355	214
Derivative financial instruments	5	8	4
Available-for-sale financial assets	4	408	42
Investments in associates	3	0	261
Restricted cash	3	250	218
Long-term loans and receivables	14	203	146
Other non-current assets	15	60	45
Total non-current assets		**7,415**	**8,261**
Current assets:			
Inventories	7	1,355	1,640
Disposal assets held for sale	8	1,017	4
Trade accounts receivable	6	1,605	1,589
Other receivables	9	336	293
Current income tax receivable		142	132
Other current assets	10	150	72
Derivative financial instruments	5	13	15
Available-for-sale financial assets	4	1,014	764
Short-term deposits	30	0	250
Cash and cash equivalents	29	1,855	1,659
Total current assets		**7,487**	**6,418**
TOTAL ASSETS		**14,902**	**14,679**
LIABILITIES AND EQUITY			
Equity attributable to the shareholders of the Company	21	9,953	10,128
Minority interests		53	52
Total equity		**10,006**	**10,180**
Liabilities			
Non-current liabilities:			
Long-term debt	18	1,887	1,740
Retirement benefit obligations	17	333	343
Deferred income tax liabilities	28	141	130
Long term provisions	19	61	24
Other non-current liabilities	20	332	296
Total non-current liabilities		**2,754**	**2,533**
Current liabilities:			
Current portion of long-term debt	18	103	136
Trade accounts payable	16	1,065	1,044
Other payables and accrued liabilities	16	702	642
Current provisions	19	195	93
Derivative financial instruments	35	1	1
Current income tax liabilities	28	76	50
		2,142	**1,966**
Total liabilities		**4,896**	**4,499**
TOTAL LIABILITIES AND EQUITY		**14,902**	**14,679**

The accompanying notes are an integral part of these consolidated financial statements.

STMICROELECTRONICS N.V. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Equity attributable to the shareholders of the Company						
In million of U.S. dollars, except per share amounts	Note	Ordinary Shares	Capital Surplus	Treasury Shares	Retained Earnings	Other Reserves	Minority Interests	Total Equity
Balance as of December 31, 2005....................		**1,153**	**1,956**	**(348)**	**5,368**	**521**	**50**	**8,700**
Unrealized profit on cash flow hedge, net of tax	22					14		14
Foreign currency translation difference...............................	22					532		532
Net income recognized directly in equity.................................						546		546
Net result					964		2	966
Total recognized income for 2006..					**964**	**546**	**2**	**1,512**
Employee share award scheme:								
Value of services provided	21					46		46
Distribution of treasury shares	21			17	(16)			1
Exercise of stock options........	21	3	25					28
Dividends, $0.12 per share	22				(107)			(107)
		3	**25**	**17**	**(123)**	**46**	**-**	**(32)**
Balance as of December 31, 2006................		**1,156**	**1,981**	**(331)**	**6,209**	**1,113**	**52**	**10,180**
Unrealized profit on cash flow hedge, net of tax	22					(1)		(1)
Unrealized loss on debt securities						(3)		(3)
Foreign currency translation difference...............................	22					458	(5)	453
Net income recognized directly in equity.................................						454	(5)	449
Net result					(439)		6	(433)
Total recognized income for 2007					**(439)**	**454**	**1**	**16**
Employee share award scheme:								
Value of services provided	21					78		78
Distribution of treasury shares	21			57	(57)			-
Exercise of stock options........	21	-	2					2
Dividends, $0.30 per share	22				(270)			(270)
		-	**2**	**57**	**(327)**	**78**	**-**	**(190)**
Balance as of December 31, 2007…………		**1,156**	**1,983**	**(274)**	**5,443**	**1,645**	**53**	**10,006**

The accompanying notes are an integral part of these consolidated financial statements.

STMICROELECTRONICS N.V. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

In million of U.S. dollars	Note	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash flows from operating activities:			
Cash generated from operations	31	2,534	2,833
Interest paid..		(52)	(29)
Income tax paid		(133)	(117)
Net cash from operating activities..........................		**2,349**	**2,687**
Cash flows from investing activities:			
Payment for purchase of tangible assets.....................	12	(1,141)	(1,555)
Proceeds from the sale of tangible assets	12	1	22
Investment in intangible and financial assets	3, 11, 12	(436)	(398)
Proceeds from the sales of affiliates		-	7
Capital contributions to associates	3	(86)	(213)
Restricted cash for equity investments………………	3	(32)	(218)
Investment in short-term deposits..............................	30	-	(903)
Proceeds from maturity of short-term deposits...........	30	250	653
Purchase of available for sale financial assets	4	(708)	(764)
Proceeds from available for sale financial assets........	4	101	-
Interest received		154	116
Net cash used in investing activities		**(1,897)**	**(3,253)**
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares................	21	2	28
Proceeds from issuance of convertible bonds............	18	-	962
Proceeds from issuance of long-term debt.................	18	102	782
Repayment of convertible bonds……………………..	18	-	(1,377)
Repayment of long-term debt....................................	18	(125)	(145)
Dividends paid to the Company’s shareholders..........	22	(270)	(107)
Dividends paid to Minority interests………………..		(6)	—
Other financing activities		1	—
Net cash used in financing activities.......................		**(296)**	**143**
Effect of changes in exchange rates...........................		40	66
Net cash increase (decrease)		**196**	**(357)**
Cash and cash equivalents at beginning of period.		**1,659**	**2,016**
Cash and cash equivalents at end of period		**1,855**	**1,659**
Reconciliation of cash and cash equivalents...........			
Cash and cash equivalents for balance sheet purposes		1,855	1,659
Bank overdrafts		—	—
Cash and cash equivalents for cash flow statement purposes		**1,855**	**1,659**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except per share amounts)

1 — GENERAL INFORMATION

STMicroelectronics N.V. (the "Company") is registered in The Netherlands with its statutory domicile in 265, Schiphol boulevard, Amsterdam. The Company was formed in 1987 to be the holding company for 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 Thomson-CSF, a French corporation) whereby each company contributed their respective semiconductor businesses in exchange for a 50% interest in the Company.

The Company 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.

Since 1994, the Company common shares have been traded on the New York Stock Exchange under the symbol "STM" and on Euronext Paris. On June 5, 1998 the Company common shares were also listed on the Borsa Italiana (Italian Stock Exchange), where they have been traded since that date.

These consolidated financial statements have been approved for submission to the annual general meeting of the shareholders by the Supervisory Board on April 1, 2008.

2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidation financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Certain prior year items have been reclassified to conform with current year presentation. The disclosure contained within the consolidated balance sheet has been amended to appropriately reflect the classification of certain debt securities as available-for-sale financial assets, as described in note 4. 4. The disclosure contained within the consolidated statement of changes in shareholders' equity has been amended to more appropriately reflect the categorization of other reserves and retained earnings.

2.1 — Basis of preparation

These consolidated financial statements, prepared for Dutch statutory purposes, have been prepared 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 the statement of income is presented in abbreviated form for the Company's accounts further presented in these statutory financial statements.

All balances and values in the current and prior periods are in millions of dollars, except share and per-share amounts. Under Article 35 of the Company's Articles of Association, the financial year extends from January 1 to December 31, which is the period-end of each fiscal year. Interim periods are established for accounting purposes on a thirteen-week basis. In 2007, the Company's first quarter ended on March 31, its second quarter ended on June 30, its third quarter ended on September 29 and its fourth quarter ended on December 31.

For internal and external reporting purposes, the Group follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is the Group's primary accounting standard for the setting of financial and operational performance targets.

The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets and certain financial assets and financial liabilities (including derivative instruments) at fair value. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.26.

2.2 —Consolidation

The Group's consolidated financial statements include the assets, liabilities, results of operations and cash flows of its subsidiaries. The ownership of other interest holders is reflected as minority interests. Intergroup balances and transactions, and unrealized gain arising from intercompany transactions have been eliminated in consolidation. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred.

Subsidiaries

Subsidiaries are all entities over which the Group 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 the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill (Note 2.13). If the cost of acquisition is lower than the fair value of the Company's share in the net assets of the entity acquired, the difference is recognized directly in the income statement.

Associates

Associates include all entities over which the Group 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 Group's share in its associates' profit and losses is recognized in the income statement as "Share of 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 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.

The Company had no investment in associates at the end of year 2007 as further explained in Note 3.

2.3 — Foreign currency translation

Functional and presentation currency

The U.S. dollar is the presentation currency for the Group and the functional currency for the Company, 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, labor costs are concentrated primarily in the countries that have adopted the Euro currency.

Translation and balances

The functional currency of each subsidiary throughout the group is either the local currency or the US dollar, determined on the basis of the economical environment in which each subsidiary operates. For consolidation purposes, assets and liabilities included in the financial statements of the Company's subsidiaries having the local currency as functional currency are translated at current rates of exchange at the balance sheet date. Income and expense items and cash flow items are translated at the monthly average exchange rate of the period, which is an adequate reflection of the spot rate. The effects of translating the financial position and results of operations from local functional currencies are reported as a component of "other reserves" in the consolidated statements of changes in equity.

Assets, liabilities, revenues, expenses, gains or losses arising from transactions in a currency different from the functional currency are recorded in the functional currency of the entity at the exchange rate during the month of the transaction. At each balance sheet 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 balance sheet date. The related exchange gains and losses are recorded in the consolidated statements of income as "Other income" or "Other expenses".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security.

Translation differences related to changes in amortized cost are recognized in profit or loss, and other 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 loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss 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 the consolidated statements of income.

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.

2.4 — 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 accrues a provision for price protection based on a rolling historical price trend computed on a monthly basis as a percentage of gross distributor sales. This historical price trend represents differences in recent months between the invoiced price and the final price to the distributor, adjusted if required, to accommodate a significant move in the current market price. The short outstanding inventory time period, visibility into the standard inventory product pricing (as opposed to certain customized products) and long distributor pricing history have enabled the Group to reliably estimate price protection provisions at period-end. The Group records the accrued amounts as a deduction of revenue at the time of the sale.

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 as probable and can be reasonably estimated. The Group records the accrued amounts as a reduction of revenue.

The Group's insurance policy relating to product liability only covers physical damage and other direct damages caused by defective products. The Group does not carry insurance against immaterial non-consequential damages. 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. Any potential warranty claims are subject to the Group's determination that the Group is at fault for damages, and such claims usually must be submitted within a short period following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms express or implied by statute or common law. The Group's contractual terms and conditions limit its liability to the sales value of the products which gave rise to the claims.

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 balance sheet date.

Other revenues

Other revenues primarily consist of license revenue and patent royalty income, which are recognized ratably over the term of the agreements.

Fundings

Fundings received by the Group are mainly from governmental agencies and income is recorded when all qualifying expenditures have been performed 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 require 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 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 statements of income. 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. No major public funding is 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 in some of 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. As such the Group recognizes these credits as research and development funding, which are included in “other income” in the consolidated statements of income.

Capital investment funding is recorded as a reduction of “property, plant and equipment” and is recognized in the Group’s consolidated statements of income 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. The funding has been classified as long-term receivable and 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 cost”.

The Group receives certain loans, mainly related to large capital investment projects, at preferential interest rates. The Group records these loans at their nominal value as debt in its consolidated balance sheets, which has also been determined to approximate its effective rate based on the term outstanding.

Interest 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. Interest income on impaired loans is recognized using the original effective interest rate.

2.5 — 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.

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. Development expenditures recognized as assets are amortized, when in use, over their estimated useful lives, not exceeding three years (Note 2.12). 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 expense recognized on capitalized development costs is recorded as cost of sales. Amortization expense on technologies and licenses purchased by the Group from third parties to facilitate the Group’s research is recorded as research and development expenses.

An impairment test is performed at least annually for the capitalized development projects still not in use and an eventual loss is recognized in the income statement for the amount by which the asset’s carrying amount exceeds its recoverable amount.

2.6 — Start-up costs

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 6-months after the fabrication line's quality qualification. No sales are associated with these costs. As such, they are not included as part of cost of sales and are presented in "other expenses" in the consolidated statements of income.

2.7 — 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 balance sheet 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.

Certain specific research tax credits received in some of the tax jurisdictions of the Group are recognized as research and development funding and included in "other income" in the consolidated statements of income since the Group is entitled to receive in cash such credit even if no income tax is expected to be paid for the year in which the research tax credit must be recognized.

2.8 — 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, nonvested shares and convertible debt to the extent such incremental shares are dilutive. Nonvested shares with performance or market conditions are included in the computation of diluted earnings per share if their conditions have been satisfied at the balance sheet date and if the awards are dilutive. If all necessary conditions have not been satisfied by the end of the period, the number of non vested shares included in diluted EPS shall be based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the contingency period and if the result would be dilutive.

2.9 — Cash and cash equivalents

Cash and cash equivalents represents cash on hand, deposits at call with banks, highly liquid investments with insignificant interest rate risk purchased with an original maturity of ninety days or less. For cash flow presentation purposes, cash and cash equivalents includes bank overdrafts. Bank overdrafts are shown as part of current liabilities on the consolidated balance sheet.

2.10 — Restricted cash

Restricted cash includes collateral deposits used as security under arrangements for financing of certain entities.

2.11 — 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 cost 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.

2.12 — Intangible assets subject to amortization

Intangible assets subject to amortization include the cost of technologies and licenses purchased from third parties, purchased software, internally developed software which is capitalized and costs incurred on other development projects that meet all capitalization criteria as defined in IAS 38 (revised), *Intangible Assets*. Intangible assets subject to amortization are reflected net of any impairment losses. The carrying value of intangible assets subject to amortization is evaluated whenever changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the 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. The fair value would normally be estimated based on independent market appraisals, the value in use corresponds to the sum of discounted future cash flows to be derived from the particular asset or to the cash-regenerating unit to which it relates.

Amortization is computed using the straight-line method over the following estimated useful lives:

Technologies & licenses	3-7 years
Purchased software	3-4 years
Internally developed software	4 years
Capitalized development costs	3 years

The Group evaluates the remaining useful life of an intangible asset at each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The capitalization of costs for internally generated software developed for the Group's internal use begins when 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 recognised as intangible assets net of any material government funding directly attributable to the specific projects when the Group can demonstrate all of the following: (i) the technical feasibility of completing the item under development so that it will be available for use or sale; (ii) its intention to complete the item under development and to use it or sell it; (iii) its ability to use or sell the intangible asset under construction; (iv) how the item under development will generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the item under development; and (vi) its ability to measure reliably the expenditure attributable to the project during its development. Development costs that have been capitalized are amortized on a straight-line basis over the period of their expected benefits, not exceeding three years. Development costs incurred before the Group can demonstrate the compliance with the capitalization criteria described above and after the commencement of the generation of benefits through the use or production of the developed item are not capitalized and are recognized in the consolidated statements of income as research and development expenses.

2.13 — Goodwill

Goodwill recognized in business combinations is not amortized but rather is subject to an impairment test to be performed on an annual basis or more frequently if indicators of impairment exist, in order to assess the recoverability of its carrying value. Goodwill subject to potential impairment is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. These CGUs represent 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. As further described in detail in Notes 11 and 37, 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.

2.14 — Property, plant and equipment

Property, plant and equipment are stated at historical cost, net of government fundings, depreciation and any impairment losses. 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 statement of income.

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	3-6 years
Computer and R&D equipment	3-6 years
Other	2-5 years

The Group evaluates 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 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. 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 balance sheet 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" in the consolidated statements of income.

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" and 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 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.

2.15 — Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and 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 balance sheet date. Derivatives are classified as held for trading unless they are designated as hedges (note 2.17).

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 balance sheet date, which are classified as non-current assets. Loans and receivables are classified in the consolidated balance sheet as trade accounts receivable (Note 2.16), Other receivables and Long-term loans and receivables.

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 of the balance sheet date.

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 and loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of income. 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 and 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 and loss are presented in the consolidated statement of income within “other income” or “other expenses” in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized as a separate component of “other reserves” in the consolidated statements of changes in equity.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid 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 balance sheet 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 statement of income. Impairment losses recognized in the consolidated statement of income on equity securities are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.16.

2.16 — 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 reorganisation, 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 present cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement as “selling, general and administrative expenses”. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivable. Subsequent recoveries of amounts previously written off are credited against “selling, general and administrative expenses” in the consolidated statement of income.

2.17 — Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognized liabilities (fair value hedge); or

(b) hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge)

The Group documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments classified as held for trading

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. 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 Company's subsidiaries. In addition forward contracts and currency options are also used by the Company to reduce its exposure to U.S. dollar fluctuations in euro-denominated forecasted intercompany transactions that cover a large part of research and development expenditures and certain corporate expenses incurred on the Company'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 and are marked-to-market at each period-end with the associated changes in fair value and transaction costs recognized in "other income" or "other expenses" as well as transaction costs in the consolidated statements of income.

Cash Flow Hedges

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Company 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. The foreign currency forward contracts and the currency options used to hedge exposures are reflected at their fair value in the consolidated balance sheet and meet the criteria for designation as cash flow hedges. The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction, close link to ultimate sales to third parties and, in most cases, a one-to-one matching of the derivative instrument to its underlying transaction. Foreign currency forward contracts and currency options used as hedges are effective at reducing the euro/U.S. dollar currency fluctuation risk and are designated as a hedge at the inception of the contract. For these derivatives, the gain or loss from the effective portion of the hedge and the transaction costs are reported as a component of "other reserves" in the consolidated statements of changes in equity and is reclassified into earnings in the same period in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction, which is "Cost of Sale". The gain or loss is recognized immediately in "other income" and "other expenses" in the consolidated statements of income when an ineffective portion of the hedge is identified.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecasted transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income within "other income" and "other expenses".

2.18 — 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 pension plans is the present value of the defined benefit obligation at the balance sheet 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 income over the employees' expected average remaining working lives. Past-service costs are recognized immediately in income, 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 income 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 balance sheet 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

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 ratably over the same period as the share-based compensation expense.

Share Options

At December 31, 2007, the Group had five employee and Supervisory Board share-option plans, which are described in detail in Note 21. In 2005, the Group redefined its equity-based compensation strategy by no longer granting options but rather issuing non-vested shares. In July 2005, the Group amended its latest Share Option Plans for employees, Supervisory Board and Professionals of the Supervisory Board accordingly. As part of this revised share compensation policy, the Group decided in July 2005 to accelerate the vesting period of all outstanding unvested share options, following authorization from the Group's shareholders at the annual general meeting held on March 18, 2005. As a result, underwater options equivalent to approximately 32 million shares became exercisable immediately in July 2005. The fair value of the share options granted was measured using a Black—Scholes pricing model. The number of awards used to measured compensation expense was based on the best estimate of the number of share options expected to vest. Total compensation expense was recognized ratably through staged vesting. At acceleration of the vesting of all unvested share options, the corresponding compensation charge was recognized immediately in the consolidated statement of income for the year ended December 31, 2005 for the amount that otherwise would have been recognized for services received over the remainder of the vesting period. The acceleration of vesting for all options plans existing in 2005 also resulted in an acceleration of the related costs.

Non-vested Shares

On October 25, 2005, on September 29, 2006 and June 18, 2007, the Group granted nonvested shares to senior executives, selected employees and members of the Supervisory Board to be issued upon vesting from treasury shares. The shares were granted for free to employees and at their nominal value for the members of the Supervisory Board. The awards granted in 2005 to employees will contingently vest upon achieving market and performance conditions and progressively upon completion of a three-year service period. The awards granted in 2007 and 2006 to employees will contingently vest upon achieving performance conditions only and a three years service period. Shares granted to the Supervisory Board vest unconditionally along the same vesting period as employees. Since nonvested shares granted to Supervisory Board members are not forfeited, even if the service period is not completed, their associated compensation cost has been recorded immediately at grant. The Group records compensation expense for the nonvested shares based on the fair value of the awards at grant date. The fair value of the nonvested shares affected by a market condition reflects a discount, using a Monte Carlo path-dependent pricing model, to measure the probability of achieving the market condition. Nonvested shares are further explained in Note 21.

All the share plans are equity settled as further explained in Note 21.

2.19 — Financial Debt

Compound Financial Instruments

At December 31, 2007, the Group had two compound financial instruments consisting in convertible bonds issued in 2003 and 2006 respectively, on a ten-year maturity period each.

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 the Company. A conversion option embedded in the compound financial instrument is an equity instrument when the Company 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. For the 2016 convertible bond, this has been determined to be full 10-year period to maturity of the instrument. 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. 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. Changes in fair value are recognized immediately at each reporting date on the line "other income or "other expenses" in the consolidated statement of income.

For the 2013 convertible bond, the liability portion of the convertible debt was determined using a market interest rate for an equivalent non-convertible debt over a three-year timeframe corresponding to the period to the first date of redemption for cash at the option of the holder. The remainder of the proceeds was allocated to the conversion option. The embedded rights of the bond holder to extend the bond beyond the probable three-year period, by not exercising their redemption option, are measured at fair value through profit and loss.

For the 2016 convertible bonds, the holder has the right, in the event of any change in control, to require the Company to purchase for cash all or any part of the holder's convertible bonds. Consequently, the Company determines that it does not have the unconditional right to avoid settlement in cash, since the event that would cause such settlement is beyond its control and cannot be considered at inception of the bonds as neither extremely rare, highly abnormal nor very unlikely to occur. As such, the conversion option is not recognized as an equity component but as a non-current liability. The liability portion of the convertible debt was determined based on ten-year timeframe until maturity. The embedded rights of the Company to reacquire for cash starting from March 10, 2011 the outstanding convertible bond are included in the liability component of the compound instrument.

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.

Interest paid are considered as operating expenses and are thus reported as part of the cash flows generated by operating activities in the consolidated cash flow statement.

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 statement of income over the period of the borrowings using the effective interest method.

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 balance sheet date.

2.20 — Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any subsidiary purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received (net of directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company’s shareholders.

2.21 — Other reserves
Other reserves correspond to changes in equity of a business during a period except those resulting from investment by shareholders and distributions to shareholders. In the accompanying consolidated financial statements, “other reserves” consists of fair value of services provided under share award schemes, unrealized gains or losses on marketable securities classified as available-for-sale and the unrealized gain (loss) on derivative instruments designated as cash flow hedge, all net of tax as well as foreign currency translation adjustments.

2.22 — Trade payables
Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.23 — 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.

2.24 — Segment reporting

An operating segment is a component of an 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 to make decision about resources to be allocated to the segments and assess its performance and (iii) for which discrete financial information is available.

2.25 — Minority interests

The Company applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposal to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary.

2.26 — Critical accounting estimates and judgments

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.

Provision for sales returns and sales deductions

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 accrues a provision for price protection based on a rolling historical price trend computed on a monthly basis as a percentage of gross distributor sales. This historical price trend represents differences in recent months between the invoiced price and the final price to the distributor, adjusted if required, to accommodate a significant move in the current market price. The short outstanding inventory time period, visibility into the standard inventory product pricing (as opposed to certain customized products) and long distributor pricing history have enabled the Group to reliably estimate price protection provisions at period-end. The Group records the accrued amounts as a deduction of revenue at the time of the sale.

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 always associated with end-user customers, not with distribution channels. The Group provides for such returns when they are considered as probable and can be reasonably estimated. The Group records the accrued amounts as a reduction of revenue.

The Group's insurance policy relating to product liability only covers physical damage and other direct damages caused by defective products. The Group does not carry insurance against immaterial non consequential damages. 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. Any potential warranty claims are subject to the Group's determination that the Group is at fault for damages, and such claims usually must be submitted within a short period following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms expressed or implied by statute or common law. The Group's contractual terms and conditions limit its liability to the sales value of the products which gives rise to the claims.

The Company, when acting as a guarantor, recognizes, at the inception of a guarantee, a liability for the fair value of the obligation the Company assumes under the guarantee, in compliance with IAS 39, Financial Instruments: Recognition and measurements. When the guarantee is issued in conjunction with the formation of a partially owned business or a venture accounted for under the equity method, the recognition of the liability for the guarantee results in an increase to the carrying amount of the investment. The liabilities recognized for the obligations of the guarantees undertaken by the Company are measured subsequently on each reporting date, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* the initial liability being reduced as the Company, as guarantor, is released from the risk underlying the guarantee.

Trade receivables

The Group maintains impairment for doubtful accounts for estimated losses resulting from its customers' inability to make required payments. The Group bases its estimates on historical collection trends. Furthermore, the Group is required to evaluate its customers' credit ratings from time to time and take an additional provision for any specific account that it estimates as doubtful. Although the Group has determined that its most significant customers are creditworthy, if the financial condition of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

Income taxes

The Group is required to assess the likelihood of recovery of deferred tax assets. As of December 31, 2007, 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.

Inventory

The valuation of inventory requires the Group to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. Inventory is reduced to the expected realizable value for any excess uncommitted inventories based on the previous quarter sales, order backlog and production plans. To the extent that future negative market conditions worsen, increase excess capacity and generate order backlog cancellations and declining sales, or if future conditions are less favorable than the projected revenue assumptions, the Group could be required to record additional inventory adjustments, which would have a negative impact on the gross margin.

Impairment of long-lived assets

Long-lived assets are tested or reviewed for impairment in accordance with accounting policies stated in Notes 2.12, 2.13 and 2.14. 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 fab, lower than anticipated sales for products which capitalize rights, 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.

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.

Restructuring charges

The Group has undertaken, and may continue to undertake, significant restructuring initiatives, which have required, or may require in the future, to develop formalized plans for exiting activities or to dispose of certain activities. In accordance with IAS 37 accounting requirements, the Group recognizes the fair value of a liability for costs associated with an exit or disposal activity when a present obligation exists and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Given the significance and the timing of the execution of such activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. As the Group operates in a highly cyclical industry, it continues to evaluate business conditions. If broader or new initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, the Group may be required to incur additional charges as well as to change estimates of amounts previously recorded in the period in which such determination is made.

Asset disposal

The Group has entered, and may in the future enter, into agreements to dispose of operations, assets or groups of assets. In accounting for asset disposals, the Group ensures that the conditions as stated in International Financial Reporting Standard No. 5, "*Non-current assets and disposal groups held for sale*" are met before reclassifying these items as current assets and ceasing depreciation and amortization. Furthermore, IFRS 5 requires an impairment analysis when assets are moved to "Asset disposal held for sale" based on the difference between the Net Book Value and the Fair Value, less costs to sell, of the group of assets (and liabilities) to be sold. The final amount of impairment charge could be different subject to adjustments due to business evolution before closing of the potential transactions to sell.

Share-based compensation

The Group is required to expense its employees' share-based compensation awards in compliance with International Financial Reporting Standard No. 2, "*Stock-based payment*". The Group measures share-based compensation cost based on the fair value on the grant date of each award. This cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. The Group's share-based compensation plans may award shares contingent on the achievement of certain financial objectives, including market performance and financial results. In order to assess the fair value of share-based compensation, the Group is required to use certain assumptions, including the probability of reaching the market performance and financial results targets, the forfeitures and the service period of each employee.

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 judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

2.27 — Recent accounting pronouncements

a) Interpretations effective in 2007 and early adopted by the Group:

IFRIC Interpretation No. 8, *Scope of IFRS 2* ("IFRIC 8") is effective for annual periods beginning on or after May 1, 2006, with early application permitted. This Interpretation states that International Financial Reporting Standard No. 2, *Share-Based Payment* ("IFRS 2") applies to arrangements whereby an entity makes share-based payments for apparently zero or inadequate consideration. IFRIC 8 specifies that if the identifiable consideration appears to be less than the fair value of the issued equity or the incurred liability, it is an indication that other consideration has been or will be received and should therefore be accounted under IFRS 2. The Group early adopted IFRIC 8 in 2006. This early adoption did not have any impact on the Group's financial position or results of operations.

IFRIC Interpretation No. 9, *Reassessment of Embedded Derivatives* ("IFRIC 9") is applicable for annual periods beginning on or after June 1, 2006, with early application permitted. This Interpretation applies to all embedded derivatives under IAS 39 to clarify whether the treatment of an embedded derivative has to be reassessed if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract, in which case reassessment is required. The Group early adopted IFRIC 9 in 2006. Such adoption did not have any impact on the Group's financial position and results of operations.

b) Standards effective in 2007 and relevant for the Group's operations:

International Financial Reporting Standard No. 7, *Financial Instruments: Disclosures* ("IFRS 7") is effective for annual periods beginning on or after January 1, 2007, with early adoption permitted. Its main objective is the revision and enhancement of the disclosures in International Accounting Standard No. 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* ("IAS 30") and International Accounting Standard No. 32, *Financial Instruments: Disclosure and Presentation* ("IAS 32"). IFRS 7 requires disclosure of the significance of financial instruments for an entity's financial position and performance, which incorporate many of the requirements previously in IAS 32. IFRS 7 also requires qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The Group adopted IFRS 7 in 2007 and included all new mandatory disclosures concerning financial instruments in its consolidated financial statements for the year ended December 31, 2007. Comparative information for the year ended December 31, 2006 was restated accordingly, as required by IFRS 7. The adoption of IFRS 7 only impacted the format and extent of disclosures on financial instruments presented in the Group's consolidated financial statements for the years ended December 31, 2007 and December 31, 2006.

c) Interpretations effective in 2007 and relevant for the Group's operations:

IFRIC Interpretation No. 10, *Interim Financial Reporting and Impairment* ("IFRIC 10") is effective for annual periods beginning on or after November 1, 2006, with early application permitted. This Interpretation addresses the interaction between the requirements of IAS 34, *Interim Financial Reporting* and the recognition of impairment losses on goodwill in IAS 36, *Impairment of Assets* and certain financial assets in IAS 39, *Financial Instruments, Recognition and Measurement* and the effect of that interaction on subsequent interim and annual financial statements. The Interpretation requires that an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall not extend this consensus by analogy to other areas of potential conflict between IAS 34 and other standards. The Group will apply IFRIC 10 if interim financial statements are eventually required. The adoption of IFRIC 10 is not expected to have any impact on the Group's financial position and results of operations.

d) Interpretations effective in 2007 but not relevant for the Group's operations:

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods on or after March 2006 or later periods but are not relevant for the Group's operations:

- IFRIC 7, *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;*

e) Standards and amendments to published standards that are not yet effective and have been early adopted by the Group:

The Group early adopted in 2007 International Financial Reporting Standard No. 8, *Operating Segments* ("IFRS 8"), effective for annual periods beginning on or after January 1, 2009. IFRS 8 replaces International Accounting Standard No. 14, *Segment Reporting* ("IAS 14") and aligns segment reporting with the requirements of the US standard Statement of Financial Accounting Standard No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("FAS 131"). IFRS 8 requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. The adoption of IFRS 8 only impacted the format and extent of disclosures presented in the Group's consolidated financial statements on segment information for the years ended December 31, 2007, 2006 and 2005, which is presented in note 37.

The International Accounting Standards Board ("IASB") issued in March 2007 revised International Accounting Standard No. 23, *Borrowing costs* ("IAS 23"). The revised standard eliminates the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. In issuing revised IAS 23, the IASB aims to improve financial reporting by enhancing comparability between companies by allowing only one accounting treatment for borrowing costs, which is the capitalization of these borrowing costs as part of the cost of the asset. The revisions to IAS 23 are effective for annual periods beginning on or after January 1, 2009, with early application permitted. The Group early adopted revised IAS 23 in 2007. Such early adoption did not have any impact on the Group's financial position and results of operations.

f) Standards, amended standards and interpretations that are not yet effective and have not been early adopted by the Group:

The IASB issued in September 2007 revised International Accounting Standard No. 1, *Presentation of Financial Statements* ("IAS 1"). The revised standard stems from IASB and Financial Accounting Standards Board ("FASB") joint effort to review and harmonize the presentation of financial statements. The major change in IAS 1 is the new requirement that all changes in equity arising from transactions with owners in their capacity as owners be presented separately from non-owner changes in equity. An entity will thus no longer be permitted to present components of comprehensive income in the statement of changes in equity. Instead a new "statement of comprehensive income" will be required. This new statement will allow readers to better distinguish between transactions with owners in their capacity as owners from transactions that constitute "non-owner" changes in equity. The revised standard is effective for annual periods beginning on or after January 1, 2009, with early adoption permitted. The Group is currently reviewing the impact of revised IAS 1 on the presentation of its consolidated financial statements and is assessing potential early adoption of revised IAS 1 in subsequent periods.

IFRIC Interpretation No. 14, *IAS 19- The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* ("IFRIC 14") was issued in July 2007. This Interpretation provides guidance on assessing (1) the limit of the amount of surplus that can be recognized as an asset and (2) the effect of a statutory or contractual minimum funding requirement. Under the interpretation, no additional liability will require recognition unless the contributions payable under the minimum funding requirement cannot be returned to the company. IFRIC 14 is mandatory for annual periods beginning on or after 1 January 2008, with early application permitted. The Group is currently reviewing the impact of IFRIC 14 on its consolidated financial statements and is assessing potential early adoption in subsequent periods.

In January 2008, the IASB amended IFRS 2. The amendment limits vesting conditions to service conditions and performance conditions. Other features of a share-based payment are not vesting conditions and must be included in the grant date fair value for share-based payment transactions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, which is the acceleration of the expense based on the grant date fair value. The amendment to IFRS 2 must be applied to all share-based payments within the scope of IFRS 2 for annual periods beginning on or after 1 January 2009, with early application permitted. The Group is currently reviewing the impact of such amendments to its share-based compensation policy and is assessing potential early adoption in subsequent periods.

In January 2008, the IASB issued a revised version of International Financial Reporting Standard No. 3, *Business Combinations* ("IFRS 3R") and an amended version of International Accounting Standard No. 27, *Consolidated and Separate Financial Statements* ("IAS 27R"). IFRS 3R is a further development of the acquisition model: The standard now applies to more transactions, as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard. The requirements for recognition of contingent consideration have also been amended. Contingent consideration is now required to be recognized at fair value even if it is not deemed to be probable of payment at the date of acquisition. All subsequent changes in debt contingent consideration are recognized in the income statement and not against goodwill. The revised standard gives also the option, on a transaction-by-transaction basis, to measure non-controlling interests (previously minority interest) at the fair value of their proportion of identifiable assets and liabilities or at full fair value. The "bargain purchase" guidance remains the same with the requirement to recognize "negative goodwill" immediately in the income statement. IFRS 3R has limited changes to the assets and liabilities recognized in the acquisition balance sheet but while current guidance requires deferred tax assets of the acquired business that are not recognized at the date of the combination but subsequently meet the recognition criteria to be adjusted against goodwill, the revised standard will only allow adjustments against goodwill within the one-year window for finalization of the purchase accounting. IAS 27R moves the consolidation standard to a mandatory adoption of the economic entity model. A partial disposal of an interest in a subsidiary in which the parent company retains control does not result in a gain or loss but in an increase or decrease in equity under the economic entity approach. Purchase of some or all of the non-controlling interest is treated as a treasury transaction and accounted for in equity. A partial disposal of an interest in a subsidiary in which the parent company loses control but retains an interest triggers recognition of gain or loss on the entire interest. IFRS 3R applies to business combinations with an acquisition date that is on or after the beginning of the first annual reporting period that starts on or after July 1, 2009. IAS 27R takes effect in fiscal years beginning on or after the start of the first annual reporting period that commences on or after July 1, 2009. Earlier application is permitted, but if one of the standards is applied early, the other one must also be applied. The Group is currently evaluating the effect the adoption of these statements will have on its financial position and results of operations.

In February 2008, the IASB issued amendments to IAS 32 and IAS 1. The amendments are meant to improve the accounting for particular types of financial instruments that have characteristics similar to ordinary shares but that are classified as financial liabilities. IAS 32 as amended will require entities to classify the following types of financial instruments as equity, provided, that those instruments have particular features and meet certain conditions: (i) puttable financial instruments; (ii) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only upon liquidation. The amendments will apply to annual periods beginning on or after January 1, 2009, with early application permitted. The Group is currently evaluating the effect the adoption of these statements will have on its financial position and results of operations.

g) Interpretations that are not yet effective and not relevant for the Group's operations:

The following interpretation to existing standards has been published and is mandatory for the Group's accounting periods on or after July 1, 2007 but is not relevant for the Group's operations:

- IFRIC 11, *Group and Treasury Share Transactions*
- IFRIC 12, *Service Concession Arrangements*
- IFRIC 13, *Customer Loyalty Programs*

3 — INVESTMENTS IN ASSOCIATES

	December 31, 2007	December 31, 2006
Beginning of the year	**261**	**35**
Acquisition of investments:		
Hynix ST Investment	**-**	**212**
Hynix ST Guarantee	**2**	**15**
Share of gain/ (loss) of associates	**10**	**(7)**
Foreign currency translation differences	**16**	**6**
Transfer of guarantee to non-current asset	**(17)**	**—**
Sale of investments:		
Hynix ST investment held for sale	**(272)**	**—**
End of the year	**0**	**261**

The Group's share of the results of its principal associates, all of which are unlisted, and its share of the assets, are detailed as follows:

December 31, 2006

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
Hynix ST Investment	China	2,100	1,360	243	(19)	33%

Hynix ST Investment

The Company signed in 2004 an 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 Company contributed $250 million for a 33% equity interest. In addition, the Company originally committed to grant $250 million in long-term financing to the new venture guaranteed by the subordinated collateral of the venture's assets. The Company made the total $250 million capital contributions as previously planned in the agreement in 2006. The Company accounted for its share in the Hynix ST venture under the equity method based on the actual results of the venture through the second quarter of 2007. As such, the Company recorded earnings totaling $10 million in 2007 and a loss of $6 million in 2006, reported as "Share of gain (loss) in associates" in the consolidated statements of income.

In 2007, Hynix Semiconductor Inc. invested an additional $750 million in additional shares of the venture to fund a facility expansion. As a result of this investment, in October when the Chinese authorities formally approved the additional investment, the Company's interest in the venture declined from approximately 33% to 17%. At December 31, 2007 the investment in the venture amounted to $272 million and was included in assets held for sale on the consolidated balance sheet as it is expected to be transferred to Numonyx upon the formation of that company, as described in Note 8. The Company (or Numonyx following the transfer of the Company's interest in the venture to Numonyx) has the option to purchase from Hynix Semiconductor Inc. up to $250 million in shares to increase its interest in the venture back to a maximum of 33%.

Due to regulatory and withholding issues the Company could not directly provide the venture with the $250 million long-term financing as originally planned. As a consequence, in the fourth quarter of 2006, the Company entered into a ten-year term debt guarantee agreement with an external financial institution through which the Company guaranteed the repayment of the loan by the venture to the bank. The guarantee agreement includes the Company 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 venture, with $250 million as the maximum potential amount of future payments the Company, as the guarantor, could be required to make. In the event of default and failure to repay the loan from the venture, the bank will exercise the Company's rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the venture's assets. In the first half of 2007, the Company placed the remaining $32 million of cash on the guarantee deposit account, which totaled $250 million as at December 31, 2007 and was reported as "restricted cash for equity investments" on the consolidated balance sheet. In 2006 the Company reported $218 million as "restricted cash for equity investments" on the consolidated balance sheet. In fourth quarter of 2006 the Company entered into a debt guarantee agreement. The debt guarantee was evaluated under IAS 39, *Financial Instruments: Recognition and measurements*. 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 reported on the line "Other non-current liabilities" in the consolidated balance sheet as at December 31, 2007 and was recorded against the value of the equity investment. The Company reported the debt guarantee on the line "other investments and other non-current assets" since the terms of the FMG sale agreement do not include the transfer of the debt guarantee.

The Company's current maximum exposure to loss as a result of its involvement with the venture is limited to its equity investments and debt guarantee commitments.

4 — AVAILABLE-FOR-SALE FINANCIAL ASSETS

Movements on available-for-sale financial assets are presented as follows:

	December 31, 2007	December 31, 2006
Beginning of the year	806	36
Exchange differences	58	-
Purchase of listed debt securities (floating rate notes)	536	460
Sale of listed debt securities (floating rate notes)	(40)	-
Purchase of unlisted debt securities (auction rate notes)	172	304
Sale of unlisted debt securities (auction rate notes)	(61)	
Purchase of unlisted equity securities	-	6
Impairment of listed debt securities (floating rate notes)	(3)	-
Net losses on auction rate notes recognised in statements of income………………	(46)	-
End of the year	**1,422**	**806**
Less: non-current portion	(408)	(346)
Current portion	1,014	460

As at December 31, 2007, the Company had financial assets classified as available-for-sale corresponding to equity and debt securities.

The amount invested in equity securities was $5 million as at December 31, 2007 and 2006. These investments correspond to financial assets held as part of a long-term incentive plan in one of the Company's subsidiaries. They are reported as non-current assets on the consolidated balance sheet as at December 31, 2007 and 2006. The Company did not record any significant change in fair value on these equity securities classified as available-for-sale in the years ended December 31, 2007 and 2006.

As at December 31, 2007, the Company had investments in debt securities amounting to $1,383 million, composed of $1,014 million invested in senior debt floating rate notes issued by primary financial institutions rated at least A1 from "Moody's Investment Services" and $369 million invested in auction rate securities which are regularly paying monthly interest and whose current rating is AAA from at least one major rating agency. The floating rate notes are reported as current assets on the line "Available-for-sale financial assets" on the consolidated balance sheet as at December 31, 2007 since they represent investments of funds available for current operations. The auction-rate securities, which have a final maturity between ten or forty years, are classified as non-current assets on the line "Available-for-sale financial assets" on the consolidated balance sheet as at December 31, 2007 since the Company intends to hold these investments beyond one year.

In 2007, the Company invested $536 million of existing cash in floating rate notes with primary financial institutions with minimum Moody's rating "A1" with a maturity between twenty one months and six years, of which $40 million were sold in 2007. In 2006, the Company invested $460 million of existing cash in eleven floating rate notes with primary financial institutions with minimum Moody's rating "A1". Subsequently, the Company entered into a basis asset swap for one floating rate note for a notional amount of $50 million in order to purchase it at par. Even if strictly related to the underlying note, the swap is contractually transferable independently from the marketable security to which it is attached. As such, the asset swap was recorded separately from the underlying financial asset and was reflected at its fair value in the consolidated balance sheet on the line "Other receivables and assets" as at December 31, 2007 and 2006. The changes in the fair value of this derivative instrument were recorded in the consolidated statement of income as part of "Other income and expenses, net" and did not exceed $1 million for the years ended December 31, 2007 and 2006. Additionally, the amount of auction-rate securities purchased and sold in 2007 is $172 million and $61 million respectively. In addition, the Company determined that these financial assets were to be more properly classified on its consolidated balance sheet as of December 31, 2006 as "Available-for-sale financial assets" instead of "Cash and cash equivalents", as reported previously. The revision of the December 31, 2006 consolidated balance sheet results in a decrease of "Cash and cash equivalents" by $304 million with an offsetting increase to "Available-for-sale financial assets", as further explained in Note 29.

All these debt securities are classified as available-for-sale and recorded at fair value as at December 31, 2007 and 2006, with temporary changes in fair value recognized as a separate component of "Other reserves" in the consolidated statement of changes in shareholders' equity. As of December 31, 2007 the Company reported a pre-tax decline in fair value on the floating rate notes totaling $3 million due to the widening of credit spreads. Out of the 25 investment positions in floating-rate notes, 11 positions are in an unrealized loss position. The Company estimated the fair value of these financial assets based on public quoted market prices. This change in fair value was recognized as a separate component of "Other reserves" in the consolidated statement of changes in shareholders' equity since the Company assessed that this decline in fair value was temporary and that the Company was in a position to recover the total carrying amount of these investments on subsequent periods. Since the duration of the floating-rate note portfolio in only 2.6 years on average and the securities have a minimum Moody's rating "A1", the Company expects the value of the securities to tend at par as the final maturity is approaching. On the auction-rate securities, the Company reported an other-than-temporary decline in fair value amounting to $46 million, which was immediately recorded in the consolidated statement of income on the line "Other-than-temporary impairment charge on marketable securities". These securities were evaluated based on the weighted average of available information (i) from public available indexes of securities with same rating and comparable/similar underlying collaterals or industries exposure (such as ABX, ITraxx and IBoxx) and (ii) using 'mark to market' bids and 'mark to model' valuations received from the structuring financial institutions of the outstanding auction rate securities, weighting the different information at 80% and 20% respectively, which the Company believes approximates the orderly exit value in the current market.

The maximum exposure to market risk is the fair value of the debt securities classified as available for sale.

Available-for-sale financial assets include the following:

	December 31, 2007	**December 31, 2006**
Listed securities:		
Floating-rate Notes in usd at 5.17%	**454**	**190**
Floating-rate Notes in euros 4.78%	**560**	**270**
Unlisted securities:		
Auction rate Securities at 5.81%	**369**	**304**
Unlisted equity securities:		
Equity securities – Euro zone countries..	**12**	**12**
Equity securities – US	**26**	**30**
Other..	**1**	**-**
Total	**1,422**	**806**

Available-for-sale financial assets are denominated in the following currencies:

	December 31, 2007	**December 31, 2006**
Euro	**561**	**272**
US dollar	**860**	**534**
Other..	**1**	**-**
Total	**1,422**	**806**

5 — DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are detailed as follows:

	December 31, 2007	
	Assets	**Liabilities**
Interest rate swaps	**8**	-
Asset swap – held for trading	-	-
Forward foreign exchange contracts – cash flow hedge	**3**	-
Purchased currency options – cash flow hedge	**9**	-
Purchased currency options – held-for-trading	-	-
Forward foreign exchange contracts – held-for-trading	**1**	**1**
Total	**21**	**1**
Less: non-current portion		
Interest rate swaps	**(8)**	-
Current portion	**13**	**1**

	December 31, 2006	
	Assets	**Liabilities**
Interest rate swaps	**4**	
Asset swap – held for trading	-	-
Forward foreign exchange contracts – cash flow hedge	**-**	-
Purchased currency options – cash flow hedge	**1**	-
Purchased currency options – held-for-trading	-	-
Forward foreign exchange contracts – held-for-trading	**14**	**1**
Total	**19**	**1**
Less: non-current portion		
Interest rate swaps	**(4)**	-
Current portion	**15**	**1**

Trading derivatives are classified as current assets or liabilities. The full fair value of a hedging derivative is classified as non-current asset or liability if the remaining maturity of the hedged item is more than twelve months and as a current asset or liability if the maturity of the hedged item is less than twelve months.

(a) Interest rate swaps

In 2006, the Company entered into cancellable swaps with a combined notional value of $200 million to hedge a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps convert the fixed rate interest expense recorded on the convertible bond due in 2016 to a variable interest rate based upon adjusted LIBOR. The swaps are cancellable by the Company only. For the period ended December 31, 2007 and December 31, 2006, gain from the derivative instrument amounted to $8 million and $4 million respectively. As a result of the cancellable swap transactions, the effective yield on the $200 million principal amount of the hedged convertible bonds has increased from 1.5% to 1.95% as of December 31, 2007 and to 2.08% as of December 31, 2006.

(b) Asset swap

In 2006, the Company entered into a basis asset swap for one floating rate note for a notional amount of $50 million purchased at par. Even if strictly related to the underlying note, the swap is contractually transferable independently of the marketable security to which it is attached. As such, the asset swap was recorded separately from the underlying financial asset and was reflected at its fair value in the consolidated balance sheet. The changes in the fair value of this derivative instrument were recorded in the consolidated statement of income as part of “Other income” and did not exceed $1 million for the periods ended December 31, 2007 and December 31, 2006.

(c) Forward foreign exchange contracts and currency options designated as cash flow hedge

For the periods ended December 31, 2007 and December 31, 2006 the Group recorded a positive impact on cost of sales of $16 million and $5 million related to the realized profit incurred on hedged transactions, respectively. No ineffectiveness was recognized on these transactions in 2007 and 2006. The notional amount of foreign currency forward contracts and currency options designated as cash flow hedges and executed totalled €753 million in 2007 and €965 million for 2006. As of December 31, 2007, $6 million of deferred profit on derivative instruments, net of tax included in other reserves are expected to be reclassified as earnings during the next six months based on the monthly forecasted semi-finished manufacturing costs. At December 31, 2007, foreign currency forward contracts and currency option contracts were outstanding. The notional amount of the foreign currency forward contracts was €63 million and the notional amount of currency option contracts totalled €95 million at December 31, 2007. The notional amount of the foreign currency forward contracts was €160 million and the notional amount of currency option contracts totalled €30 million at December 31, 2006. Foreign currency forward contracts and currency options designated as cash flow hedges outstanding as of December 31, 2007 have remaining terms of 8 days to 3 months, maturing on average after 37 days. 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 while the risk of loss linked to currency options is limited to the premium paid to purchase the options.

(d) Forward foreign exchange contracts held for trading

At December 31, 2007, foreign currency forward contracts and currency options held for trading were outstanding. The notional amount of the foreign currency forward contracts was $358 million and the notional amount of currency option contracts totalled $147 million at December 31, 2007. The notional amount of the foreign currency forward contracts was $534 million and the notional amount of currency option contracts totalled $40 million at December 31, 2006. The principal currencies covered are the Euro, the SGD, the MYR and the Japanese yen. Foreign currency forward contracts and currency options held for trading outstanding as of December 31, 2007 have remaining terms of 2 days to 5 months, maturing on average after 37 days. The risk of loss associated with these forward contracts is equal to the exchange rate differential from the balance sheet date and the time the contract is settled.

6 — TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following:

	December 31, 2007	December 31, 2006
Trade accounts receivable	**1,626**	**1,620**
Provision for impairment	**(21)**	**(31)**
Total	**1,605**	**1,589**

The carrying value less provision for impairment of trade receivables is assumed to approximate their fair values due to the short-term nature of trade receivables. The amount of the provision was $21 million and $31 million as at December 31, 2007 and December 31, 2006 respectively. Impairment losses recognized in 2007 and 2006 were $1 million and $7 million, respectively. Doubtful account expense is reported as selling, general and administrative expenses in the consolidated statements of income. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The contractual terms of these receivables are as follows:

	December 31, 2007	December 31, 2006
0 to 3 months	1,599	1,573
3 to 6 months	27	47
Over 6 months	-	-
Total	**1,626**	**1,620**

As at December 31, 2007 and December 31, 2006 trade receivables of $195 million and of $242 million respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and therefore the Company is confident to receive the full past due amount. The ageing analysis of these trade receivables is as follows:

	December 31, 2007	December 31, 2006
0 to 1 month	132	127
1 to 6 months	62	104
Over 6 months	1	11
Total	**195**	**242**

The carrying amounts of the Group’s trade receivables are denominated in the following currencies:

	December 31, 2007	December 31, 2006
US dollar	1,445	1,453
Euro	161	145
Japanese yen	20	17
Other currencies	0	5
Total	**1,626**	**1,620**

Movements on the provision for impairment of trade receivables are as follows:

	December 31, 2007	December 31, 2006
Beginning of the year	**31**	**27**
Exchange differences	**-**	**1**
Charged to costs and expenses	**1**	**7**
Deductions	**(11)**	**(4)**
End of the year	**21**	**31**

Amounts charged to the allowance 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 account receivables, net. In the full year 2007 and in the full year 2006, one customer, the Nokia group of companies, represented 21.1% and 21.8% of consolidated total revenues, respectively. At December 31, 2007 and 2006, one customer, the Nokia Group of companies, represented 26.9% and 26.2% of trade accounts receivable, net respectively.

7 — INVENTORIES

Inventories consisted of the following:

	December 31, 2007	December 31, 2006
Raw materials	**72**	**80**
Work-in-process	**809**	**1,033**
Finished products	**474**	**527**
Total	**1,355**	**1,640**

The variation of inventories included in cost of sales amounted to a negative impact of $25 million (excluding the inventory contributed to ”asset held for sale”) and a positive impact of $161 million, for the periods ended December 31, 2007 and December 31, 2006 respectively. As at December 31, 2007 inventories amounting to $329 million were reported as a component of the line “assets held for sale” on the consolidated balance sheet as part of the assets to be transferred to Numonyx, the newly created Flash memory company upon FMG deconsolidation.

The amount of inventory write-off was $80 million and $82 million for the year 2007 and 2006, respectively.

8 — DISPOSAL GROUP OF ASSETS HELD FOR SALE

On May 22, 2007, the Company announced that it had entered into a definitive agreement with Intel Corporation and Francisco Partners L.P to create a new independent semiconductor company from the key assets of the Company’s Flash Memory Group and Intel’s flash memory business (“FMG deconsolidation”). Under the terms of the agreement, the Company will sell its flash memory assets, including its NAND joint venture interest and other NOR resources, to the new company, which will be called Numonyx, while Intel will sell its NOR assets and resources. In exchange, the Company was expected to receive, at closing, a combination of cash and a 48.6% equity ownership stake in the new company; Intel was expected to receive cash and a 45.1% equity ownership stake; and Francisco Partners L.P was to invest $150 million in cash to purchase participating convertible preferred stock with certain liquidation preferences and convertible into a 6.3% ownership interest, subject to adjustments in certain circumstances. The new company will be considered as independent from the Group and is expected to be accounted for as an investment in associate.

As a result of the signing of the definitive agreement for the FMG deconsolidation and upon meeting IFRS 5 criteria for assets held for sale, the Company reclassified the assets to be transferred to Numonyx from their original balance sheet classification to the line “assets held for sale” in the second quarter of 2007. Coincident with this classification, the Company adjusted the value of these assets to fair value less costs to sell at June 30, 2007, reporting the loss on the line “impairment, restructuring charges and other related closure costs” of the consolidated income statement. Fair value less costs to sell was based on the net consideration provided for in the agreement and significant estimates.

Although the transaction was originally expected to close in the second half of 2007, the closing was delayed due, among other things, to the significant turmoil in the debt capital markets which in turn resulted in certain revisions to the terms of the transaction. Based on the revised structure, Numonyx will have at closing a similar level of cash but a lower level of indebtedness compared to what had originally been anticipated. Both the Company and Intel will receive the same percentage equity stakes as originally agreed, however in lieu of the cash payment that had previously been expected, each will receive a lesser amount of long-term, interest-bearing subordinated notes. As had been anticipated earlier, Francisco Partners will invest $150 million in exchange for its interest, which will include subordinated notes in addition to convertible preferred stock. The transaction closed during the first quarter of 2008. For further information refer to Note 39.

The final impairment charge could be materially different subject to further adjustments due to business and market evolution prior to the closing of the transaction.

Assets held for sale consisted of the following:

	December 31, 2007	December 31, 2006
Inventories, net	329	-
Other intangible assets, net	12	-
Property, plant and equipment, net	398	4
Long term deferred tax assets	6	-
Equity investment	272	
Total	**1,017**	**4**

As required under IFRS 5 held-for-sale model, the Company ceased to record amortization and depreciation on intangible and tangible assets classified as assets held for sale.

For further information related to impairment refer to note 25.

9 — OTHER RECEIVABLES

Other receivables consisted of the following:

	December 31, 2007	December 31, 2006
Receivables from government agencies	**185**	**149**
Advances to suppliers	**5**	**5**
Advances to employees	**9**	**13**
Advances to government agencies	**-**	**2**
Insurance prepayments	**5**	**4**
Rental prepayments	**3**	**3**
License and technology agreement prepayments	**17**	**7**
Other prepaid expenses	**17**	**23**
Accrued income	**11**	**9**
Loans and deposits	**15**	**15**
Sundry debtors within cooperation agreements	**30**	**31**
Other	**39**	**32**
Total	**336**	**293**

The carrying amounts are assumed to approximate fair value. Other receivables do no contain significant impaired assets. As of December 31, 2007 and December 31, 2006, other receivables of $22 million and $17 million, respectively, were past due but not impaired. These related mainly to receivables from government agencies for whom there is no recent history of default.

The ageing analysis of Other receivables is as follows:

	December 31, 2007	December 31, 2006
0 to 6 months	118	36
Over 6 months	218	257
Total	**336**	**293**

The carrying amounts of the Group's other receivables are denominated in the following currency:

	December 31, 2007	December 31, 2006
US dollar	169	167
Euro	154	116
Other currencies	13	10
Total	**336**	**293**

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 fair value of other receivables.

10 — OTHER CURRENT ASSETS

Other current assets consisted of the following:

	December 31, 2007	December 31, 2006
Other indirect tax receivable	**116**	**62**
Other current assets	**34**	**10**
Total	**150**	**72**

11 — GOODWILL

Changes in the carrying amount of goodwill are presented in the following segment-level summary of goodwill allocation:

	Application Specific Products	Memory Products	Total
December 31, 2005	**113**	**61**	**174**
Goodwill Impairment	(6)	—	(6)
Foreign currency translation	—	8	8
December 31, 2006	**107**	**69**	**176**
Business Combination	58	-	58
Foreign currency translation	-	9	9
December 31, 2007	**165**	**78**	**243**

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 approved 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 7% 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 30% and 48%. A mid-point 11% discount pre-tax rate has been applied to the cash flow projections.

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.

On November 1, 2007 the Company acquired a portion of the integrated circuit operations of the major wireless customers of its Application Specific Products Group product segment. The acquisition provides the Company with, among other things, engineering resources, equipment and a license for certain technologies and other intellectual property. The transaction is also expected to strengthen the strategic relationship between the Company and the customer. Of the total purchase price of $92 million, $10 million was paid for the acquisition of the technology license, $24 million was allocated to the customer relationship based upon the expected value of future sales, $3 million was the fair value of the fixed assets acquired, $3 million in employee liabilities were assumed, and the resulting goodwill was $58 million. The allocation to goodwill is supported by the significant value of the skills and technical knowledge of the acquired workforce and other assts not separately identifiable. The total purchase price includes current payments and a further $6 million based upon sales that the Company expects, beyond a reasonable doubt, to pay at the end of 2010, which accordingly is included in “Other non-current liabilities” on the Company’s consolidated balance sheet. Because substantially the entire purchase price was allocated to intangible assets and goodwill, the acquisition has been shown on the line “Investment in intangible and financial assets” in the Company’s consolidated cash flow statement for the year 2007. This transaction resulted in an increase of the Company’s research and development expenses but did not have a material impact on 2007 revenues or net result, and it is not expected to materially impact 2008 revenues or net result.

During the third quarter of 2007, the Company performed the annual review of impairment of goodwill and based on this test no impairment charges were required to be recorded.

In 2006, the Company decided to cease product development from technologies inherited from Tioga business acquisition. The Company reports Tioga business as part of the Application Specific Product Groups (“ASG”) product segment. Following this decision, the Company incurred in 2006 a $6 million impairment charge corresponding to the write-off of Tioga goodwill. This impairment charge was reported on the line “Impairment, restructuring charges and other related closure costs” of the consolidated statement of income for the year ended December 31, 2006.

12 — INTANGIBLE ASSETS

Intangible assets consisted of the following:

December 31, 2007	Gross Cost	Accumulated Amortization	Net Cost
Purchased technologies & licenses	**431**	**(303)**	**128**
Purchased software	**230**	**(179)**	**51**
Internally developed software	**128**	**(69)**	**59**
Capitalized development costs	**723**	**(118)**	**605**
Total	**1,512**	**(669)**	**843**
December 31, 2006	**Gross Cost**	**Accumulated Amortization**	**Net Cost**
Purchased technologies & licenses	**353**	**(258)**	**95**
Purchased software	**193**	**(149)**	**44**
Internally developed software	**134**	**(62)**	**72**
Capitalized development costs	**543**	**(25)**	**518**
Total	**1,223**	**(494)**	**729**

Changes in the net carrying amount of intangible assets are detailed as follows:

	Purchased technologies & licenses	Purchased software	Internally developed software	Capitalized development costs	Total
December 31, 2005	**110**	**48**	**66**	**234**	**458**
Additions	34	7	40	311	392
Disposals	5	6	(12)	—	(1)
Transfers	1	9	(9)	—	1
Amortization expense	(52)	(28)	(14)	(21)	(115)
Impairment charges	(4)	—	—	(6)	(10)
Foreign currency translation	1	2	1	—	4
December 31, 2006	**95**	**44**	**72**	**518**	**729**
Additions	85	3	68	314	470
Disposals	(7)	(1)	(44)	—	(52)
Transfers	—	31	(31)	—	—
Amortization expense	(47)	(27)	(7)	(93)	(174)
Impairment charges	—	(1)	—	(134)	(135)
Foreign currency translation	2	2	1	—	5
December 31, 2007	**128**	**51**	**59**	**605**	**843**

As at December 31, 2007, the additions of intangible assets amounting to $470 million are including $35 million attributable to business acquisitions.

The aggregate amortization expense in 2007 and 2006 was $174 million and $115 million, respectively. The 2007 amortization expense included $107 million in costs of sales, $43 million in research and development and $24 million in selling general and administrative. The 2006 amortization expense included $34 million in costs of sales, $50 million in research and development and $31 million in selling general and administrative.

As at December 31, 2007 other intangible assets amounting to $12 million were reported as a component of the line “Assets held for sale” on the consolidated balance sheet as part of the assets to be transferred to Numonyx, the newly created flash memory company upon FMG deconsolidation.

Pursuant to its decision to cease product development from technologies inherited from Tioga business acquisition, the Company recorded in 2006 a $4 million impairment charge on technologies purchased as part of Tioga business acquisition, which were determined to be without any alternative use. This impairment charge was reported on the line “Impairment, restructuring charges and other related closure costs” of the consolidated statement of income for the year ended December 31, 2006.

The 2007 impairment charges amounting to $135 million are mainly due to impairment of capitalized development cost, of which $59 million attributable to FMG disposal and reported on the line “Impairment, restructuring charges and other related closure costs” of the consolidated statement of income, and $76 million to discontinued projects which include certain amounts that are individually and in aggregate not material to the financial results and that were abandoned in previous years for a total of $31 million .

13 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

December 31, 2007	Gross Cost	Accumulated Depreciation	Net Cost
Land	**91**	**--**	**91**
Buildings	**1,036**	**(344)**	**692**
Buildings under finance lease	**71**	**(49)**	**22**
Facilities and leasehold improvements	**3,205**	**(1,975)**	**1,230**
Machinery and equipment	**13,939**	**(11,183)**	**2,756**
Computer and R&D equipment	**554**	**(458)**	**96**
Furniture and other tangible fixed assets	**185**	**(128)**	**57**
Construction in progress	**101**	**-**	**101**
Total	**19,182**	**(14,137)**	**5,045**

December 31, 2006	Gross Cost	Accumulated Depreciation	Net Cost
Land	**91**	**—**	**91**
Buildings	**1,208**	**(319)**	**889**
Buildings under finance lease	**61**	**(39)**	**22**
Facilities and leasehold improvements	**3,135**	**(1,668)**	**1,467**
Machinery and equipment	**14,463**	**(10,940)**	**3,523**
Computer and R&D equipment	**551**	**(441)**	**110**
Furniture and other tangible fixed assets	**156**	**(118)**	**38**
Construction in progress	**289**	**(3)**	**286**
Total	**19,954**	**(13,528)**	**6,426**

Changes in the net carrying amount of tangible assets are detailed as follows:

	Lands	Buildings	Buildings under finance lease	Facilities and leasehold improvements	Machinery and equipment	Computer and R&D equipment	Furniture & Others	Construction in progress	Total
December 31, 2005.............	**84**	**804**	**26**	**1,421**	**3,410**	**111**	**28**	**295**	**6,179**
Additions	1	(4)	—	81	1,126	42	51	282	1,579
Disposals..............................	1	4	—	(1)	(14)	—	(34)	(4)	(48)
Transfers..............................	(1)	53	—	133	116	1	5	(307)	—
Other....................................	—	—	(6)	(4)	(1)	—	—	—	(11)
Depreciation expense	—	(35)	—	(265)	(1,311)	(52)	(10)	(3)	(1,676)
Foreign currency translation	6	67	2	102	197	8	(2)	23	403
December 31, 2006.............	**91**	**889**	**22**	**1,467**	**3,523**	**110**	**38**	**286**	**6,426**
Additions	1	2	7	51	872	31	127	138	1,229
Disposals..............................	(8)	(222)	(3)	(116)	(815)	(7)	(99)	(334)	(1,604)
Other....................................	—	—	—	—	(1)	—	—	—	(1)
Depreciation expense	—	(36)	(7)	(270)	(970)	(46)	(10)	—	(1,339)
Foreign currency translation	7	59	3	98	147	8	1	11	334
December 31, 2007.............	**91**	**692**	**22**	**1,230**	**2,756**	**96**	**57**	**101**	**5,045**

The depreciation charge in 2007 and 2006 was $1,339 million and $1,676 million respectively. The 2007 depreciation charge included $1,169 million in costs of sales, $137 million in research and development and $33 million in selling general and administrative. The 2006 depreciation charge included $1,471 million in costs of sales, $177 million in research and development and $28 million in selling general and administrative.

As at December 31, 2007, the additions of tangible assets amounting to $1,229 million are including $3 million attributable to business acquisitions.

As at December 31, 2006, assets held for sale amounted to $4 million and were located in the Company's back-end sites in Morocco and Malaysia.

Out of the $1,604 million of property, plant and equipment shown as 2007 disposals in the table above, $1,467 million represents the net book value of the assets to be transferred to Numonyx, the newly created flash memory company upon FMG deconsolidation. At December 31, 2007 the balance, net of impairment charges, of $398 million was reported as a component of the line "Assets held for sale" on the consolidated balance sheet.

Capital investment funding has totalled $9 million and $15 million in the periods ended December 31, 2007 and December 31, 2006, respectively. Public funding reduced the depreciation charge by $33 million and $54 million in 2007 and 2006, respectively.

14 — LONG-TERM LOANS AND RECEIVABLES

Long-term loans and receivables consisted of the following:

	December 31, 2007	December 31, 2006
Long-term receivables related to funding	46	36
Receivables from government agencies	130	90
Long-term loans to third parties	13	11
Other long-term loans and deposits	14	9
Total	**203**	**146**

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 receivable 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 loans to third parties and other long-term loans and deposits and include individually insignificant amounts as of December 31, 2007 and December 31, 2006.

Long-term receivables are reflected in the balance sheet at their discounted net present value. The Company estimates that for individually insignificant amounts, the carrying amounts as reported as of December 31, 2007 and December 31, 2006 approximate their related fair value. The effective interest rates on long-term receivables related to funding were as follows:

	December 31, 2007	December 31, 2006
Long-term rate related to funding receivables	4.88%	4.03%

The fair value of long-term loans related to funding amounts to $46 million and is based on cash flows discounted using a rate based on the borrowings rate of 4.88%. The discount rate equals to LIBOR plus appropriate credit rating.

As of December 31, 2007 and December 31, 2006, 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 long-term loans and receivables are denominated in the following currency:

	December 31, 2007	December 31, 2006
US dollar	**4**	3
Euro	**184**	139
Japanese yen	**4**	3
Other currencies	**1**	1
Total	**203**	**146**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

15 — OTHER NON-CURRENT ASSETS

Other non-current assets amounted to $60 million and $45 million and consisted of long term receivables related to tax refund and individually insignificant amounts as of December 31, 2007 and December 31, 2006 respectively.

16 — TRADE ACCOUNT PAYABLES, OTHER PAYABLES AND ACCRUED LIABILITIES

Trade account payables, other payables and accrued liabilities consisted of the following:

	December 31, 2007	December 31, 2006
Trade account payables	**1,065**	**1,044**
Other payables and accrued liabilities:		
Taxes other than income taxes	91	78
Salaries and wages	300	308
Social charges	149	135
Pension and termination benefits	23	10
Advances from customers	10	10
Advances received on government fundings	28	28
Accrued interest	6	4
Other accrued liabilities	95	69
Total other payables and accrued liabilities	**702**	**642**

Other accrued liabilities are composed of individually not material amounts at December 31, 2007 and December 31, 2006, respectively.

17 — RETIREMENT BENEFIT OBLIGATIONS

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 at end periods, measurement date for all its plans. Eligibility is generally determined in accordance with local statutory requirements. In 2007 and 2006, the major defined benefit pension plans and long-term employee benefit plans were in Italy and France. In 2007, a new Italian regulation concerning employee retirement schemes was enacted ("Riforma Previdenziale") with a consequent change of the Italian pension plan from defined benefit to defined contribution plan. All future contributions will be paid by the Italian subsidiary to an external pension fund or to treasury fund. The curtailment gain recognized by the Company and related to the structural change of the pension plan in Italy impacted the consolidated statement of income for $38 million. Furthermore, the curtailment gain recognized in USA related to the 2007 restructuring plan amounted to $8 million.

The amounts recognized in the balance sheet are determined as follows:

	December 31, 2007	December 31, 2006
Benefit obligations wholly or partially funded	(313)	(353)
Fair value of plan assets	278	241
Benefit obligations wholly unfunded	(246)	(217)
Unrecognized actuarial gain and loss	(50)	(13)
Unrecognized past service cost	9	9
Total pension liabilities	**(322)**	**(333)**

Post employment benefit

The movement in the liability recognized in the consolidated balance sheet is as follows:

	2007	2006
Beginning of the year	333	282
Exchange differences	35	47
Total expense charged in the income statement	(13)	62
Contributions paid	(33)	(58)
End of year	**322**	**333**

Change in Defined Benefit Obligation	2007	2006
Beginning of the year	570	508
Service cost	19	39
Interest cost	27	25
Employee contributions	2	2
Plan amendment – past service cost – vested benefits	-	6
Plan amendment – past service cost – non vested benefits	2	10
Special termination benefits	-	-
Actuarial (gain) loss	(42)	(22)
Acquisition / Transfer In	5	4
Divestiture / Transfer Out	-	(2)
Effect of curtailment	(32)	-
Effect of settlement	(1)	(6)
Benefits paid	(26)	(41)
Effect of foreign exchange translation	35	47
End of year	**559**	**570**

Change in Plan Assets	2007	2006
Beginning of the year	241	194
Actual return on plan assets	23	15
Employer contribution	16	28
Employee contribution	2	3
Acquisition / Transfer In	-	2
Effect of settlement	(1)	(6)
Administration fees	(1)	-
Benefits paid	(10)	(11)
Effect of foreign exchange translation	8	16
End of year	**278**	**241**

The actual return on plan assets was $23 million and $15 million in 2007 and 2006 respectively.

Expected return on plan assets	15
Actual return on plan assets	23
Actuarial gain on assets	(8)

Other long-term employee benefit

Other long term employee benefits include other seniority and loyalty award programs.

The movement in the liability recognized in the consolidated balance sheet is as follows:

	2007	2006
Beginning of the year	3	2
Exchange differences	20	-
Total expense charged in the income statement	20	1
Contributions paid	(1)	-
End of year	**42**	**3**

In 2007, the Company recorded a one time charge of $19 million, which is included as a "Plan amendment" in the table below, for adjustments to the expenses of a seniority program in prior periods. These prior period adjustments individually and in the aggregate are not material to the financial results for previously issued annual consolidated financial statements or for the consolidated statements for the year ended December 31, 2007.

Change in Defined Benefit Obligation	2007	2006
Beginning of the year	3	2
Service cost	2	1
Interest cost	1	-
Plan amendment – past service cost – vested benefits	19	-
Actuarial (gain) loss	(2)	-
Acquisition / Transfer In	8	-
Benefits paid	(1)	-
Effect of foreign exchange translation	12	-
End of year	**42**	**3**

Experience adjustments	
2005 loss assumptions	(21)
2005 gains experience	9
2006 gain assumptions	32
2006 loss experience	(9)
2007 gain assumptions	61
2007 loss experience	(16)

The weighted average assumptions used in the determination of the benefit obligations were as follows:

Assumptions	2007	2006
Discount rate	5.43%	4.86%
Future salary increases	3.24%	2.95 %

Post employment benefit

The amounts recognized in the income statement are as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Current service cost..	19	39
Interest cost	27	25
Expected return on plan assets...	(15)	(13)
Amortization of unrecognized prior service cost……………………….	1	12
Amortization of actuarial net loss (gain)	-	4
Effect of settlement	1	(5)
Effect of curtailment...	(46)	-
Total pension costs	**(13)**	**62**

Other long-term employee benefit

The amounts recognized in the income statement are as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Current service cost..	2	1
Interest cost	1	-
Amortization of unrecognized prior service cost……………………….	19	-
Amortization of actuarial net loss (gain)	(2)	-
Total pension costs	**20**	**1**

The weighted average assumptions used in the determination of pension costs were as follows:

Assumptions	2007	2006
Discount rate	4.86%	4.54%
Expected long-term rate of return on funds for the pension expense of the year..	6.05%	6.34%
Future salary increases	2.95%	3.75%

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 modelled 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 Company pension plan asset allocation at December 31, 2007 and 2006 and target allocation for 2007 are as follows:

	Target allocation	Percentage of Plan Assets at December	
Asset Category	2007	2007	2006
Equity securities	51%	54%	55%
Fixed income securities	30%	27%	33%
Real estate	9%	9%	4%
Other	10%	10%	8%
Total	100%	100%	100%

The Company'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 Company'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 Company's equity portfolios are managed in such a way as to achieve optimal diversity. The Company does not manage any assets internally.

After considering the funded status of the Company's defined benefit plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year in excess of required amounts. The Company contributions to plan assets were $16 million and $28 million in 2007 and 2006 respectively and the Company expects to contribute cash of $34 million in 2008.

18 — LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31, 2007	December 31, 2006
Bank loans:		
2.54% (weighted average), due 2007, fixed interest rate	-	65
5.68% (weighted average), due 2007, variable interest rate	-	30
5.21% due 2008, floating interest rate at Libor + 0.40%	**43**	49
5.51% due 2009, floating interest rate at Libor + 0.40%	**50**	35
Funding program loans (held at nominal amount):		
1.44% (weighted average), due 2009, fixed interest rate	**13**	18
0.88% (weighted average), due 2010, fixed interest rate	**38**	45
2.74% (weighted average), due 2012, fixed interest rate	**12**	12
0.49% (weighted average), due 2014, fixed interest rate	**9**	8
3.33% (weighted average), due 2017, fixed interest rate	**80**	53
4.98% due 2014, floating interest rate at Libor + 0.0199%	**206**	140
Finance leases:		
4.97%, due 2017, fixed interest rate	**22**	23
Senior Bonds:		
5.35%, due 2013, floating interest rate at EURIBOR + 0.40%	**736**	659
Convertible debt:		
-0.50% convertible bonds due 2013	**2**	2
1.5% convertible bonds due 2016	**779**	737
Total long-term debt	**1,990**	1,876
Less current portion	**(103)**	(136)
Total long-term debt, less current portion	**1,887**	**1,740**

Long-term debt is denominated in the following currencies:

	December 31, 2007	December 31, 2006
U.S. dollar	**1,083**	**988**
Euro	**907**	**818**
Singapore dollar	**-**	**65**
Other	**-**	**5**
Total	**1,990**	**1,876**

Aggregate future maturities of long-term debt outstanding are as follows:

	December 31, 2007
2008	**103**
2009	**114**
2010	**60**
2011	**822**
2012	**42**
Thereafter	**849**
Total	**1,990**

Total debt includes secured debt of $736 million. Credit facilities for certain subsidiaries are secured by a $427 million STMicroelectronics N.V. guarantee. No collateralised borrowings are secured by trade receivables.

The exposure of the Group's debt to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	December 31, 2007
6 months or less	**1,038**
6-12 months	-
1-5 years	-
Over 5 years	-
Total	**1,038**

The carrying amounts and fair value of total debt are presented in note 35. The fair value of short-term debt equals their carrying amount, as the impact of discounting is not significant.

Convertible debt

In August 2003, the Group issued $1,332 million principal amount at issuance of zero coupon unsubordinated convertible bonds due 2013. The bonds were issued with a negative yield of 0.5% that resulted in a higher principal amount at issuance of $1,400 million and net proceeds of $1,386 million. The bonds are convertible at any time by the holders at the rate of 29.9144 shares of the Group's ordinary shares for each one thousand dollar face value of the bonds. The holders had the option to redeem their convertible bonds on August 5, 2006 at a price of $985.09, on August 5, 2008 at $975.28 and on August 5, 2010 at $965.56 per one thousand dollar face value of the notes. As a result of this holder's redemption option in August 2006, the outstanding amount of 2013 bonds was classified in the consolidated balance sheet as "current portion of long-term debt" as of December 31, 2005. At any time from August 20, 2006 the Group had the option to redeem for cash at their negative accreted value all or a portion of the convertible bonds subject to the level of the Group's share price.

When applying the first-time adoption requirements as set out in IFRS 1, the Group assessed for separate accounting in 2005 the two elements of equity and liability for the 2013 convertible bond, because it was the only convertible debt outstanding at the IAS 32 / 39 transition date on January 1, 2005. The fair value of the liability component and the equity conversion component were determined at issuance of the bond. The bond terms enable the holder to receive cash settlement under certain circumstances and, consequently, the Group has classified the share conversion option as a financial liability in "Other non-current liabilities" and not in the Consolidated Shareholders' Equity. The value at issuance of this share conversion option was $114 million, which has been fair valued through profit and loss and fully reflected in adjusted retained earnings at January 1, 2005 because of its near zero value at the IAS 32/IAS 39 conversion date. Adjusted retained earnings at January 1, 2005 also included the cumulative amortized interest cost recorded on the bond totalling $54 million. The fair value of the liability component of the convertible debt amounted to $1,356 million as of December 31, 2005. Based on the existing market conditions at issuance, management estimated that separately valuing embedded share conversion would not be materially different from calculating the residual amount of the equity conversion option as the total bond proceeds, net of the fair value of the debt component. Group determined the fair value of the liability component 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 was determined to be a three-year timeframe corresponding to the period to the first date of redemption for cash at the option of the holder. The fair value was calculated using cash flows discounted at a rate based on the non-convertible debt rate of 2.96%. The embedded rights of the bond holder to extend the bond beyond the probable three year period, by not exercising their redemption option, were measured at fair value through profit and loss. The fair value of these embedded rights was not material at the end of 2005.

Pursuant to the terms of the convertible bonds due 2013, the Company was required to purchase, at the option of the holders, 1,397,493 convertible bonds, at a price of $985.09 each between August 7 and August 9, 2006. This resulted in a cash payment of $1,377 million. The Company may be required to purchase, at the option of the holder, the outstanding convertible bonds for cash on August 5, 2008 and/or August 5, 2010 at a price of $975.28 and $965.56 per convertible bond, respectively. The outstanding 2013 convertible debt amounted to approximately $2 million as at December 31, 2007, corresponding to the remaining 2,505 bonds.

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 a conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. This conversion rate has been adjusted from 43.118317 shares per one thousand dollar face value of the bonds at issuance, as the result of the extraordinary cash dividend approved by the Annual General Meeting of Shareholders held on April 26, 2007. This new conversion has been effective since May, 21, 2007. In the event of any change in control, the holder has the right to require the Company to purchase for cash all or any part of the holder's convertible bonds at its accreted value. 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 dollars face value of the bonds. The Company can call the bonds at any time after March 10, 2011 subject to the Company's share price exceeding 130% of the accreted value divided by the conversion rate for 20 out of 30 consecutive trading days. The Company may redeem for cash at the principal amount at issuance plus accumulated gross yield all, but not a portion, of the convertible bonds at any time if 10% or less of the aggregate principal amount at issuance of the convertible bonds remain outstanding in certain circumstances or in the event of changes to the tax laws of the Netherlands or any successor jurisdiction.

The Group assessed for separate accounting at issuance of the bond the two elements of equity and liability of the compound instrument. The bond terms enable the holder to receive cash settlement under certain circumstances and, consequently, the Group has classified the share conversion option as a financial liability in "Other non-current liabilities" at December 31, 2006. This financial liability was measured at fair value through profit and loss. Based on the existing market conditions at issuance, management estimated that separately valuing embedded share conversion would not be materially different from calculating the residual amount of the equity conversion as total bond proceeds, net of the fair value of the debt component. The fair value of the liability component of the convertible debt amounted to $700 million at issuance and includes the value of the holder's redemption option and the Company's call options since these embedded derivatives were considered to be closely related to the host debt contract and could not be accounted for separately as freestanding derivatives. The Group determined the fair value of the liability component 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 was determined to be a ten-year timeframe corresponding to the period from issuance to maturity. The fair value was calculated using cash flows discounted at a rate based on the non-convertible debt rate of 5.50%, reduced by 0.58% corresponding to the value of the put and call options.

In 2006, the Company entered into cancellable swaps with a combined notional value of $200 million to hedge the fair value of a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps convert the fixed rate interest expense recorded on the convertible bond due to 2016 to a variable interest rate based upon adjusted LIBOR. These interest rate swap hedging transactions are described in further detail in footnote 35.

The convertible debt recognized in the balance sheet is calculated as follows:

Convertible debt 2013:	**December 31, 2007**
Face value of the convertible debt issued on August 2003	1,400
Conversion option	(136)
Accumulated interest recognized in retained earnings	115
Repayment in cash at redemption date	(1,377)
Liability component as of December 31, 2006	2
Interest expense recognized in 2007 consolidated statement of income	-
Convertible debt 2013 as of December 31, 2007	2

Convertible debt 2016:	**December 31, 2007**
Face value of the convertible debt issued in February 2006	974
Conversion option classified as a financial liability	(274)
Accumulated interest recognized in retained earnings	37
Liability component at of December 31, 2006	737
Interest expense recognized in 2007 consolidated statement of income	42
Convertible debt 2016 as of December 31, 2007	779

Senior Bonds

In March 2006, STMicroelectronics Finance B.V. (“ST BV”), a wholly owned subsidiary of the Company, issued floating rate senior bonds with a principal amount of Euro 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 Company, 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 Company to repurchase all or a portion of the bonds outstanding.

Credit facilities

The Company and its subsidiaries has uncommitted short-term credit facilities with several financial institutions totalling $1,212 million at December 31, 2007. The Company has also a $736 million long-term credit facility with the European Investment Bank as part of a funding program loan, of which $205 million were used as at December 31, 2007. The Company maintains also uncommitted foreign exchange facilities totalling $939 million at December 31, 2007. At December 31, 2007 and 2006, amounts available under the short-term lines of credit were not reduced by any borrowing.

Un-drawn borrowing facilities are summarized below:

	December 31, 2007	December 31, 2006
Floating rate:		
Expiring within one year	**1,368**	1,107
Expiring beyond one year	**375**	183
Fixed rate:		
Expiring within one year	-	-
Expiring beyond one year	-	-
Total	**1,743**	1,290

The facilities expiring within one year are annual facilities subject to review at various dates during 2007. The other facilities have been arranged to help finance capital investment of the Company.

The Company did not experience any breach of covenants related to long-term debts or short-term credit facilities in the years 2007 and 2006.

19 — PROVISIONS

	Year ended December 31, 2007	Year ended December 31, 2006
Provision for restructuring (note 25)	152	29
Warranty and product guarantee provision	4	6
Tax provision	100	82
Total Provisions	**256**	**117**
Less current provisions:		
Provision for restructuring (note 25)	(114)	(25)
Current tax provision	(77)	(62)
Warranty and product guarantee provision	(4)	(6)
Non-current provisions	**61**	**24**

Description of each category of provision and timing of payment

Changes in provisions	Restructuring	Warranty & Product Guarantee	Tax	Other	Total Provisions
Provision as at December 31, 2005	**42**	**7**	**118**	**-**	**167**
Charges incurred in 2006	56	-	50	-	106
Reversal of provision	-	(1)	(86)	-	(87)
Amounts paid	(71)	-	-	-	(71)
Currency translation effect	2	-	-	-	2
Provision as at December 31, 2006	**29**	**6**	**82**	**-**	**117**
Charges incurred in 2007	170	5	77	-	252
Reversal of provision	(2)	(2)	(59)	-	(63)
Amounts paid	(45)	(5)		-	(50)
Currency translation effect	-	-	-	-	-
Provision as at December 31 2007	**152**	**4**	**100**	**-**	**256**

Tax provision is associated to uncertain tax positions that remain open for review in the Company's major tax jurisdictions.

For further information related to restructuring, refer to note 25.

20 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

	Period ended December 31, 2007	Year ended December 31, 2006
Share conversion option of convertible debt 2016 classified as financial liability (note 18)	277	277
Debt financial guarantee (note 3)	17	15
Other non-current liabilities	38	4
Total	**332**	**296**

21 — SHARE CAPITAL

The changes in share capital are detailed as follows:

	Number of Shares outstanding	Ordinary shares	Capital Surplus	Treasury shares	Total
Balance as of January 1, 2006	**894,424,279**	**1,153**	**1,956**	**(348)**	**2,761**
Employee share award scheme:					
Rights acquired on vested share-award	**637,109**	**—**	**—**	**17**	**17**
Exercise of share options	**2,333,654**	**3**	**25**	**—**	**28**
Conversion of bonds	—	—	—	—	—
Balance as of December 31, 2006	**897,395,042**	**1,156**	**1,981**	**(331)**	**2,806**
Employee share award scheme:					
Rights acquired on vested share-award	**2,230,010**	**—**	**—**	**57**	**57**
Exercise of share options	**135,487**	**—**	**2**	**—**	**2**
Conversion of bonds	—	—	—	—	—
Balance as of December 31, 2007	**899,760,539**	**1,156**	**1,983**	**(274)**	**2,865**

21.1 — Outstanding shares

The authorized share capital of the Company is €1,810 million consisting of 1,200,000,000 ordinary shares and 540,000,000 preference shares, each with a nominal value of €1.04. As of December 31, 2007 the number of ordinary shares issued was 910,293,420 shares (910,157,933 at December 31, 2006). All issued shares are fully paid. As of December 31, 2007 the number of shares of common stock outstanding was 899,760,539 (897,395,042 at December 31, 2006).

21.2 — Authorized 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 Company 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 the Company'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 the Company'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 the Company, down to 19% issued share capital compared to the previous requirement of at least 30%.

On November 27, 2006 the Supervisory Board of the Company approved the termination of the existing option agreement between the Company and STMicroelectronics Holding II B.V.

and the substitution of such agreement by a new agreement of substantially similar terms between the Company 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 the Company 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 Company receiving an unsolicited offer or there being the threat of such an offer; (ii) the Company'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 Company and its stakeholders. The preference shares may remain outstanding for no longer than two years. There were no preference shares issued as of December 31, 2007.

21.3 — Treasury shares

In 2002 and 2001, the Company repurchased 13,400,000 of its own shares, for a total amount of $348 million, which were reflected at cost as a reduction of the shareholders' equity. No treasury shares were acquired in 2007, 2006 and 2005.

The treasury shares have been designated for allocation under the Company's share based remuneration programs on non-vested shares including such plans as approved by the 2005, 2006 and 2007 Annual General Meeting of Shareholders. As of December 31, 2007, 2,867,119 of these treasury shares were transferred to employees under the Company's share based remuneration programs, following the vesting as of April 27, 2006 of the first tranche of the stock award plan granted in 2005, as of April 27, 2007 of the second tranche of the stock award plan granted in 2005 and the first tranche of the stock-award plan granted in 2006, the vesting as of October 26, 2007 of first tranche of the stock awards granted under the 2005 French subplan of 2005 (representing 64% of shares granted under this sub plan) and the acceleration of the vesting of a limited number of stock awards.

As of December 31, 2007, the Company owned a residual number of treasury shares equivalent to 10,532,881.

21.4 — Stock option plans

In 1995, the Shareholders voted to adopt the 1995 Employee Share Option Plan (the "1995 Plan") whereby options for up to 33,000,000 shares may be granted in instalments over a five-year period. Under the 1995 Plan, the options may be granted to purchase ordinary shares at a price not lower than the market price of the shares on the date of grant. At December 31, 2007, under the 1995 Plan, 1,980 of the granted options outstanding originally vest 50% after three years and 50% after four years following the date of the grant; 5,944,752 of the granted options vest 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.

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 ordinary shares 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.

The reason for granting share options to Supervisory Board Members and other share-based compensation is disclosed in the Company's Governance charter. The Company believes that such compensation to Supervisory Board Members enables better identification with shareholder interest and that share-based compensation is conducive to attracting and retaining the most suitable candidates to accept service as Supervisory Board Members in light of worldwide practices in the semiconductor and technology industries. Share-based compensation for Supervisory Board Members is subject to a prior shareholders' approval.

In 2001, the Shareholders voted to adopt the 2001 Employee Share Option Plan (the "2001 Plan") whereby options for up to 60,000,000 shares may be granted in instalments over a five-year period. The options may be granted to purchase ordinary shares 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 Company decided in 2005 to accelerate the vesting period of all outstanding unvested share options. The options expire ten years after the date of grant.

In 2002, the Shareholders voted to adopt a Share 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 will vest 30 days after the date of grant. The options expire ten years after the date of grant.

A summary of share option activity for the plans for the period ended December 31, 2007 and the year ended December 31, 2006 follows:

		Price Per Share	
	Number of Shares	**Range**	**Weighted Average**
Outstanding at December 31, 2005	60,558,567	$12.03-$62.01	$29.80
Options granted:			
2001 Plan	-	-	-
Supervisory Board Plan	-	-	-
Options expired	(16,832)	$12.03	$12.03
Options forfeited	(1,912,584)	$12.03-$62.01	$30.66
Options exercised	(2,303,899)	$12.03-$17.08	$12.03
Outstanding at December 31, 2006	**56,325,252**	**$12.03-$62.01**	**$30.50**
Options granted:			
2001 Plan	-	-	-
Supervisory Board Plan	-	-	-
Options expired	(7,566,170)	$24.88	$24.88
Options forfeited	(1,861,960)	$16.73-$62.01	$31.19
Options exercised	131,487	$17.08-$19.18	$18.90
Outstanding at December 31, 2007	**46,765,635**	**$16.73-$62.01**	**$31.42**

The related weighted average market price of options at the time of exercise was $19.31 and $16.00 for the year ended December 31, 2007 and the year ended December 31, 2006, respectively.

Share options exercisable following acceleration of vesting for all outstanding unvested share options were as follows:

	December 31, 2007	December 31, 2006
Options exercisable	**46,765,635**	**56,325,252**
Weighted average exercise price	**$31.42**	$30.50

The weighted average remaining contractual life of options outstanding as of December 31, 2007 and December 31, 2006 was 4.3 and 4.7, respectively.

The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options exercisable as of December 31, 2007 were as follows:

Number of shares	Option price range	Weighted average exercise price	Weighted average remaining contractual life
149,191	$16.73 - $17.31	$17.06	6.8
21,094,641	$19.18 - $24.88	$21.03	5.8
202,060	$25.90 - $29.70	$27.18	5.2
19,357,388	$31.09 - $44.00	$34.37	3.9
5,962,355	$50.69 - $62.01	$59.09	0.6
46,765,978	**$16.73-$62.01**	**$31.42**	**4.3**

The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options exercisable as of December 31, 2006 were as follows:

Number of shares	Option price range	Weighted average exercise price	Weighted average remaining contractual life
189,455	$12.03-$17.31	$17,04	7.8
29,716,135	$19.18-$24.88	$22,04	5.2
217,360	$25.90-$29.70	$27,20	6.2
19,990,687	$31.09-$44.00	$34,37	4.9
6,211,615	$50.69-$62.01	$59,08	1.6
56,325,252	**$12.03-$62.01**	**$30.50**	**4.7**

The fair value of the Company’s share options was estimated under IFRS 2 using a Black-Scholes option pricing model since the simple characteristics of the share options did not require complex assumptions. The Group has amortized the compensation expense incurred on the grant of share options over the nominal vesting period for employees based on the staged vesting of each plan. The compensation expense recorded for the year ended December 31, 2005 included a charge of $80 million relating to the effect of accelerating the vesting period of all outstanding unvested share options during the third quarter of 2005, which has been recognized immediately for the amount that otherwise would have been recognized ratably over the remaining vesting period. Consequently no compensation expense was recognised in 2007 and 2006 on share options. The fair value of share options under IFRS 2 provisions was estimated using the following weighted-average assumptions:

	December 31, 2007	December 31, 2006	December 31, 2005
Expected option life (years)	-	-	6.1
Weighted average share price	-	-	$16.91
Historical Company share price volatility	-	-	41.5%
Risk-free interest rate	-	-	3.8%
Dividend yield..............................	-	-	0.69%

Share options were issued at market price. The Company 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.

21.5 — Nonvested share awards

In 2005, the Company redefined its equity-based compensation strategy by no longer granting options but rather issuing nonvested shares. In July 2005, the Company amended its latest Stock Option Plans for employees, Supervisory Board and Professionals of the Supervisory Board accordingly.

2005 Share award plan

As part of this revised stock-based compensation policy, the Company granted on October 25, 2005 3,940,065 nonvested shares to senior executives and selected employees, to be issued upon vesting from treasury stock (“The 2005 Employee Plan”). The Compensation Committee also authorized the future grant of 219,850 additional shares to selected employees upon nomination by the Managing Board of the Company. These additional shares were granted in 2006. The shares were granted for free to employees and would vest upon completion of market and internal performance conditions. Under the program, if the defined market condition was met in the first quarter of 2006, each employee would receive 100% of the nonvested shares granted. If the market condition was not achieved, the employee could earn one third of the grant for each of the two performance conditions. If neither the market or performance conditions were met, the employee would receive none of the grant. In addition to the market and performance conditions, the nonvested shares vest over the following requisite service period: 32% after 6 months, 32% after 18 months and 36% after 30 months following the date of the grant. In 2006, the Company failed to meet the market condition while the performance conditions were reached. Consequently, one third of the shares granted, amounting to 1,364,902 shares, was lost for vesting. In March 2006 the Company decided to modify the original plan to create a subplan for the employees in one of its European subsidiaries for statutory payroll tax purposes. The original plan terms and conditions were modified to extend for these employees the requisite service period as follows: 64% of the granted stock awards vest as at October 26, 2007 and 36% as at April 27, 2008 following the date of the grant. 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. In compliance with the staged vesting of the grant and pursuant to the acceleration of a limited number of stock awards, the first tranche of the original plan, representing 637,109 shares, vested as at April 27, 2006. In 2007, the second tranche of the original plan, representing 598,649 shares, vested as at April 27, 2007, and the first tranche of the subplan, representing 434,592 shares, vested as at October 26, 2007. In addition, 6,303 additional shares were accelerated during the year, of which 864 were under the subplan. These shares were transferred to employees from the 13,400,000 treasury shares owned by the Company. At December 31, 2007, 911,281 nonvested shares were outstanding, of which 243,467 under the subplan.

On October 25 2005, the Compensation Committee granted 66,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2005 Supervisory Board Plan"). These awards are granted at the nominal value of the share of €1.04 and become exercisable over the following period: one third after 6 months, one third after 18 months and one third after 30 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 2006, in compliance with the staged vesting of the grant, the first tranche of the plan, representing 17,000 shares, vested as at April 27, 2006.

In 2007, the second tranche of the plan, representing 17,000 shares vested as at April 27, 2007. As of December 31 2007, 17,000 awards were outstanding.

2006 Share award plan

On April 29 2006, the Compensation Committee granted 66,000 stock-based awards 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 become exercisable 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. As of December 31 2007, 34,000 awards were outstanding.

On September 29, 2006 the Company granted 4,854,280 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2006 Employee Plan"). The Compensation Committee also authorized on September 29, 2006 the future grant of 245,720 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 Company's European subsidiaries for whom a subplan was simultaneously created on September 29, 2006, the nonvested shares vest 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 is required for the nonvested shares granted under the local subplan: 64% of the granted stock awards vest 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 subplan, 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 scheduled 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 additional shares were accelerated during the year, of which 340 under the subplan. These shares were transferred to employees from the 13,400,000 treasury shares owned by the Company. At December 31, 2007, 3,489,974 nonvested shares were outstanding, of which 1,189,115 under the subplan.

On December 19, 2006, the Compensation Committee 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 has the same terms and conditions as the original plan.

In compliance with the scheduled vesting of the grant, the first tranche of this plan, representing 8,885 shares, vested as at April 27, 2007. At December 31, 2007 53,130 nonvested shares were outstanding as part of this additional grant, of which 34,255 under the local subplan.

2007 Share award plan

On February 27, 2007, the Compensation Committee 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 has the same terms and conditions as the original plan. In compliance with the scheduled vesting of the grant, the first tranche of this plan, representing 50,031 shares, vested as at April 27, 2007. In addition, 1,196 additional shares were accelerated during the year. At December 31, 2007 159,345 nonvested shares were outstanding as part of this additional grant, of which 57,390 under the local subplan.

On April 29 2007, the Compensation Committee 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 become exercisable 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 2007, 142,500 awards were outstanding.

On June 18, 2007, the Company granted 5,691,840 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2007 Employee Plan"). 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 Company's European subsidiaries for whom a subplan was simultaneously created, the nonvested 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 nonvested shares granted under the two local subplans: 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 one, 32% vest as at June 19, 2008, 32% as at April 26, 2009 and 36% as at April 26, 2010. At December 31, 2007 5,618,350 nonvested shares were outstanding, of which 1,459,635 under the first subplan and 15,900 under the second one.

On December 6, 2007, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, 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 forecast performance condition results, as explained above, one half of the grants are estimated to be lost for vesting. At December 31, 2007 84,450 nonvested shares were outstanding as part of this additional grant, of which 3,000 under the first local subplan and 42,400 under the second one.

A summary of the nonvested share activity for the years ended December 31, 2007 and 2006 is presented below:

Nonvested Shares	Number of Shares	Price
Outstanding at December 31, 2005	**3,965,220**	**$0-€1.04**
Awards granted-2006 share award plan		
2005 Employees Plan	219,850	$0
2006 Employees Plan	4,916,640	$0
2006 Supervisory Board Plan	66,000	€1,04
Awards forfeited		
2005 Employees Plan	(138,615)	$0
2006 Employees Plan	(118,430)	$0
2006 Supervisory Board Plan	(15,000)	€1,04
Awards Cancelled on failed vesting conditions:		
2005 Employees Plan	(1,364,902)	$0
Awards vested		
2005 Employees Plan	(637,109)	$0
2005 Supervisory Board Plan	(17,000)	€1,04
Outstanding at December 31, 2006	**6,876,654**	**$0-€1.04**
Awards granted-2007 share award plan		
2006 Employees Plan	215,000	$0
2007 Supervisory Board Plan	165,000	€1,04
2007 Employees Plan	5,776,290	$0
Awards forfeited		
2005 Employees Plan	(42,619)	$0
2006 Employees Plan	(120,295)	$0
2007 Supervisory Board Plan	(22,500)	€1,04
2007 Employees Plan	(73,490)	$0
Awards vested		
2005 Employees Plan	(1,039,544)	$0
2005 Supervisory Board Plan	(17,000)	€1,04
2006 Employees Plan	(1,190,466)	$0
2006 Supervisory Board Plan	(17,000)	€1,04
Outstanding at December 31, 2007	**10,510,030**	**$0-€1.04**

For the 2005 share award plan, the Company recorded compensation expense for the nonvested 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 nonvested 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 grant
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 Company 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 nonvested shares granted in 2005 was $8.50.

In 2006, the Company evaluated 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 No. 2, *Share-Based Payment*, and considering that the modification of the plan did not result in an increase of the awards fair value, the Company 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 nonvested shares granted to employees under the 2006 Employee Plan was $17.35. On the 2006 Employee Plan, the fair value of the nonvested 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 far as the service condition is met.

The weighted average grant date fair value of nonvested shares granted to employees under the 2007 Employee Plan was $19.35. On the 2007 Employee Plan, the fair value of the nonvested shares granted did not reflect any discount since they are not affected by a market condition. On the contrary, the Company estimates the number of awards expected to vest by assessing the probability of achieving the performance conditions. At December 31, 2007, 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 Company has estimated that half of number of awards is expected to vest. Consequently, the compensation expense recorded for the 2007 Employee Plan reflects the vesting of half of the awards granted, subject to the service condition being met.

The compensation expense recorded for nonvested shares in 2006 included a reduction for future forfeitures, estimated at a pluri-annual rate of 4.99%, reflecting the historical trend of forfeitures on past stock award plans. This estimate was adjusted in 2007 at a pluri-annual rate of 4.40%. This estimate will be adjusted for actual forfeitures upon vesting. For employees eligible for retirement during the requisite service period, the Company records compensation expense over the applicable shortened period. For awards for which vesting was accelerated in 2007, the Company recorded immediately the unrecognized compensation expense as at the acceleration date.

The following table illustrates the classification of share-based compensation included in the statement of income for grants of nonvested shares during the years ended at December 31, 2007 and 2006:

	December 31, 2007	**December 31, 2006**
Cost of sales..	14	10
Selling, general and administrative	40	22
Research and development...	23	13
Total share-based compensation expense.................	**77**	**45**

In 2007 and 2006, the Company recognized in the income statement total deferred income tax benefit related to nonvested share compensation expense amounting to $9 million and $11 million respectively. It also recognized in total equity excess tax benefits amounting to $1 million as at December 31, 2007 and $0 million in 2006. Compensation cost capitalized as part of inventory was $7 million and $5 million at December 31, 2007 and 2006. As of December 31, 2007 there was $59 million of total unrecognized compensation cost related to the grant of nonvested shares, which is expected to be recognized over a weighted average period of 16 months.

22 — OTHER RESERVES

22.1 — Other reserves

The accumulated balances related to each component of other reserves were as follows:

	Convertible debt	Share-based payment	Foreign currency translation difference	Unrealized gain (loss) on debt Securities	Unrealized gain (loss) on derivatives	Total other Reserves
Balance as of December 31, 2005	**—**	**196**	**333**	**—**	**(8)**	**521**
Convertible debt — equity component	—					—
Employee share awards schemes:						—
Value of services provided		46				46
Foreign currency translation differences			532			532
Cash flow hedge:						
Transfer to net income					8	8
Unrealized loss					7	7
Tax effect					(1)	(1)
Balance as of December 31, 2006	**—**	**242**	**865**	**—**	**6**	**1,113**
Convertible debt — equity component	—					
Employee share awards schemes:						
Value of services provided		78				78
Foreign currency translation differences			458			458
Available for sale financial assets						
Transfer to net income				(3)		(3)
Unrealized profit						
Tax effect						
Cash flow hedge:						
Transfer to net income					(6)	(6)
Unrealized profit					5	5
Tax effect					—	
Balance as of December 31, 2007	**—**	**320**	**1,323**	**(3)**	**5**	**1,645**

In 2006, certain prior year items have been reclassified to conform with the current year presentation. The disclosure contained within the consolidated statement of changes in shareholders' equity has been amended to more appropriately reflect the categorization of other reserves and retained earnings.

22.2 — Dividends

At the Annual General Meeting of Shareholders on April 26, 2007, shareholders approved the distribution of $0.30 per share in cash dividends. The dividend amount of approximately $270 million was paid in the second quarter of 2007.

At the Annual General Meeting of Shareholders on April 27, 2006, shareholders approved the distribution of $0.12 per share in cash dividends. The dividend amount of approximately $107 million was paid in the second quarter of 2006.

22.3 — Non Distributable Reserve

The amount of the non distributable reserve was $2,601 million and $1,993 million in the year 2007 and 2006, respectively and it represents the amount of paid in capital and legal reserve of the Parent Company.

23 — EARNINGS PER SHARE

For the period ended December 31, 2007 and the year ended December 31, 2006, earnings per share ("EPS") were calculated as follows:

	Period ended December 31, 2007	Year ended December 31, 2006
Basic EPS		
Net profit attributable to shareholders of the Company	(439)	964
Weighted average shares outstanding	898,731,154	896,136,969
Basic EPS	(0.49)	1.08
Diluted EPS		
Net profit attributable to shareholders of the Company	(439)	964
Convertible debt interest, net of tax	-	62
Net profit attributable to shareholders of the Company adjusted	(439)	1,026
Weighted average shares outstanding	898,731,154	896,136,969
Dilutive effect of share options	-	1,631
Dilutive effect of nonvested shares	-	2,409,309
Dilutive effect of convertible debt	-	60,941,996
Number of shares used in calculating diluted EPS	898,731,154	959,489,905
Diluted EPS	**(0.49)**	**1.07**

24 — OTHER INCOME AND EXPENSES

24.1 — Other income

Other income consisted of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Research and development funding	152	110
Foreign exchange forward contracts – held for trading	17	17
Net foreign exchange gain	2	-
Gain on sale of non-current assets	3	2
Change in fair value of interest swap	5	4
Other	5	5
Total	**184**	138

24.2 — Other expenses

Other expenses consisted of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Start-up costs	(24)	(57)
Exchange loss	-	-
Patent litigation costs	(18)	(22)
Patent pre-litigation costs	(10)	(7)
Change in fair value of non-current liability portion of convertible debt 2016	(1)	(6)
Other expenses	(5)	-
Total	**(58)**	(92)

Patent litigation costs include legal and attorney fees and payment of claims, and patent pre-litigation costs are composed of consultancy fees and legal fees. Patent litigation costs are costs incurred in respect of pending litigation. Patent pre-litigation costs are costs incurred to prepare for licensing discussions with third parties with a view to concluding an agreement.

On June 29, 2006, the Company sold to Sofinnova Capital V its participation in Accent Srl, a subsidiary based in Italy. Accent Srl, in which the Company held a 51% interest, was jointly formed with Cadence Design Systems Inc. and is specialized in hardware and software design and consulting services for integrated circuit design and fabrication. The total consideration amounting to $7 million was received in cash on June 29, 2006. Net of consolidated carrying amount and transactions related expenses, the divestiture resulted in a net pre-tax gain of $6 million which was recorded in “Other income” in the 2006 consolidated statement of income. In addition the Company simultaneously entered into a license agreement with Accent by which the Company granted to Accent, for a total agreed lump sum amount of $3 million, the right to use “as is” and with no right to future development certain specific intellectual property of the Company that are currently used in Accent’s business activities. The total consideration was recognized immediately in 2006 and recorded as “Other revenues” in the consolidated statement of income. The Company was also granted warrants for 6,675 new shares of Accent. Such warrants expire after 15 years and can only be exercised in the event of a change of control or an Initial Public Offering of Accent above a predetermined value.

25 — IMPAIRMENT, RESTRUCTURING CHARGES AND OTHER RELATED CLOSURE COSTS

In the period ending December 31, 2007, the Company has incurred impairment and restructuring charges related to the following items: (i) the valuation of assets to be disposed of within Flash memory business deconsolidation under the held-for-sale model of IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* (“IFRS 5”); (ii) the manufacturing plan committed to by the Company in the second quarter of 2007 (the “2007 restructuring plan”); (iii) the 150mm restructuring plan started in 2003; (iv) the headcount reduction plan announced in the second quarter of 2005; (v) impairment charges on certain financial investments carried at cost and on intangible assets pursuant to the annual impairment test in order to assess recoverability of the carrying value of goodwill and related intangible assets.

During the third quarter of 2003, the Company commenced a plan to restructure its 150mm fab operations and part of its back-end operations in order to improve cost competitiveness. The 150mm restructuring plan focuses on cost reduction by migrating a large part of European and U.S. 150mm production to Singapore and by upgrading production to finer geometry 200mm wafer fabs. The plan includes the discontinuation of the 150mm production of Rennes (France), the closure as soon as operationally feasible of the 150mm wafer pilot line in Castelletto (Italy) and the downsizing by approximately one-half of the 150mm wafer fab in Carrollton, Texas. Furthermore, the 150mm wafer fab productions in Agrate (Italy) and Rousset (France) will be gradually phased-out in favor of 200mm wafer ramp-ups at existing facilities in these locations, which will be expanded or upgraded to accommodate additional finer geometry wafer capacity. The Company incurred the balance of the restructuring charges related to this manufacturing restructuring plan in 2007, later than previously anticipated to accommodate unforeseen qualification requirements of the Company’s customers.

In May 2005, the Company announced additional restructuring efforts to improve profitability. These initiatives aimed to reduce the Company’s workforce by 3,000 outside Asia, of which 2,300 were planned for Europe. The Company planned to reorganize its European activities by optimizing on a global scale its EWS activities (wafer testing); harmonizing its support functions; streamlining its activities outside its manufacturing areas and by disengaging from certain activities.

In the second quarter of 2007, the Company announced it had entered into a definitive agreement with Intel to create a new independent semiconductor company from the key assets of the Company’s and Intel’s Flash memory business as described in details in Note 8. Upon meeting IFRS 5 criteria for assets held for sale, the Company reclassified the assets to be transferred pursuant FMG deconsolidation from their original balance sheet classification to the line “assets held for sale”, reflecting the to-be-contributed assets at fair value less costs to sell was based on the net consideration provided for in the agreement and significant estimates. In addition, the Company started to incur in the second half of 2007 certain restructuring charges related to the disposal of FMG business.

The Company announced on July 10, 2007 that management committed to a new restructuring plan (“the 2007 restructuring plan”). Such plan aimed at redefining the Company’s manufacturing strategy in order to contribute to be more competitive in the semiconductor market. In addition to the prior restructuring measures undertaken in the past years, this new manufacturing plan will 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.

Impairment, restructuring charges and other related closure costs incurred in the period ended on December 31, 2007 and in 2006 are summarized as follows:

Period ended December 31, 2007	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
150mm fab plan	-	(2)	(22)	(24)
2005 restructuring initiatives	-	(6)	-	(6)
2007 restructuring initiatives	(11)	(133)	-	(144)
FMG deconsolidation	(1,162)	-	(5)	(1,167)
Other	(5)	-	-	(5)
Total	**(1,178)**	**(141)**	**(27)**	**(1,346)**

Year ended December 31, 2006	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
150mm fab plan	(1)	(6)	(12)	(19)
2005 restructuring initiatives	(1)	(33)	(5)	(39)
2006 impairment review	(10)	—	—	(10)
Total	**(12)**	**(39)**	**(17)**	**(68)**

Impairment, restructuring charges and other related closure costs incurred in the period ended on December 31, 2007 and in 2006 are allocated as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Manufacturing cost	1,288	44
Research and Development expenses	53	10
Other expenses	5	14
Total	**(1,346)**	**(68)**

Impairment charges

In 2007, the Company recorded impairment charges as follows:

- $1,161 million impairment as a result of the signing of the definitive agreement for the FMG deconsolidation and upon meeting IFRS 5 criteria for assets held for sale, to adjust the value of the to-be-contributed assets to fair value less costs to sell. Fair value less costs to sell was based on the net consideration provided for in the agreement and significant estimates. The final impairment charge could be materially different subject to further adjustments due to business and market evolution prior to the closing of the transaction;

- $1 million impairment charge on certain specific equipment that could not be transferred as part of FMG deconsolidation;

- $11 million impairment on certain tangible assets, mainly equipment, that the Company identified without alternative future use following its commitment to the closure of two front-end sites and one back-end site as part of the 2007 restructuring plan;

- $2 million impairment on technologies without alternative future use following the Company's products' roadmap;

- $3 million other-than-temporary impairment charge on a minority equity investment carried at cost. The impairment loss was based on the valuation for the underlying investment of a new round of third party financing

In 2006, the Company recorded impairment charges as follows:

- $6 million impairment of goodwill pursuant to the decision of the Company to cease product development from technologies inherited from Tioga business acquisition. The Company reports Tioga business as part of the Application Specific Product Groups ("ASG") product segment. Following this decision, the Company recorded the full write-off of Tioga goodwill carrying amount.

- $4 million impairment on technologies purchased as part of Tioga business acquisition, which were determined to be without any alternative use;

- $1 million impairment on equipment and machinery pursuant to the decision of the Company to discontinue a production line in one of its back-end sites;

- $1 million impairment on equipment and machinery identified without any alternative use in one of the Company's European 150 mm sites.

The long-lived assets affected by the restructuring plans are owned by the Company and were assessed for impairment using the value-in-use model when they did not satisfy all of the criteria required for held-for-sale status, as set forth in IFRS 5. In 2007, apart from assets held for sale within FMG deconsolidation, the Company did not identify any significant tangible asset to be disposed of by sale. In 2006, the Company identified certain machinery and equipment to be disposed of by sale in one of its back-end sites in Morocco, following the decision of the Company to disengage from SPG activities as part of its latest restructuring initiatives. These assets did not generate any impairment charge and were reflected at their carrying value on the line "Other receivables and assets" of the consolidated balance sheet as at December 31, 2006. These assets were sold in 2007, which generated a gain amounting to

$2 million reported on the line “Other income and expenses, net” in the consolidated statement of income for the year ended December 31, 2007.

In January 2007, NXP Semiconductors B.V. announced that it would withdraw from the alliance the Company operates jointly with Freescale Semiconductor, Inc. for certain research and development activities and the operation of a 300mm wafer pilot line fab in Crolles (France) (“Crolles2 alliance”). Therefore, the Crolles2 alliance expired on December 31, 2007. Freescale Semiconductor, Inc. has also notified the Company that the Crolles2 alliance would terminate as of such date, as further detailed in Note 32.

Restructuring charges and other related closure costs as at December 31, 2007 are summarized as follows:

	150mm fab plan			2005 restructuring initiatives	2007 restructuring plan	Other	Total restructuring & other related closure costs
	Restructuring	Other related closure costs	Total				
Provision as at December 31, 2004	**34**	**1**	**35**	**—**	**—**	**3**	**38**
Charges incurred in 2005	10	5	15	51	—	—	66
Reversal of provision	(6)	—	(6)	—	—	—	(6)
Amounts paid	(23)	(6)	(29)	(21)	—	(2)	(52)
Currency translation effect	(4)	—	(4)	—	—	—	(4)
Provision as at December 31, 2005	**11**	**—**	**11**	**30**	**—**	**1**	**42**
Charges incurred in 2006	6	12	18	38	—	—	56
Amounts paid	(7)	(12)	(19)	(51)	—	(1)	(71)
Currency translation effect	1	—	1	1	—	—	2
Provision as at December 31, 2006	**11**	**—**	**11**	**18**	**—**	**—**	**29**
Charges incurred in 2007	4	22	26	6	133	5	170
Reversal of provision	(2)	—	(2)	—	—	—	(2)
Amounts paid	(4)	(22)	(26)	(14)	(2)	(3)	(45)
Currency translation effect	—	—	—	—	—	—	—
Provision as at December 31, 2007	**9**	**—**	**9**	**10**	**131**	**2**	**152**

150mm fab plan:

Restructuring charges incurred in the year 2007 on this plan amounted to $26 million, primarily related to maintenance and decontamination associated with the closure of production for the sites of Rousset (France) and Agrate (Italy). In 2007, the Company reversed a $2 million provision recorded in 2003 to cover the Company’s legal obligation to pay penalties to the French governmental institutions related to the closure of Rennes production site since the French authorities decided to waive the payment of such penalties.

Restructuring charges incurred in the year ended December 31, 2006 primarily related to $6 million termination benefits and $12 million of other closure cost mainly related to maintenance and decontamination incurred in Agrate (Italy) and Rousset (France) sites.

2005 restructuring initiatives:

In 2005, the Group defined a plan of reorganization and optimization of its activities. This plan focuses on workforce reduction, mainly in Europe, but will, whenever possible, encourage voluntary redundancy such as early retirement measures and other special termination arrangements with the employees. The plan also includes the non-renewal of some temporary positions. For the year ended December 31, 2007, the Company recorded a total restructuring charge amounting to $6 million related to workforce reduction initiatives in Europe. For the year ended December 31, 2006 the Group recorded a total restructuring charge for its new restructuring plan amounting to $38 million, of which $33 million corresponded to workforce reduction initiatives in Europe and $5 million were related to reorganization actions aiming at optimizing the Company's EWS activities.

2007 restructuring plan:

The Company recorded a total restructuring charge for its latest restructuring plan amounting to $133 million, mainly related to termination benefits for involuntary leaves. This total charge includes the provision for contractual, legal and past practice termination benefits to be paid for an estimated number of employees primarily in the United States, France and Morocco.

FMG disposal:

In 2007, the Company recorded $5 million restructuring charges related to FMG disposal group of assets, mainly related to transfer, maintenance and decontamination costs.

Total impairment, restructuring charges and other related closure costs

The 2003 restructuring plan and the 2005 restructuring initiatives are nearly fully completely as at December 31, 2007. The 2007 plan is expected to result in a total pre-tax exposure in the range of $270 to $300 million. This plan is expected to be completed in the second half of 2009.

Total amounts paid for restructuring and related closure costs amounted to $45 million and $71 million in the full year 2007 and 2006, respectively.

The total actual costs that the Company will incur may differ from these estimates based on the timing required to fully complete the restructuring plans, the number of people involved and the final agreed termination benefits.

26 — EXPENSES BY NATURE

Expenses recorded as cost of sales and operating expenses other than "impairment, restructuring charges and other related closure costs" and "other income and expenses" are detailed as follows:

	Period ended December 31, 2007	**Year ended December 31, 2006**
Depreciation and amortization	(1,505)	(1,791)
Employee benefit expense	(2,814)	(2,578)
Purchase of materials and subcontracting services	(3,576)	(3,591)
Changes in inventories	(25)	161
Transportation	(122)	(115)
Royalties and patents	(115)	(96)
Advertising costs	(12)	(14)
Other expenses	(1,018)	(820)
Total cost of sales, research and development, and selling, general and administrative expenses.	**(9,187)**	**(8,844)**

The total Research and Development expenditures before capitalization of Development cost were $1,802 million and $1,667 million in 2007 and 2006, respectively.

Employee benefit expense is detailed as follows:

	Period ended December 31, 2007	Year ended December 31, 2006
Wages and salaries	(2,202)	(2,041)
Compensation of Sole Member of the Managing Board	(2)	(2)
Social security costs	(527)	(444)
Stock-based compensation expense	(76)	(28)
Pension cost	(7)	(63)
Total employee benefit expense included in cost of sales, research and development, and selling, general and administrative expenses	**(2,814)**	**(2,578)**

	Period ended December 31, 2007	Year ended December 31, 2006
Cost of sales	(1,221)	(1,141)
Selling, general and administrative	(723)	(642)
Research and development	(870)	(795)
Total employee benefit expense included in cost of sales, research and development, and selling, general and administrative expenses	**(2,814)**	**(2,578)**

The Compensation of Sole Member of the Managing Board includes a $1 million bonus paid to the sole member of the Managing Board and President and CEO during the 2007 financial year that was approved by the Compensation Committee and approved by the Supervisory Board in respect of 2006 financial year based on fulfilment of a number of predefined objectives for 2006.

The Compensation of Sole Member of the Managing Board includes a $1 million bonus paid to the sole member of the Managing Board and President and CEO during the 2006 financial year that was approved by the Compensation Committee and approved by the Supervisory Board in respect of 2005 financial year based on fulfilment of a number of predefined objectives for 2005.

27 — FINANCE INCOME AND FINANCE COSTS

Total finance income and finance costs consisted of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Interest income on restricted cash	15	2
Interest income on short-term bank deposits	75	127
Interest income on available-for-sale financial assets	65	14
Total finance income	**155**	**143**
Bank borrowings	(53)	(29)
Convertible bond	(42)	(61)
Other interest expense	(10)	(6)
Total Finance costs	**(105)**	**(96)**

No borrowing cost was capitalized in 2007 and 2006.

For the period ended December 31, 2007 $42 million and $0 million correspond to the interest expense of the liability component of the 2016 convertible debt and the 2013 convertible debt respectively. For the year ended December 31, 2006 $24 million and $37 million correspond to the interest expense of the liability component of the 2013 convertible debt and the 2016 convertible debt respectively.

In 2006, the Group repurchased substantially all outstanding 2013 Convertible Bonds for an amount paid of $1,377 million. The repurchased convertible bonds were equivalent to 42 million shares and were cancelled. The outstanding long term debt corresponding to 2013 convertible debt amounted to approximately $2 million as at December 31, 2007, corresponding to the remaining 2,505 bonds valued at the August 5, 2008 redemption price.

Interest expense also included charges related to the amortization of issuance costs incurred by the Company for the outstanding bonds.

Interest income on debt securities classified as available-for-sale marketable securities amounted to $65 million for the period ended December 31, 2007. Interest income on these marketable securities for the year ended December 31, 2006 amounted to $75 million.

28 — INCOME TAX

Profit before income tax expense is comprised of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Profit (loss) recorded in The Netherlands	(82)	(64)
Profit (loss) from foreign operations	(310)	1,092
Profit before income tax expense	**(392)**	**1,028**

The Company and its subsidiaries are individually liable for income taxes in their jurisdictions. Tax losses can only offset profits generated by the taxable entity incurring such loss.

Income tax benefit (expense) is comprised of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
The Netherlands taxes — current	(4)	(7)
Foreign taxes — current	(129)	(47)
Current taxes	**(133)**	**(54)**
Foreign deferred taxes	92	(8)
Income tax expense	**(41)**	**(62)**

The principal items comprising the differences in income taxes computed at The Netherlands statutory rate and the effective income tax rate are the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Income tax expense computed at statutory rate	106	(306)
Non deductible expenses	(20)	(27)
Impact of final tax assessments relating to prior years	(25)	63
Effects of change in tax rates on deferred taxes	(21)	—
Current year credits	7	4
Other tax and credits	(4)	(9)
Benefits from tax holidays	122	134
Impact of FMG deconsolidation	(113)	—
Earnings of subsidiaries taxed at different rates	(93)	79
Income tax expense	**(41)**	**(62)**

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 $0.14 and $0.15 for the years ended December 31, 2007 and 2006 respectively. 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:

	December 31, 2007	December 31, 2006
Tax loss carry forwards and investment credits	144	95
Inventory valuation	38	25
Impairment charges and restructuring	102	17
Fixed asset depreciation in arrears	61	81
Receivables for government funding	10	9
Pension service costs	18	29
Commercial accruals	10	11
Other temporary differences	75	63
Deferred tax assets	458	330
Accelerated fixed assets depreciation	(110)	(118)
Acquired intangible assets	(83)	(72)
Advances of government funding	(24)	(25)
Other temporary differences	(27)	(31)
Deferred tax liabilities	(244)	(246)
Net deferred income tax asset	**214**	**84**

Deferred tax assets	Tax losses	Impairment charges & restructuring	Fixed asset depreciation	Other	Total
December 31, 2005	**57**	**25**	**73**	**115**	**270**
Exchange differences	3	-	5	8	16
Income statement benefit (charge)	35	(8)	3	15	45
Tax charge to equity	-	-	-	(1)	(1)
December 31, 2006	**95**	**17**	**81**	**137**	**330**
Exchange differences	9	-	8	14	31
Income statement benefit (charge)	40	85	(28)	(10)	87
Tax charge to equity	—	-	-	10	10
December 31, 2007	**144**	**102**	**61**	**151**	**458**

As of December 31, 2007, the Company and its subsidiaries have short term and long term

Deferred tax liabilities	Accelerated tax depreciation	Acquired intangible assets	Other	Total
December 31, 2005	**(116)**	**(27)**	**(50)**	**(193)**
Exchange differences	-	-	-	-
Income statement benefit (charge)	(2)	(45)	(6)	(53)
Tax charge to equity	-	-	-	-
December 31, 2006	**(118)**	**(72)**	**(56)**	**(246)**
Exchange differences	(1)	(1)	(1)	(3)
Income statement benefit (charge)	9	(10)	6	5
Tax charge to equity	—	-	-	-
December 31, 2007	**(110)**	**(83)**	**(51)**	**(244)**

non current deferred tax assets and liabilities as follows:

	December 31, 2007	December 31, 2006
Deferred tax asset to be recovered within 12 months	205	185
Deferred tax asset to be recovered beyond 12 months	253	145
Deferred tax assets	458	330
Deferred tax liability to be incurred within 12 months	(11)	(7)
Deferred tax liability to be incurred beyond 12 months	(233)	(239)
Deferred tax liabilities	(244)	(246)
Net deferred income tax asset	**214**	**84**

The gross movement of the deferred tax account is as follow:

	2007	2006
Beginning of the year	84	77
Exchange differences	28	16
Income statement benefit (charge)	92	(8)
Tax charge to equity	10	(1)
End of the year	214	84

As of December 31, 2007, the Company and its subsidiaries have net operating loss carry forwards and investment credits that expire starting 2008, as follows:

Year	
2008	10
2009	9
2010	21
Thereafter	104
Total	144

Deferred tax assets not recognized in the consolidated balance sheet total $1,054 million and mainly relate to an agreement granting the Group certain tax credits for capital investments purchased through the year ending December 31, 2007. Any unused tax credits granted under the agreement will continue to increase yearly by a legal inflationary index (currently 7% per annum). The credits may be utilized through 2020 or later depending on the Group meeting certain program criteria. In addition to this agreement, the Group will continue to receive tax credits on future years' capital investments, which may be used to offset that year's tax liabilities. However, pursuant to the inability to utilize these credits currently and in future years, the Group did not recognize any of these deferred tax assets in its consolidated balance sheets as of December 31, 2007 and 2006.

In addition, other tax loss carryforwards for an amount of $69 million were not recognized in the consolidated balance sheet and corresponded to net operating losses acquired in business combinations and that will more likely than not, not be utilized against future profits.

29 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Cash at bank and in hand	**370**	205
Deposits at call with banks	**1,485**	1,454
Cash and cash equivalents	**1,855**	1,659

In 2007, the Company determined that certain auction rate securities were to be more properly classified on its consolidated balance sheet as "non-current available-for-sale financial assets" instead of "cash and cash equivalents" as done in previous periods and namely as of December 31, 2006. The revision of the December 31, 2006 consolidated balance sheet results in a decrease of "cash and cash equivalents" from $1,963 million to $1,659 million with an offsetting increase to "non-current available-for-sale financial assets" from $42 million to $346 million. The revision of the December 31, 2006 consolidated statements of cash flows affects "net cash used in investing activities", which increased from $2,949 million to $3,253 million based on the increase in the investing activities line "purchase of available for sale financial assets" from $460 million to $764 million. The "net cash increase (decrease)" caption was also reduced by $304 million from a decrease of $53 million to a decrease of $357 million, and the "cash and cash equivalents at the end of the period" changes to match the $1,659 million on the revised consolidated balance sheet. There are no other changes on the consolidated statements of cash flows, including the "cash and cash equivalents at the beginning of the period" as the Company started to purchase auction rate securities only in 2006.

30 — SHORT-TERM DEPOSITS

In the first quarter of 2006, the Company invested $903 million in short term deposits with a maturity between three months and one year. These deposits are held at various banks with a "A3/A-" minimum long term rating from at least two major rating agencies. Interest on these deposits is paid at maturity with interest rates fixed at inception for the duration of the deposits. The principal will be repaid at final maturity. In 2006, the Company did not roll over $653 million of these short-term deposits, primarily pursuant to the early redemption in cash of 2013 convertible bonds at the option of the holders which occurred on August 7, 2006. At December 31, 2006 the total amount of short term deposit was $250 million.

In 2007, the Company did not roll over these short-term deposits. As such, no short-term deposit was outstanding as of December 31, 2007.

31 — CASH GENERATED FROM OPERATIONS

Cash generated from operations is detailed as follows:

	Year ended December 31, 2007	**Year ended December 31, 2006**
Net result	(433)	966
Depreciation and amortization	1,506	1,791
Amortization of discount of convertible debt	18	18
Other non-cash items	200	126
Deferred income tax	(92)	8
Accrued income tax	171	56
Share of loss of associates	(14)	7
Impairment, restructuring charges and other related closure costs, net of cash payments	1,311	(3)
Trade receivables, net	3	(104)
Inventories, net	25	(161)
Trade payables	19	36
Other assets and liabilities, net	(180)	93
Cash generated from operations	**2,534**	**2,833**

32 — COMMITMENTS

The Company's commitments as of December 31, 2007 were as follows:

In million US$	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**	**Thereafter**
Operating leases	**300**	57	41	30	25	18	129
Purchase obligations	**1,329**	1,229	65	30	5		
of which:							
Equipment purchase	***683***	*683*					
Foundry purchase	***266***	*266*					
Software, technology licenses and design	***251***	*151*	*65*	*30*	*5*		
Other obligations	**622**	463	92	37	9	8	13
Total	**2,122**	**1,620**	**198**	**97**	**39**	**26**	**142**

As a consequence of the Company's June 18 2007 announcement, the future shutdown of our plants in the United States will lead to negotiations with some of our suppliers. As no final date has been set, none of the contracts as reported above have been terminated nor do the reported amounts take into account any termination fees. This concerns approximately $51 million commitments (operating leases and purchasing obligations.)

The Company leases land, buildings, plants, and equipment under operating leases that expire at various dates under non-cancellable lease agreements. Operating lease expense was $62 million and $56 million in 2007 and 2006, respectively.

Purchase obligations are primarily comprised of purchase commitments for equipment, for outsourced foundry wafers and for software licenses. Following the termination of the Crolles2 alliance with Freescale Semiconductor and NXP Semiconductors, the Company signed an agreement with the two partners to commit to purchasing their 300-mm equipment during 2008. The timing of the purchase has been committed on the basis of the current visibility about the loading foreseen for the wafer fab. The contracts foresee the following schedule about the purchases of the equipment: $140 million on March 14, 2008; $135 million on April 1, 2008; and, $129 million on June 30, 2008.

Other obligations primarily relate to contractual firm commitments with respect to cooperation agreements. Following the agreement signed on December 11, 2007 to acquire Genesis Microchip Inc. ("Genesis Microchip"), the Company committed to a cash tender offer to purchase all of the outstanding shares of Genesis Microchip for $8.65 per share, net to the holder in cash, for a total amount of $345 million approximately. Transaction has been completed in January 2008.

33 — CONTINGENCIES

The Company 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 the Company, 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 Company 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 Company regularly reevaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Company. Changes in these evaluations could result in adverse, material impact on the Company's results of operations, cash flows or its financial position for the period in which they occur.

The Company has issued guarantees totaling $785 million related to its subsidiaries' debt. See Note 3 for guarantee related to investment in associate.

34 — CLAIMS AND LEGAL PROCEEDINGS

The Group has received and may in the future receive communications alleging possible infringements, in particular in case of patents and similar intellectual property rights of others. Furthermore, the Group may become involved in costly litigation brought against the Group regarding patents, mask works, copyrights, trademarks or trade secrets. In the event that the outcome of any litigation would be unfavorable to the Group, the Group may be required to license the underlying intellectual property right at economically unfavorable terms and conditions, and possibly pay damages for prior use and/or face an injunction, all of which individually or in the aggregate could have a material adverse effect on the Group's results of operations, cash flows or financial position and ability to compete.

The Group is involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations, other than external patent utilization. These matters mainly include the risks associated with claims from customers or other parties and tax disputes. The Group has accrued for these loss contingencies when the loss is probable and can be estimated. The Group regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they need to be adjusted based on the current information available to the Group. Legal costs associated with claims are expensed as incurred. In the event of litigation which is adversely determined with respect to the Group's interests, or in the event the Group needs to change its evaluation of a potential third-party claim, based on new evidence or communications, a material adverse effect could impact its operations or financial condition at the time it were to materialize.

The Company is currently a party to legal proceedings with SanDisk Corporation ("SanDisk") related to a alleged usage of certain patents by the Group. Based on management's current assumptions made with support of the Company's outside attorneys, the Company is not currently in a position to evaluate any probable loss, which may arise out of such litigation.

In September 2006 the Company filed a criminal complaint with the public prosecutor of the Canton of Lugano, Switzerland, against its former Treasurer for misuse of the Company's funds in relation to certain foreign exchange transactions. Following such complaint, the Company's former Treasurer was arrested and sentenced to imprisonment. The Company expects to recover all the diverted funds which are estimated to be in the range of $25 million and of which about $12 million have been recovered by the Company during 2007.

In February 2008, following unauthorized purchases for the Company's account of certain auction-rate securities, the Company initiated a proceeding against the responsible financial institution seeking to reverse the unauthorized purchases and recover all losses in the Company's account, including, but not limited to, the $46 million impairment posted in 2007.

35 — FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

35.1 Financial risk factors

The Company 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 ("CFO"). Simultaneously, a Treasury Committee chaired by the CFO was created to steer treasury activities and to ensure 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 Company 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 Company and at its subsidiaries.

Management has set up a policy to require group companies to hedge their entire foreign exchange risk exposure with the Company through financial instruments transacted by Corporate Treasury. To manage their foreign exchange risk arising from recognized assets and liabilities, entities in the Group use forward contracts, 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. In addition, forward contracts and currency options are also used by the Company to reduce its exposure to U.S. dollar fluctuations in euro-denominated forecasted intercompany transactions that cover a large part of research and development expenditures and certain corporate expenses incurred on the Group's behalf by subsidiaries. These intercompany transactions are not closely linked to ultimate transactions with third parties. Consequently, these instruments do not qualify as hedging instruments. The Group's risk management policy is to hedge between 50% and 80% of these euro-denominated forecasted intercompany transactions for the subsequent six months.

To further reduce its exposure to Euro exchange rate fluctuations, the Company also hedges between 40% and 70% of its euro-denominated forecasted intercompany purchases of products for the subsequent six months whose underlying front-end manufacturing production costs of semi-finished goods are incurred in euros. The hedged forecasted transactions are all highly probable of occurrence for hedge accounting purposes.

It is the Company'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 booked the following month. As such, the foreign exchange exposure of the Group, consisting in 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 income statement items. Therefore no sensitivity analysis is applicable to the Group policy. Any discrepancy from the forecasted values and the actual results is constantly monitored and prompt actions are eventually taken.*

As for the forward contracts and currency options entered into in order to hedge certain Euro denominated forecasted transactions, a sensitivity analysis is performed. The portion of these forecasted flows that is not covered with forward contracts or currency options is thus hedged monthly as per the procedure described above. Such sensitivity analysis quantifies the different impacts on the consolidated statements of income from the hedging instruments according to different scenarios of EUR-USD rate evolution. This analysis is performed with the aim of better addressing the hedging strategy.

The following sensitivity analysis was based on recognised assets and liabilities, including non-monetary items, of the Company and its subsidiaries. At December 31, 2007 if the Euro had strengthened by 3% against the US dollar with all other variables held constant, net income for the year would have been $20 million higher, mainly as a result of foreign exchange gains on derivative instruments designated as cash flow hedge. If the Euro had weakened by 3% against the US dollar with all other variables held constant, impact in net income would have been not material for the year, mainly as a result of not exercised currency options. Equity would have been approximately $114 million higher/lower if the Euro strengthened/weakened, arising mainly from translation of net assets from subsidiaries which functional currency is the Euro. At December 31, 2006 if the Euro had strengthened by 3 % against the US dollar with all other variables held constant, net income for the year would have been $30 million higher, mainly as a result of foreign exchange gains on derivative instruments designated as cash flow hedge. If the Euro had weakened by 3 % against the US dollar with all other variables held constant, impact in net income would have been not material for the year, mainly as a result of not exercised currency options. Net income is less sensitive to movement in Euro/US dollar exchange rate in 2007 than 2006 because of the increased portion of foreign currency options in the hedge portfolio. Equity would have been approximately $125 million lower in case of us dollar strengthening by 3% and higher in case of euro strengthening by the same percentage, arising mainly from translation of net assets, including non-monetary items, from subsidiaries which functional currency is the Euro.

Cash flow and interest rate risk

In 2006, the Company entered into cancellable swaps with a combined notional value of $200 million to hedge a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps convert the fixed rate interest expense recorded on the convertible bond due to 2016 to a variable interest rate based upon adjusted LIBOR. The swaps are cancellable by the Company only. For the period ended December 31, 2007 and December 31, 2006, gain from the hedging instrument amounted to $8 million and $4 million respectively and loss from the hedged item was $9 million and $4 million respectively. As a result of the cancellable swap hedging transactions, the effective yield on the $200 million principal amount of the hedged convertible bonds has increased from 1.5% to 1.95% as of December 31, 2007 and to 2.08% as of December 31, 2006.

In 2006 and 2007, the Company entered into a 10 years fixed rate Collateral Deposit for a notional amount of $250 million classified as restricted cash. This deposit is naturally hedging part of the fixed rate liabilities.

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, 2007, if interest rates had been 300 basis points higher/lower with all other variables held constant, net income for the year would have been $66 million higher/lower respectively, mainly as a result of a high level of liquid assets in relation to debt. At December 31, 2006, if interest rates had been 300 basis points higher/lower with all other variables held constant, net income for the year would have been $39 million higher/lower respectively, mainly as a result of a high level of liquid assets

During 2007 and 2006, the Group's borrowings at variable rate were denominated in Euros and in US dollars.

Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, marketable securities, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers and third parties, including outstanding receivables and committed transactions.

The Company 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 within a threshold of 20%. Due to the credit market turmoil, the Company has decided to further tighten the counterparty concentration and credit risk profile. For liquidity investments the maximum outstanding counterparty risk has been reduced and currently does not exceed 15% for major international banks with large market capitalization. The 20% as maximum limit is still applied for Foreign Exchange transactions outstanding.

The credit risk exposure is calculated on 100% of cash and debt capital market instruments and on positive marked-to-market foreign exchange forward contracts, interest rate swaps and currency and interest rate options.

All debt securities are classified as available-for-sale and recorded at fair value as at December 31, 2007 and 2006, with temporary changes in fair value recognized as a separate component of "Other reserves" in the consolidated statement of changes in shareholders' equity. As of December 31, 2007 the Company reported a pre-tax decline in fair value on the floating rate notes totaling $3 million due to the widening of credit spreads. Out of the 25 investment positions in floating-rate notes, 11 positions are in an unrealized loss position. The Company estimated the fair value of these financial assets based on public quoted market prices. This change in fair value was recognized as a separate component of "Other reserves" in the consolidated statement of changes in shareholders' equity since the Company assessed that this decline in fair value was temporary and that the Company was in a position to recover the total carrying amount of these investments on subsequent periods. Since the duration of the floating-rate note portfolio in only 2.6 years on average and the securities have a minimum Moody's rating "A1", the Company expects the value of the securities to tend at par as the final maturity is approaching. On the auction-rate securities, the Company reported an other-than-temporary decline in fair value amounting to $46 million, which was immediately recorded in the consolidated statement of income on the line "Other-than-temporary impairment charge on marketable securities". These securities were evaluated based on the weighted average of available information (i) from public available indexes of securities with same rating and comparable/similar underlying collaterals or industries exposure (such as ABX, ITraxx and IBoxx) and (ii) using 'mark to market' bids and 'mark to model' valuations received from the structuring financial institutions of the outstanding auction rate securities, weighting the different information at 80% and 20% respectively, which the Company believes approximates the orderly exit value in the current market.

If the Company had evaluated the auction rate securities weighting the different information explained above at 70% and 30%, respectively, the other-than-temporary decline in fair value would have increased by $8 million. If the Company had evaluated the auction rate securities weighting the different information explained above at 90% and 10%, respectively, the other-than-temporary decline in fair value would have decreased by $7 million.

The Company 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 utilisation of credit limits is regularly monitored. Sales to customers are primarily settled in cash. At December 31, 2007 and 2006, one customer, the Nokia Group of companies, represented 26.9% and 26.2% 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. Furthermore, the Company is not subject to externally imposed capital requirements.

The table below shows the credit limit and balance of the six major counterparties at the balance sheet date:

		Year ended December 31, 2007	
Counterparty	**Rating**	**Credit Limit**	**Balance**
Liquidity investments			
Financial Institution A	**Aa2/AA-**	15%	473
Financial Institution B	**Aa1/AA+**	9%	289
Financial Institution C	**Aa2/A+**	9%	277
Foreign Exchange			
Financial Institution A	**Aa3/AA-**	16%	118
Financial Institution B	**A1/A+**	15%	114
Financial Institution C	**Aa1/AA**	13%	96
Customers			
Customer A	**A1/A+**	1,256	431
Customer B	**BBB+/BBB+**	314	150
Customer C	**BB+/BBB-**	275	96

Counterparty	Rating	Period ended December 31, 2006 Credit Limit	Balance
Liquidity investments			
Financial Institution A	**Aa2/AA-**	12%	351
Financial Institution B	**Aa3/AA**	11%	329
Financial Institution C	**Aa2/A+**	11%	312
Foreign Exchange			
Financial Institution A	**Aa3/AA-**	20%	172
Financial Institution B	**Aa3/AA-**	19%	158
Financial Institution C	**Aa1/AA**	14%	115
Customers			
Customer A	**A1/A+**	1,256	416
Customer B	**BBB+/BBB+**	314	150
Customer C	**BB+/BBB-**	275	119

No credit limits were exceeded during the year ended December 31, 2007 and during the year ended December 31, 2006 and management does not expect any losses from non-performance by these counterparties.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, short-term deposits and marketable securities, the availability of funding from an adequate of committed credit facilities and the ability to close out market positions. The Company'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.

In the past few years the Group benefited from a favourable cash flow as a result of cash generated from operations in excess of capital investments. Based on current visibility and environment, and a projected capital expenditures approximating 10% of net revenues there is no evidence of a material change in the cash flow trend. Management is continuously monitoring the expected cash flow on a rolling forecast basis. Current cash flow projections coupled with the current liquidity position indicates that the Group is expected to have sufficient resources to meet its currently anticipated cash requirements in the foreseeable future.

The table below shows the future contractual cash out-flows long-term debt, derivative financial assets and liabilities, net and trade account payable and other payables at December 31, 2007:

	2008	Between 2009 and 2010	Between 2011 and 2012	Thereafter
Long-term debt	103	174	864	849
Derivative financial assets and liabilities, net	(13)			(8)
Trade payables and other payables	1,767	-	-	-

The table below shows the future contractual cash out-flows long-term debt, derivative financial assets and liabilities, net and trade account payable and other payables at December 31, 2006:

	2007	Between 2008 and 2009	Between 2010 and 2011	Thereafter
Long-term debt	136	172	75	1,493
Derivative financial asset and liabilities, net	(15)			(4)
Trade payables and other payables	1,686	-	-	-

35.2 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 and 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 Company.

The debt-to-equity ratio at December 31, 2007 and December 31, 2006 was at follows:

Counterparty	December 31, 2007	December 31, 2006
Cash and cash equivalents	**1,855**	**1,659**
Marketable securities	**1,383**	**764**
Short-term deposits	**-**	**250**
Restricted cash	**250**	**218**
Total cash position	**3,488**	**2,891**
Bank overdrafts	**-**	**-**
Current portion of long-term debt	**(103)**	**(136)**
Long-term debt	**(1,887)**	**(1,740)**
Total financial debt	**(1,990)**	**(1,876)**
Net financial position	**1,498**	**1,015**
Total equity attributable to the shareholders of the Company	**9,953**	**10,128**
Net debt-to-equity ratio	**(0.15)**	**(0.10)**

The decrease in the debt-to-equity ratio during 2007 resulted primarily from an increase of the total cash position and a reduction of the shareholders equity.

35.3 — Fair value estimation

The fair values of quoted financial instruments are based on current market prices. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the bid price. If the market for a financial asset is not active and if no observable market price is obtainable, the Company measures fair value by using significant assumptions and estimates. In measuring fair value, the Company makes maximum use of market inputs and relies as little as possible on entity-specific inputs.

	2007		2006	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Long-term debt				
— Bank loans (including current portion)	**472**	**465**	478	466
— Senior Bond	**736**	**734**	659	655
— Convertible debt..	**781**	**691**	739	736
Marketable Securities				
— Floating rate notes.......................................	**1,014**	**1,014**	460	460
— Auction rate securities.................................	**369**	**369**	304	304
Other receivables and assets				
— Foreign exchange forward contracts and currency options...	**13**	**13**	14	14
Other investments and other non current assets				
— Cancellable swaps	**8**	**8**	4	4
— Equity securities classified as available for sale………………………………………	**5**	**5**	5	5
Other payables and accrued liabilities				
— Foreign exchange forward contracts and currency options...	**1**	**1**	1	1

The methodologies used to estimate fair value are as follows:

Cash and cash equivalents, accounts receivable, bank overdrafts, short-term borrowings, accounts payable

The carrying amounts reflected in the consolidated financial statements are reasonable estimates of fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Marketable securities

The fair value of floating rate notes is estimated based upon quoted market prices for the same or similar instruments.

For auction rate securities, which are debt securities without available observable market price, the Company establishes fair value by reference to public available indexes of securities with the same rating and comparable or similar underlying collaterals or industries' exposure, using "mark to market" bids and "mark to model" valuations received from the structuring financial institutions. Refer to note 4 for further information.

Long-term debt and current portion of long-term debt

The fair values of long-term debt were 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 Company's incremental borrowing rates for similar types of borrowing arrangements.

Foreign exchange forward contracts and currency options

The fair values of these instruments are estimated based upon quoted market prices for the same or similar instruments.

Cancellable swaps

The fair values of these instruments are estimated based upon market prices for similar instruments.

Equity securities classified as available-for-sale

The fair values of these instruments are estimated based upon market prices for the same instruments.

36 — RELATED PARTY TRANSACTIONS

Transactions with significant shareholders, their affiliates and other related parties were as follows:

	December 31, 2007	December 31, 2006
Sales & other services	272	118
Research and development expenses	(68)	(43)
Other purchases	(85)	(70)
Other income and expenses	(11)	(21)
Accounts receivable	44	20
Accounts payable	40	20
Other assets	2	--

For the years ended December 31, 2007 and 2006, the related party transactions were primarily with significant shareholders of the Company, or their subsidiaries and companies in which management of the Company perform similar policymaking functions. These include, but are not limited to: Areva, France Telecom, Finmeccanica and Cassa Depositi e Prestiti.

Additionally the Company incurred in 2007 and 2006 significant amounts from Hynix Semiconductor Inc, with which the Company has a significant equity investment, Hynix ST venture, described in detail in Note 3. In 2006, Hynix Semiconductor Inc. increased its business transactions with the Company in order to supply products on behalf of the venture, which was not ready to fully produce and supply the requested volumes to the Company. The amount of purchases and other expenses from Hynix Semiconductor Inc. was $161 million in 2007 and $161 million in 2006.The amount of sales and other services made in 2007 was $2 million. The Company had a payable amount of $18 million and $13 million as at December 31, 2007 and 2006 respectively.

Additionally, the Company recorded costs amounting to $26 million to create the infrastructure necessary to prepare Numonyx to operate immediately following the FMG deconsolidation, for which the Company has paid and will be reimbursed by Numonyx following the closing of the transaction.

In addition 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 previous table. The share of income (expense) recorded by the Group as research and development expenses incurred by E.I.G amounted to $1 million expense in 2007 and 2006. At December 31, 2007 and 2006, the Company had no receivable or payable amount.

The Group contributed cash amounts totalling $1 million for the period ended December 31, 2007 and $1 million for the year ended December 31, 2006 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:

	December 31, 2007	**December 31, 2006**
Wages and salaries	1	1
Bonus	1	1

The Sole member of the Managing Board was granted in 2007 and in 2006 for free 100,000 nonvested shares subject to the achievement of performance objectives

The total amount paid as compensation in 2007 and 2006 to the Company's 23 executive officers, including the sole Member of the Managing Board, was as follow :

	December 31, 2007	**December 31, 2006**
Wages and salaries	10	9
Bonus	4	5
Other Benefits	2	1
Termination Benefits	-	-
Social Charges	4	4

The Company's 23 executive officers, including the sole Member of the Managing Board, were granted in 2007 for free 926,000 nonvested shares subject to the achievement of performance objectives. The weighted average grant date fair value of nonvested shares granted to employees under the 2007 Employee Plan was $19.35. The Company's 23 executive officers, including the sole Member of the Managing Board, were granted in 2006 for free 803,000 nonvested shares subject to the achievement of performance objectives. The weighted average grant date fair value of nonvested shares granted to employees under the 2006 Employee Plan was $17.35.

The bonus paid to the Company's executive officers corresponds to a Corporate Executive Incentive Program (the "EIP") established in 1989 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 2007 and 2006 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 $6 million and $5 million of social charges and other benefits for the year ended December 31, 2007 and 2006, respectively.

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 Company's former President and Chief Executive Officer and 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 President and Chief Executive Officers, $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 $3 million in 2007.

Individual remuneration paid to Supervisory Board Members in 2007 and 2006 was:

	2007 US$	**2006 US$**
B. Steve	213,500	205,000
F. Gavois	17,000	120,500
D. Lamouche	98,500	—
A. Ovi	—	6,000
R. Gallo	—	9,000
R. White	134,000	125,000
T. de Waard	246,500	213,500
M. Del Fante	129,000	111,500
G. Arbola	215,500	205,000
D. Lombard	132,000	120,000
D. Dunn	105,000	111,000
A. Turicchi	138,500	110,000
	1,429,500	**1,336,500**

Stock awards granted to Supervisory Board Members in 2007 and 2006 were:

	2007		**2006**	
	Number of stock awards granted	**Acquisition price EUR**	**Number of awards granted**	**Granted price USD**
B. Steve	15,000	1.04	6,000	1.04
R. Bingham	15,000	1.04	—	—
M. Del Fante*	15,000	1.04	6,000	1.04
A. Turicchi*	—	1.04	6,000	1.04
D. Lamouche	15,000	1.04	6,000	1.04
R. White	—	1.04	6,000	1.04
T. de Waard	15,000	1.04	6,000	1.04
G. Arbola	15,000	1.04	6,000	1.04
D. Lombard	15,000	1.04	6,000	1.04
D. Dunn	15,000	1.04	6,000	1.04
A. Ovi	15,000	1.04	—	1.04

* In 2007 and 2006, they declined their grants of stock awards

37 — SEGMENT INFORMATION

The Group early adopted in 2007 International Financial Reporting Standard No. 8, *Operating Segments* (“IFRS 8”). The following describes the segment information.

Business Segments

The Company operates in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, the Company designs, develops, manufactures and markets a broad range of products, including discrete, memories 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 Company 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.

Beginning with the first quarter of 2005, the Company reported until December 31, 2006 its semiconductor sales and operating income in three segments:

- Application Specific Product Groups (“ASG”) segment, comprised of three product lines – Home, Personal and Communication (“HPC”), Computer Peripherals (“CPG”) and new Automotive Product (“APG”);
- Memory Products Group (“MPG”) segment; and
- Micro, Power, Analog (“MPA”) segment.

In an effort to better align the Company to meet the requirements of the market, together with the pursuit of strategic repositioning in Flash Memory, the Company announced in December 2006 a reorganization of its product segments into three main segments:

- Application Specific Product Groups (“ASG”) segment;
- Industrial and Multisegment Sector (“IMS”) segment; and
- Flash Memory Group (“FMG”) segment.

ASG segment includes the existing APG and CPG product lines and the newly created Mobile, Multimedia and Communications Group and Home, Entertainment and Display Group. IMS segment contains the Microcontrollers, Memories and Smartcards Group and the Analog, Power and MEMS Group. FMG segment incorporates all Flash Memory operations, including research and development and product-related activities, front- and back-end manufacturing, marketing and sales. The new product segments became effective on January 1, 2007. The Company 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. However management believes the 2007 presentation is comparable to 2006 and is using these comparatives when managing the Company.

The Company'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.

In the Subsystems business area, the Company 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.

The following tables present the Company's consolidated net revenues and consolidated operating income by semiconductor product segment. For the computation of the Groups' internal financial measurements, the Company uses certain internal rules of allocation for the costs not directly chargeable to the Groups, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Additionally, in compliance with the Company's internal policies, certain cost items are not charged to the Groups, 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.

Total consolidated revenues by product segment

	December 31, 2007	**December 31, 2006**
Application Specific Product Groups segment	5,439	5,395
Industrial and Multisegment Sector segment	3,138	2,842
Flash Memory Group segment	1,364	1,570
Others (1)	60	47
Total consolidated revenues	10,001	9,854

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

The product segment results for the year ended December 31, 2007

	Application Specific Product Groups segment	**Industrial and Multisegment Sector segment**	**Flash Memory Group segment**	**Other (1) Unallocated**	**Group**
Operating profit	**399**	**499**	**(41)**	**(1,263)**	**(406)**
Finance income					155
Finance cost					(105)
Other-than-temporary impairment on marketable securities					(46)
Share of gain (loss) of associates					10
Profit before income taxes					**(392)**
Income tax expense					(41)
Net profit					**(433)**

(1) Operating profit (loss) of "Others" includes items such as impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses, such as: strategic or special research and development programs, certain corporate-level operating expenses, certain patent claims and litigations, and other costs that are not allocated to the product groups, as well as operating earnings or losses of the Subsystems and Other Products Group. Certain costs, mainly R&D, formerly in the "Others" category, are now being allocated to the groups; comparable amounts reported in this category have been reclassified accordingly in the above table.

The product segment results for the year ended December 31, 2006

	Application Specific Product Groups segment	Industrial and Multisegment Sector segment	Flash Memory Group segment	Other[1] Unallocated	Group
Operating profit	**569**	**461**	**(40)**	**(2)**	**988**
Finance income					143
Finance cost					(96)
Share of gain (loss) of associates					(7)
Profit before income taxes					**1,028**
Income tax expense					(62)
Net profit					**966**

(1) Operating profit (loss) of "Others" includes items such as impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses, such as: strategic or special research and development programs, certain corporate-level operating expenses, certain patent claims and litigations, and other costs that are not allocated to the product groups, as well as operating earnings or losses of the Subsystems and Other Products Group. Certain costs, mainly R&D, formerly in the "Others" category, are now being allocated to the groups; comparable amounts reported in this category have been reclassified accordingly in the above table.

The following tables present the Group's consolidated total assets and liabilities by semiconductor product segment.

Total consolidated Assets by product segment

	December 31, 2007	December 31, 2006
Application Specific Product Groups segment	8,958	8,124
Industrial and Multisegment Sector segment	4,208	3,330
Flash Memory Group segment	1,602	3,137
Others	134	88
Total consolidated assets	**14,902**	**14,679**

Total consolidated Liabilities by product segment

	December 31, 2007	December 31, 2006
Application Specific Product Groups segment	2,943	2,490
Industrial and Multisegment Sector segment	1,383	1,021
Flash Memory Group segment	526	961
Others	44	27
Total consolidated liabilities	**4,896**	**4,499**

Geographical segments

The following is a summary of operations by entities located within the indicated geographic areas for 2007 and 2006. Total 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. Consequently, depreciation and amortization expense is also reported according to the geographic segments. In addition, the balance sheet positions of assets and liabilities are managed and reviewed internally by geographic segments, as reported in the tables below.

Total consolidated revenues

	December 31, 2007	December 31, 2006
The Netherlands	**3,123**	**3,114**
France	**223**	**240**
Italy	**220**	**230**
USA	**1,027**	**1.030**
Singapore	**4,795**	**4,698**
Japan	**483**	**400**
Other countries	**130**	**142**
Total consolidated revenues	**10,001**	**9,854**

Capital expenditure

	December 31, 2007	December 31, 2006
The Netherlands	**4**	**1**
France	**396**	**473**
Italy	**278**	**292**
Other European countries	**51**	**96**
USA	**47**	**116**
Singapore	**180**	**382**
Malaysia	**99**	**114**
Other countries	**85**	**81**
Total	**1,140**	**1,555**

Long-lived assets

	December 31, 2007	December 31, 2006
The Netherlands	**1,002**	**819**
France	**1,906**	**1,781**
Italy	**1,262**	**1,742**
Other European countries	**186**	**197**
USA	**373**	**450**
Singapore	**735**	**1,642**
Malaysia	**288**	**356**
Other countries	**379**	**344**
Total	**6,131**	**7,331**

38 — SIGNIFICANT CATEGORIES OF INCOME

	December 31, 2007	December 31, 2006
Sales of goods	**9,966**	**9,838**
License revenue and patent royalty income	**35**	**16**
Research and development funding	**152**	**110**
Finance income	**156**	**143**
Total	**10,309**	**10,107**

39 — SUBSEQUENT EVENTS

(a) Business Combinations

During March 2008 the Group finalized the evaluation of Genesis Microchip business combination, of which it acquired effective control on January 17, 2008. The Group had acquired all of the outstanding shares by the end of January. Final purchase consideration amounted to $342 million. Under International Financial Reporting Standard No. 3, “Business combinations”, the cost of the acquired company was assigned to the tangible and intangible assets acquired and liabilities assumed on the basis of their fair value at the date of the acquisition. Independent third parties assisted in the estimation of fair value of certain intangible assets. Any excess of the purchase price over the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. IFRS 3 sets forth detailed guidelines for determining the fair value of individual assets acquired and liabilities assumed. The following table summarizes these fair values at the date of acquisition. These amounts remain subject to change pending receipt of final reports from third parties who assisted the Group in the valuations.

Cash and cash equivalents	181
Other Current Assets	41
Property, plant and equipment	14
Intangible Assets	95
Goodwill	11
Deferred tax asset	44
Other Investments and other non-current assets	2
Total Liabilities assumed	(46)
Net Assets Acquired	342

(b) Fair Value of Financial Assets

During the first quarter of 2008, the Group received newly available information evidencing a ratings downgrade of certain debt securities and a decline in the indices used to value certain debt securities that resulted in a decrease in the fair value of the securities classified as available-for-sale financial assets, as described in details in Note 4. The decline in fair value arose after December 31, 2007 and reflects the continuous credit market turmoil, that has existed since the balance sheet date. Because of lack of “mark to market” bids, the decline in the fair value of such investments has been estimated entirely based on averages of indexes and amounted to approximately $29 million. This amount will be recorded in the 2008 consolidated statement of income on the line “Impairment charge on marketable securities”.

(c) Asset Disposal

On March 30, 2008, the Group completed the FMG deconsolidation, which is described in detail in Note 8. Terms of the transaction were substantially the same as described in Note 8 except that the total indebtedness of Numonyx was reduced from the previously anticipated level, and the Group and Intel agreed to jointly guarantee the external debt of Numonyx, limited to $450M term loan and $100M revolving credit facility. As a consequence of the changes in the capital structure of Numonyx and changes in valuation benchmarks during the first quarter of 2008, the final value of the total consideration received by the Group in exchange for the assets contributed to Numonyx was reduced. The reduction, in combination with certain changes in the level of assets to be contributed, will result in an additional loss of approximately $150 million that will be recognized upon the close of the transaction.

COMPANY FINANCIAL STATEMENTS

OTHER INFORMATION

STMICROELECTRONICS N.V. COMPANY BALANCE SHEETS AS AT DECEMBER 31

(before proposed appropriation of income)

The accompanying notes are an integral part of these financial statements.

		As at				As at	
In million of U.S. dollars	**Note**	**Dec. 31, 2007**	**Dec. 31, 2006**	In million of U.S. dollars	**Note**	**Dec. 31, 2007**	**Dec. 31, 2006**
ASSETS				**SHAREHOLDERS' EQUITY AND LIABILITIES**			
Non-current assets:				**Shareholders' equity.........**			
Goodwill	4	186	128	Issued and paid in capital....		1,394	1,247
Other intangibles assets...........	4	795	681	Additional paid in capital....		1,588	1,585
Property, plant and equipment..	5	8	7	Retained earnings		5,481	4,997
Investments in subsidiaries.......	6	6,907	7,438	Legal reserve		1,207	746
Investments in associates………………	7	-	261	Other Reserves....................		722	589
Restricted cash for equity investments	7	250	218	Result for the year...............		(439)	964
Available-for-sale financial assets	8	390	24				
Long-term loans and receivables		4	2				
Other non-current assets...........		31	12	**Total shareholders' equity ....**	14	**9,953**	**10,128**
Sub-total non-current assets..		**8,571**	**8,771**	**LONG-TERM LIABILITIES**			
				Long-term debt	15	984	877
Long-term deferred tax assets ..	16	31	3	Retirement benefit obligations		6	8
Total non-current assets		**8,602**	**8,774**	Deferred tax liabilities	16	110	71
Current assets.........................				Other long-term liabilities....	17	303	296
Inventories...............................	9	106	97	**Total long-term liabilities ....**		**1,403**	**1,252**
Trade account receivable..........	10	386	431	**Short-term liabilities.........**			
Group companies short-term loans	11	638	66	Current portion of long-term debt............................	15	2	2
Other group companies receivable	12	1,260	1,514	Trade accounts payable.......		36	20
Assets Held for Sale		322	-	Group companies short term loans	12	27	10
Other Receivables		44	25	Other group companies payable................................	12	1,317	1,230
Other current assets..................		39	36	Other payables and accrued liabilities		48	50
Available for sale financial assets	8	454	764				
Short-Term deposits.................	13	-	250				
Cash and cash equivalents........		949	768	Accrued income tax		14	33
Total current assets................		**4,198**	**3,951**	**Total short-term liabilities ....**		**1,444**	**1,345**
TOTAL ASSETS....................		**12,800**	**12,725**	**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES ....**		**12,800**	**12,725**

STMICROELECTRONICS N.V. COMPANY
STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31

(In million of U.S. dollars)	2007	2006
Result after taxes	275	495
Result from subsidiaries	(714)	469
Net Result	**(439)**	**964**

The accompanying notes are an integral part of these financial statements.

STMICROELECTRONICS N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

40 — 1 - GENERAL

A description of STMicroelectronics N.V. ("the Company"), its activities and group structure are included in the Consolidated Financial Statements, prepared on the basis of accounting policies that conform with International Financial Reporting Standards ("IFRS") as endorsed by European Union. The Company holds investments in subsidiaries operating in the semiconductor manufacturing industry. Additionally, the Company 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.

41 — 2 - BASIS OF PRESENTATION

In accordance with article 2:362 Part 8 of the Netherlands Civil Code, STMicroelectronics N.V. ("the Company"), 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 2).

The functional and presentation currency of the Company is the U.S. dollar.

Certain prior year items have been reclassified to conform with current year presentation.

42 — 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Valuation of Subsidiaries

Investments in subsidiaries are stated at net asset value as the Company 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 the Company in its consolidated financial statements.

The Company provides for any negative net asset values in its subsidiaries since the Company is fully or partially liable for the debts of its subsidiaries. Guarantees given by the company to its subsidiaries are further described in note 19.

43 — 4 - INTANGIBLE FIXED ASSETS

(USD in millions)	Goodwill	Technologies and licenses, internally developed software and purchase software	Capitalized development costs	Total
HISTORICAL COST				
Balance at January 1, 2007	128	460	541	1,129
Additions..	58	136	314	508
Disposal	-	(45)	-	(45)
Impairments	-	(13)	(145)	(158)
Balance at December 31, 2007	**186**	**538**	**710**	**1,434**
ACCUMULATED AMORTIZATION				
Balance at January 1, 2007	-	297	23	320
Charge for the year.....................................	-	57	93	150
Impairments	-	(6)	(11)	(17)
Balance at December 31, 2007	**-**	**348**	**105**	**453**
NET BOOK VALUE				
At December 31 , 2007	**186**	**190**	**605**	**981**
At December 31, 2006	**128**	**163**	**518**	**809**

44 — 5 - TANGIBLE FIXED ASSETS

(USD in millions)	**Furniture and fixtures**	**Computer and R&D equipment**	**Other**	**Total**
HISTORICAL COST				
Balance at January 1, 2007	2	12	3	17
Additions..	1	3	-	4
Disposals..	-	(1)	-	(1)
Balance at December 31, 2007	**3**	**14**	**3**	**20**
ACCUMULATED DEPRECIATION				
Balance at January 1, 2007	1	7	2	10
Charge for the year...	-	1	1	2
Disposals..	-	-	-	
Balance at December 31, 2007	**1**	**8**	**3**	**12**
NET BOOK VALUE				
At December 31, 2007	**1**	**6**	**1**	**8**
NET BOOK VALUE				
At December 31, 2006	**1**	**5**	**1**	**7**

45 — 6 - INVESTMENTS IN SUBSIDIARIES

(USD in millions)	2007	2006
Balance January 1	7,438	7,241
Income from subsidiaries	(714)	469
Other reserves	196	48
Dividends paid	(911)	(953)
Capital increase*	440	107
Translation effect of exchange rates	458	526
Balance at December 31, 2007	**6,907**	**7,438**

- 2007 capital increase relates to capital contribution to subsidiaries in Malaysia, China and Italy for a total amount of $440 million. 2006 capital increase for a total amount of $107 million mainly relates to capital contribution to subsidiaries in Canada and China.

The investments in significant consolidated subsidiaries as at December 31, 2007 are presented below:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Australia — Sydney	STMicroelectronics PTY Ltd	100
Belgium — Zaventem	STMicroelectronics Belgium N.V.	100
Belgium — Zaventem	Proton World International N.V.	100
Brazil — Sao Paolo	STMicroelectronics Ltda	100
Brazil — Sao Paolo	Incard do Brasil Ltda	50
Canada — Ottawa	STMicroelectronics (Canada), Inc.	100
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
China — Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China — Shanghai	STMicroelectronics (Shanghai) R&D Co. Ltd	100
China — Shanghai	Shanghai Blue Media Co. Ltd	65
China — Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China — Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
Czech Republic — Prague	STMicroelectronics Design and Application s.r.o.	100
Finland — Lohja	STMicroelectronics OY	100
Finland — Lohja	STMicroelectronics R&D OY	100
France — Crolles	STMicroelectronics (Crolles 2) SAS	100
France — Montrouge	STMicroelectronics SA	100
France — Rousset	STMicroelectronics (Rousset) SAS	100
France — Tours	STMicroelectronics (Tours) SAS	100
France — Grenoble	STMicroelectronics (Grenoble) SAS	100
Germany — Grasbrunn	STMicroelectronics GmbH	100
Germany — Grasbrunn	STMicroelectronics Design and Application GmbH	100
Hong Kong — Hong Kong	STMicroelectronics LTD	100
India — Noida	STMicroelectronics Pvt Ltd	100
India — Noida	STMicroelectronics Marketing Private Ltd	100
Israel — Netanya	STMicroelectronics Ltd	100
Italy — Catania	CO.RI.M.ME.	100
Italy — Aosta	DORA S.p.A.	100
Italy — Agrate Brianza	ST Incard S.r.l.	100
Italy — Naples	STMicroelectronics Services S.r.l.	100
Italy — Agrate Brianza	STMicroelectronics S.r.l.	100
Italy — Agrate Brianza	STMicroelectronics (M6) S.r.l.	100
Japan — Tokyo	STMicroelectronics KK	100

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Malaysia — Kuala Lumpur	STMicroelectronics Marketing SDN BHD	100
Malaysia — Muar	STMicroelectronics SDN BHD	100
Malaysia — Muar	Numonyx SDN BHD	100
Malta — Kirkop	STMicroelectronics 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 — Rabat	Electronic Holding S.A.	100
Morocco — Casablanca	STMicroelectronics S.A.	100
Netherlands — Amsterdam	STMicroelectronics Finance B.V.	100
Singapore — Ang Mo Kio	STMicroelectronics ASIA PACIFIC Pte Ltd	100
Singapore — Ang Mo Kio	STMicroelectronics Pte Ltd	100
Singapore — Ang Mo Kio	STMicroelectronics (Memory) Pte Ltd	100
Singapore — Ang Mo Kio	STMicroelectronics (Memory) Pte Ltd	100
Spain — Madrid	STMicroelectronics S.A.	100
Sweden — Kista	STMicroelectronics A.B.	100
Switzerland — Geneva	STMicroelectronics SA	100
Switzerland — Geneva	INCARD SA	100
Switzerland — Geneva	INCARD Sales & Marketing SA	100
Turkey - Istanbul	STMicroelectronics Elektronik Arastirma ve Gelistirme Anonim Sirketi	100
United Kingdom — Marlow	STMicroelectronics Limited	100
United Kingdom — Marlow	STMicroelectronics (Research & Development) Limited	100
United Kingdom — Marlow	Synad Technologies Limited	100
United Kingdom — Bristol	Inmos Limited	100
United States — Carrollton	STMicroelectronics Inc.	100
United States — Wilmington	STMicroelectronics (North America) Holding, Inc.	100
United States — Wilsonville	The Portland Group, Inc.	100

46 — 7- INVESTMENTS IN ASSOCIATES

	December 31, 2007	December 31, 2006
Beginning of the year	**261**	**35**
Acquisition of investments:		
Hynix ST Investment	**-**	**212**
Hynix ST Guarantee	**2**	**15**
Share of gain/ (loss) of associates	**10**	**(7)**
Foreign currency translation differences	**16**	**6**
Transfer of guarantee to non-current asset	**(17)**	**—**
Sale of investments:		
Hynix ST investment held for sale	**(272)**	**—**
End of the year	**0**	**261**

The Group’s share of the results of its principal associates, all of which are unlisted, and its share of the assets, are detailed as follows:

December 31, 2006

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
Hynix ST Investment	China	2,100	1,360	243	(19)	33%

Hynix ST Investment

The Company signed in 2004 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 Company contributed $250 million for a 33% equity interest. In addition, the Company 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. The Company made the total $250 million capital contributions as previously planned in the joint venture agreement in 2006. The Company accounted for its share in the Hynix ST joint venture under the equity method based on the actual results of the joint venture through the fourth quarter of 2007. As such, the Company recorded earnings totaling $10 million in 2007 and a loss of $6 million in 2006, reported as "Share of gain (loss) in associates" in the consolidated statements of income.

In 2007, Hynix Semiconductor Inc. invested an additional $750 million in additional shares of the joint venture to fund a facility expansion. As a result of this investment, in October when the Chinese authorities formally approved the additional investment, the Company's interest in the joint venture declined from approximately 33% to 17%. At December 31, 2007 the investment in the joint venture amounted to $272 million and was included in assets held for sale on the consolidated balance sheet as it is expected to be transferred to Numonyx upon the formation of that company, as described in note 8. the Company (or Numonyx following the transfer of the Company's interest in the joint venture to Numonyx) has the option to purchase from Hynix Semiconductor Inc. up to $250 million in shares to increase its interest in the joint venture back to a maximum of 33%.

Due to regulatory and withholding issues the Company could not directly provide the joint venture with the $250 million long-term financing as originally planned. As a consequence, in the fourth quarter of 2006, the Company entered into a ten-year term debt guarantee agreement with an external financial institution through which the Company guaranteed the repayment of the loan by the joint venture to the bank. The guarantee agreement includes the Company 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 Company, 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 Company'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. In the first half of 2007, the Company placed the remaining $32 million of cash on the guarantee deposit account, which totaled $250 million as at December 31, 2007 and was reported as "restricted cash for equity investments" on the Company balance sheet. In 2006 the Company reported $218 million as "restricted cash for equity investments" on the Company balance sheet. In fourth quarter of 2006 the Company entered into a debt guarantee agreement and the amount was placed for $15 million as restricted cash on the guarantee deposit account as at December 31, 2006 (see note 8).

The debt guarantee was evaluated under IAS 39, *Financial Instruments: Recognition and measurements*. 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 reported on the line "Other non-current liabilities" in the Company balance sheet as at December 31, 2007 and was recorded against the value of the equity investment. The Company reported the debt guarantee on the line “other investments and other non-current assets” since the terms of the FMG sale agreement do not include the transfer of the debt guarantee.

The Company’s current maximum exposure to loss as a result of its involvement with the joint venture is limited to its equity investments and debt guarantee commitments.

47 — 8 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

Movements on available-for-sale financial assets are presented as follows:

	December 31, 2007	**December 31, 2006**
Beginning of the year	788	18
Exchange differences	16	-
Purchase of listed debt securities (floating rate notes)	18	460
Sale of listed debt securities (floating rate notes)	(40)	-
Purchase of unlisted debt securities (auction rate notes)	172	304
Sale of unlisted debt securities (auction rate notes)	(61)	
Purchase of unlisted equity securities	-	6
Impairment of listed debt securities (floating rate notes)	(3)	-
Net losses on auction rate notes recognised in statements of income	(46)	-
End of the year	**844**	**788**
Less: non-current portion	(390)	(24)
Current portion	**454**	**764**

As at December 31, 2007, the Company had financial assets classified as available-for-sale corresponding to equity and debt securities.

As at December 31, 2007, the Company had investments in debt securities amounting to $823 million, composed of $454 million invested in senior debt floating rate notes issued by primary financial institutions rated at least A1 from “Moody’s Investment services” and $369 million invested in auction rate securities which are regularly paying monthly interests and whose current rating is AAA from at least one major rating agency. The floating rate notes are reported as current assets on the line “Available-for-sale financial assets” on the Company balance sheet as at December 31, 2007 since they represent investments of funds available for current operations. The auction-rate securities, which have a final maturity between ten or forty years, are classified as non-current assets on the line “Available-for-sale financial assets” on the Company balance sheet as at December 31, 2007 since the Company intends to hold these investments beyond one year.

In 2007, the Company invested $18 million of existing cash in floating rate notes with primary financial institutions with minimum Moody’s rating “A1” with a maturity between twenty one months and six years and $40 million were sold in 2007. In 2006, the Company invested $460 million of existing cash in eleven floating rate notes with primary financial institutions with minimum Moody’s rating “A1”. Subsequently, the Company entered into a basis asset swap for one floating rate note for a notional amount of $50 million in order to purchase it at par. Even if strictly related to the underlying note, the swap is contractually transferable independently from the marketable security to which it is attached. As such, the asset swap was recorded separately from the underlying financial asset and was reflected at its fair value in the Company balance sheet on the line “Other receivables and assets” as at December 31, 2007 and 2006. The changes in the fair value of this derivative instrument were recorded in the Company's statement of income and did not exceed $1 million for the years ended December 31, 2007 and 2006. Additionally, the amount of auction-rate securities purchased and sold in 2007 is $172 million and $61 million respectively. In addition, the Company determined that these financial assets were to be more properly classified on its Company balance sheet as of December 31, 2006 as "Available-for-sale financial assets" instead of "Cash and cash equivalents", as reported in the note 29 of the consolidated financial statements. The revision of the December 31, 2006 Company balance sheet results in a decrease of "Cash and cash equivalents" by $304 million with an offsetting increase to "Available-for-sale financial assets".

All these debt securities are classified as available-for-sale and recorded at fair value as at December 31, 2007 and 2006, with temporary changes in fair value recognized as a separate component of "Other reserves" in the Company statement of changes in shareholders' equity. As of December 31, 2007 the Company reported a pre-tax decline in fair value on the floating rate notes totaling $3 million due to the widening of credit spreads. The Company estimated the fair value of these financial assets based on public quoted market prices. This change in fair value was recognized as a separate component of "Other reserves" in the Company statement of changes in shareholders' equity since the Company assessed that this decline in fair value was temporary and that the Company was in a position to recover the total carrying amount of these investments on subsequent periods. On the auction-rate securities, the Company reported an other-than-temporary decline in fair value amounting to $46 million, which was immediately recorded in the Company statement of income. These securities were evaluated based on the weighted average of available information (i) from public available indexes of securities with same rating and comparable/similar underlying collaterals or industries exposure (such as ABX, ITraxx and IBoxx) and (ii) using 'mark to market' bids and 'mark to model' valuations received from the structuring financial institutions of the outstanding auction rate securities, weighting the different information at 80% and 20% respectively, which the Company believes approximates the orderly exit value in the current market.

The maximum exposure to credit risk is the fair value of the debt securities classified as available for sale.

Available-for-sale financial assets include the following:

	December 31, 2007	December 31, 2006
Listed securities:		
Floating-rate Notes in usd at 5.17%	**454**	**460**
Unlisted securities:		
Auction rate Securities at 5.81%	**369**	**304**
Unlisted equity securities:		
Equity securities – Euro zone countries..	**10**	**10**
Equity securities – US..	**11**	**14**
Other...	**-**	**-**
Total	**844**	**788**

Available-for-sale financial assets are denominated in the following currencies:

	December 31, 2007	December 31, 2006
Euro	**-**	**272**
US dollar	**844**	**516**
Other	**-**	**-**
Total	**844**	**788**

For further details on the Company's available for sale financial asset, see the consolidated financial statements of the Company (Note 4).

48 — 9 - INVENTORIES

The balance for inventories contains only finished goods.

49 — 10 - TRADE RECEIVABLES

Trade accounts receivable consisted of the following:

	December 31, 2007	December 31, 2006
Trade accounts receivable	390	439
Provision for impairment	(4)	(8)
Total	**386**	**431**

Trade receivables are expected to be recovered within one year.

50 — 11 - SHORT-TERM INTERCOMPANY LOANS

Group companies short-term loans consist of the following:

	December 31, 2007	December 31, 2006
ST Incard Srl (Italy)		
Loan due 2008 bearing interest at 3-month LIBOR plus 0.50%	66	59
STMicroelectronics Ltd. (Israel)		
Loan due 2008 bearing interest at 3-month LIBOR plus 0.50%	5	5
STMicroelectronics Finance B.V (Netherlands)		
Loan due 2008 bearing interest at 3-month EURIBOR	565	—
STMicroelectronics A.S. (Turkey)		
Loan due 2008 bearing interest at 1-month LIBOR plus 0.0625	2	2
Total short-term intercompany loans	**638**	**66**

51 — 12 - GROUP COMPANIES

(USD in millions)	December 31, 2007	December, 31 2006
Trade receivables	1,199	1,293
Other receivables	61	221
Total group companies Receivables	**1,260**	**1,514**
Trade payables	988	1,015
Other payables	329	215
Other group companies payables	1,317	1,230
Short-term notes payable	27	10
Total group companies Payables	**1,344**	**1,240**

52 — 13 - SHORT TERM DEPOSITS

In the first quarter of 2006, the Company invested $903 million in short term deposits with a maturity between three months and one year. These deposits are held at various banks with a A3/A- minimum long term rating from at least two major rating agencies. Interest on these deposits is paid at maturity with interest rates fixed at inception for the duration of the deposits. The principal will be repaid at final maturity. In 2006, the Company did not roll over $653 million of these short-term deposits, primarily pursuant to the early redemption in cash of 2013 convertible bonds at the option of the holders which occurred on August 7, 2006. At December 31, 2006 the total amount of short term deposit was $250 million.

In 2007, the Company did not roll over these short-term deposits. As such, no short-term deposit was outstanding as of December 31, 2007.

53 — 14 - SHAREHOLDERS' EQUITY

(USD in millions)	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, 2007	1,247	1,585	4,997	(332)	921	746	964	10,128
Net Result			964				(964)	-
Rights acquired on vested stock awards				58				58
Issuance of shares **		3						3
Stock-based compensation........			(59)		78			19
Dividends paid			(270)					(270)
Net result..................................							(439)	(439)
Unrealized gain (loss) on debt securities					(3)			(3)
Development expenditures........			(87)			87		-
Transfer to Legal reserve……...			(64)			64		-
Unrealized gain (loss) on derivatives, net of tax						(1)		(1)
Translation adjustment*............	147					311		458
Balance December 31, 2007....	**1,394**	**1,588**	**5,481**	**(274)**	**996**	**1,207**	**(439)**	**9,953**

* The share capital of the Company is denominated in euros and the period-end balance is translated into U.S. dollars at the year-end exchange rate (euro/USD 1.472). The translation differences are taken to legal reserves.

** Issuance of shares is free of tax.

Certain prior year items have been reclassified to conform with current year presentation. Retained earnings and legal reserves at January 1st 2007 have been amended to more appropriately reflect categorization.

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.

Ordinary shares: Euro 1.04 nominal value, 1,200,000,000 shares authorized, 910,293,420 shares issued, 899,760,539 shares outstanding.

Preferred shares: 540,000,000 shares authorized not issued.

The euros equivalent of the issued share capital at December 31, 2007 amounts to euros 946,705,157 (2006: euros 946,564,250). For the changes in issued and paid in capital, additional paid in capital and other reserves, see the consolidated financial statements of the Company.

Treasury stock

In 2002 and 2001, the Company repurchased 13,400,000 of its own shares, for a total amount of $348 million, which were reflected at cost as a reduction of the shareholders' equity. No treasury shares were acquired in 2007, 2006 and 2005.

The treasury shares have been designated for allocation under the Company's share based remuneration programs on non-vested shares including such plans as approved by the 2005, 2006 and 2007 Annual General Meeting of Shareholders. As of December 31, 2007, 2,867,119 of these treasury shares were transferred to employees under the Company's share based remuneration programs, following the vesting as of April 27, 2006 of the first tranche of the stock award plan granted in 2005, as of April 27, 2007 of the second tranche of the stock award plan granted in 2005 and the first tranche of the stock-award plan granted in 2006, the vesting as of October 26, 2007 of first tranche of the stock awards granted under the 2005 French subplan of 2005 (representing 64% of shares granted under this sub plan) and the acceleration of the vesting of a limited number of stock awards. For details on the Company's stock award plans, see the consolidated financial statement of the Company (Note 21).

As of December 31, 2007, the Company owned a residual number of treasury shares equivalent to 10,532,881.

54 — 15 - LONG-TERM LOANS

In August 2003, the Group issued $1,332 million principal amount at maturity of zero coupon unsubordinated convertible bonds due 2013. The bonds were issued with a negative yield of 0.5% that resulted in a higher principal amount at issuance of $1,400 million and net proceeds of $1,386 million. The bonds are convertible at any time by the holders at the rate of 29.9144 shares of the Group's ordinary shares for each one thousand dollar face value of the bonds. The holders had the option to redeem their convertible bonds on August 5, 2006 at a price of $985.09, on August 5, 2008 at $975.28 and on August 5, 2010 at $965.56 per one thousand dollar face value of the notes. As a result of this holder's redemption option in August 2006, the outstanding amount of 2013 bonds was classified in the consolidated balance sheet as "current portion of long-term debt" as of December 31, 2005. At any time from August 20, 2006 the Group had the option to redeem for cash at their negative accreted value all or a portion of the convertible bonds subject to the level of the Group's share price.

When applying the first-time adoption requirements as set out in IFRS 1, the Group assessed for separate accounting in 2005 the two elements of equity and liability for the 2013 convertible bond, because it was the only convertible debt outstanding at the IAS 32 / 39 transition date on January 1, 2005. The fair value of the liability component and the equity conversion component were determined at issuance of the bond. The bond terms enable the holder to receive cash settlement under certain circumstances and, consequently, the Group has classified the share conversion option as a financial liability. The value at issuance of this share conversion option was $114 million, which has been fair valued through profit and loss and fully reflected in adjusted retained earnings at January 1, 2005 because of its near zero value at the IAS 32/IAS 39 conversion date. Adjusted retained earnings at January 1, 2005 also included the cumulative amortized interest cost recorded on the bond totalling $54 million. The fair value of the liability component of the convertible debt amounted to $1,356 million as of December 31, 2005. Based on the existing market conditions at issuance, management estimated that separately valuing embedded share conversion would not be materially different from calculating the residual amount of the equity conversion option as the total bond proceeds, net of the fair value of the debt component. Group determined the fair value of the liability component 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 was determined to be a three-year timeframe corresponding to the period to the first date of redemption for cash at the option of the holder. The fair value was calculated using cash flows discounted at a rate based on the non-convertible debt rate of 2.96%. The embedded rights of the bond holder to extend the bond beyond the probable three year period, by not exercising their redemption option, were measured at fair value through profit and loss. The fair value of these embedded rights was not material at the end of 2005.

Pursuant to the terms of the convertible bonds due 2013, the Company was required to purchase, at the option of the holders, 1,397,493 convertible bonds, at a price of $985.09 each between August 7 and August 9, 2006. This resulted in a cash payment of $1,377 million. The Company may be required to purchase, at the option of the holder, the outstanding convertible bonds for cash on August 5, 2008 and/or August 5, 2010 at a price of $975.28 and $965.56 per convertible bond, respectively. The outstanding 2013 convertible debt amounted to approximately $2 million as at December 31, 2007, corresponding to the remaining 2,505 bonds.

In February 2006, the Company issued $974 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 a conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. This conversion rate has been adjusted from 43.118317 shares per one thousand dollar face value of the bonds at issuance, as the result of the extraordinary cash dividend approved by the Annual General Meeting of Shareholders held on April 26, 2007. This new conversion has been effective since May, 21, 2007. In the event of any change in control, the holder has the right to require the Company to purchase for cash all or any part of the holder's convertible bonds at its accreted value. 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 dollars face value of the bonds. The Company can call the bonds at any time after March 10, 2011 subject to the Company's share price exceeding 130% of the accreted value divided by the conversion rate for 20 out of 30 consecutive trading days. The Company may redeem for cash at the principal amount at issuance plus accumulated gross yield all, but not a portion, of the convertible bonds at any time if 10% or less of the aggregate principal amount at issuance of the convertible bonds remain outstanding in certain circumstances or in the event of changes to the tax laws of the Netherlands or any successor jurisdiction.

The Group assessed for separate accounting at issuance of the bond the two elements of equity and liability of the compound instrument. The bond terms enable the holder to receive cash settlement under certain circumstances and, consequently, the Group has classified the share conversion option as a financial liability in "Other non-current liabilities", which was reported at fair value through profit and loss in the consolidated balance sheet at December 31, 2006. Based on the existing market conditions at issuance, management estimated that separately valuing embedded share conversion would not be materially different from calculating the residual amount of the equity conversion as total bond proceeds, net of the fair value of the debt component. The fair value of the liability component of the convertible debt amounted to $700 million at issuance and includes the value of the holder's redemption option and the Company's call options since these embedded derivatives were considered to be closely related to the host debt contract and could not be accounted for separately as freestanding derivatives. The Group determined the fair value of the liability component 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 was determined to be a ten-year timeframe corresponding to the period from issuance to maturity. The fair value was calculated using cash flows discounted at a rate based on the non-convertible debt rate of 5.50%, reduced by 0.58% corresponding to the value of the put and call options.

In 2006, the Company entered into cancellable swaps with a combined notional value of $200 million to hedge the fair value of a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps convert the fixed rate interest expense recorded on the convertible bond due to 2016 to a variable interest rate based upon adjusted LIBOR. These interest rate swap hedging transactions are described in further detail in Note 35 of the consolidated financial statements of the Company.

The convertible debt recognized in the balance sheet is calculated as follows:

Convertible debt 2013:	December 31, 2007
Face value of the convertible debt issued on August 2003	1,400
Conversion option classified as a financial liability	(136)
Accumulated interest recognized in retained earnings	115
Repayment in cash at redemption date	(1,377)
Liability component as of December 31, 2006	2
Interest expense recognized in 2007 consolidated statement of income	-
Convertible debt 2013 as of December 31, 2007	2

Convertible debt 2016:	December 31, 2007
Face value of the convertible debt issued in February 2006	974
Conversion option classified as a financial liability	(274)
Accumulated interest recognized in retained earnings	37
Liability component at of December 31, 2007	737
Interest expense recognized in 2007 consolidated statement of income	42
Convertible debt 2016 as of December 31, 2007	779

Credit facilities

The Company has also a $736 million long-term credit facility with the European Investment Bank as part of a funding program loan, of which $205 million were used as at December 31, 2007.

55 — 16 – DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities consisted of the following:

	December 31, 2007	December 31, 2006
Development costs amortization	30	3
Other temporary differences	1	-
Deferred tax assets	31	3
Development costs capitalization	(101)	(64)
Other temporary differences	(9)	(7)
Deferred tax liabilities	(110)	(71)
Net deferred income tax asset	**(79)**	**(68)**

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57 — 17 - OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

	Period ended December 31, 2007	Year ended December 31, 2006
Share conversion option of convertible debt 2016 classified as financial liability (note 15)	277	277
Debt financial guarantee (note 7)	17	15
Other non current liabilities	9	4
Total	**303**	**296**

58 — 18 - LOANS AND BANKS

The Company has revolving lines of credit agreements with several financial institutions totalling $413 million at December 31, 2007 (2006: $269 million). At December 31, 2007 no amounts were drawn on these available lines of credit (2006: nil).

59 — 19 – GUARANTEES

Guarantees given by the Company to its subsidiaries for the benefit of third parties amounted to approximately $1,292 million at December 31, 2007 (2006: $1,379 million).

60 — 20 - WAGES, SALARIES AND SOCIAL CHARGES

(USD in millions)	**2007**	**2006**
Wages and salaries	48	43
Social charges	6	3
Stock award compensation expense	-	3
Pension service costs	4	8
Complementary pension scheme for executives	2	(2)
Other employee benefits	2	2
	62	57

The average number of persons employed by the Company during the year ended December 31, 2007 was 255 out of which 236 outside The Netherlands (2006: 254 out of which 235 outside The Netherlands).

61 — 21 - 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 the Company (Note 36).

April 1, 2008

Sole Member of the Managing Board,

Carlo Bozotti

Members of the Supervisory Board:

Gérald Arbola

Bruno Steve

Tom de Waard

Matteo Del Fante

Douglas Dunn

Didier Lamouche

Didier Lombard

Alessandro Ovi “Appointed as per April 26, 2007”

Ray Bingham “Appointed as per April 26, 2007”

Robert White “Mandate was up at April 26, 2007”

Antonino Turicchi “Resigned as per April 26, 2007”

STMICROELECTRONICS N.V.

OTHER INFORMATION

DECEMBER 31, 2007

1. AUDITORS' REPORT

The report of the auditors, PricewaterhouseCoopers Accountants N.V., is presented in the following pages.

2. APPROPRIATION OF RESULT — 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.

3. PROPOSED 2007 CASH DIVIDEND AND RETAINED EARNINGS AND DIVIDEND POLICY

Upon the proposal of the Managing Board, the Supervisory Board decided to recommend to the 2008 AGM a cash dividend of $0.36 per share.

This recommendation is consistent with the Company's dividend policy as communicated and discussed at the 2005 AGM whereby:

a. The Company 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 the Company.

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 the Company'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.

4. SUBSEQUENT EVENTS

(a) Business Combinations

During March 2008 the Group finalized the evaluation of Genesis Microchip business combination, of which it acquired effective control on January 17, 2008. The Group had acquired all of the outstanding shares by the end of January. Final purchase consideration amounted to $342 million. Under International Financial Reporting Standard No. 3, "Business combinations", the cost of the acquired company was assigned to the tangible and intangible assets acquired and liabilities assumed on the basis of their fair value at the date of the acquisition. Independent third parties assisted in the estimation of fair value of certain intangible assets. Any excess of the purchase price over the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. IFRS 3 sets forth detailed guidelines for determining the fair value of individual assets acquired and liabilities assumed. The following table summarizes these fair values at the date of acquisition. These amounts remain subject to change pending receipt of final reports from third parties who assisted the Group in the valuations.

Cash and cash equivalents	181
Other Current Assets	41
Property, plant and equipment	14
Intangible Assets	95
Goodwill	11
Deferred tax asset	44
Other Investments and other non-current assets	2
Total Liabilities assumed	(46)
Net Assets Acquired	342

(b) Fair Value of Financial Assets

During the first quarter of 2008, the Group received newly available information evidencing a ratings downgrade of certain debt securities and a decline in the indices used to value certain debt securities that resulted in a decrease in the fair value of the securities classified as available-for-sale financial assets, as described in details in Note 4. The decline in fair value arose after December 31, 2007 and reflects the continuous credit market turmoil, that has existed since the balance sheet date. Because of lack of "mark to market" bids, the decline in the fair value of such investments has been estimated entirely based on averages of indexes and amounted to approximately $29 million. This amount will be recorded in the 2008 consolidated statement of income on the line "Impairment charge on marketable securities".

(c) Asset Disposal

On March 30, 2008, the Group completed the FMG deconsolidation, which is described in detail in Note 8. Terms of the transaction were substantially the same as described in Note 8 except that the total indebtedness of Numonyx was reduced from the previously anticipated level, and the Group and Intel agreed to jointly guarantee the external debt of Numonyx, limited to $450M term loan and $100M revolving credit facility. As a consequence of the changes in the capital structure of Numonyx and changes in valuation benchmarks during the first quarter of 2008, the final value of the total consideration received by the Group in exchange for the assets contributed to Numonyx was reduced. The reduction, in combination with certain changes in the level of assets to be contributed, will result in an additional loss of approximately $150 million that will be recognized upon the close of the transaction.

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To the General Meeting of Shareholders of STMicroelectronics N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2007 of STMicroelectronics N.V., Amsterdam as set out on pages **59 to 172**. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2007, the company profit and loss account for the year then ended and the notes.

The directors' responsibility

The directors of the company are 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 Report of the Managing Board 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 give a true and fair view of the financial position of STMicroelectronics N.V. as at 31 December 2007, 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 give a true and fair view of the financial position of STMicroelectronics N.V. as at 31 December 2007, 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 e of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Managing Board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 2 April 2008
PricewaterhouseCoopers Accountants N.V.

Ronald M. van Tongeren RA