

STMICROELECTRONICS NV
Form 6-K
November 07, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated November 7, 2012

Commission File Number: 1-13546

STMicroelectronics N.V.
(Name of Registrant)

WTC Schiphol Airport
Schiphol Boulevard 265
1118 BH Schiphol Airport
The Netherlands
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Q

Form 40-F E

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes E

No Q

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes E

No Q

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes E

No Q

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- _____

Enclosure: STMicroelectronics N.V.'s Third Quarter and Nine Months ended September 29, 2012:

- Operating and Financial Review and Prospects;
 - Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, Statements of Equity and related Notes for the three months and nine months ended September 29, 2012; and
 - Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.
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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow and Statements of Equity for the three months and nine months ended September 29, 2012 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2011 as filed with the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”) on March 5, 2012 (the “Form 20-F”). The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections “Critical Accounting Policies Using Significant Estimates”, “Business Outlook” and “Liquidity and Capital Resources—Financial Outlook”. Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see “Cautionary Note Regarding Forward-Looking Statements” and “Item 3. Key Information—Risk Factors” included in the Form 20-F. We assume no obligation to update the forward-looking statements or such risk factors.

Our Management’s Discussion and Analysis of Financial Position and Results of Operations (“MD&A”) is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

- Critical Accounting Policies using Significant Estimates, which we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months and nine months ended September 29, 2012 designed to provide context for the other sections of the MD&A.
- Business Outlook, our expectations for selected financial items for the next quarter.
- Other Developments in 2012.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months and nine months ended September 29, 2012, as well as segment information.
- Legal Proceedings, describing the status of open legal proceedings.
- Related Party Transactions, disclosing transactions with related parties.
- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.
- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.
- Backlog and Customers, discussing the level of backlog and sales to our key customers.
- Disclosure Controls and Procedures.

- Cautionary Note Regarding Forward-Looking Statements.

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Critical Accounting Policies Using Significant Estimates

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

- sales returns and allowances;
- determination of the best estimate of the selling price for deliverables in multiple element sale arrangements;
- inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory;
- provisions for litigation and claims and recognition and measurement of loss contingencies;
- valuation at fair value of assets acquired in a business combination, including intangibles, goodwill, investments and tangible assets, as well as the impairment of their related carrying values, and valuation at fair value of assumed liabilities;
- annual and trigger-based impairment review of our goodwill and intangible assets, as well as an assessment, in each reporting period, of events, which could trigger interim impairment testing;
- estimated value of the consideration to be received and used as fair value for asset groups classified as assets to be disposed of by sale and the assessment of probability of realizing the sale;
- assessment of credit losses and other-than-temporary impairment charges on financial assets;
- restructuring charges;
- assumptions used in calculating pension obligations; and
- determination of the tax rate estimated on the basis of the projected tax amount for the full year, including deferred income tax assets, valuation allowances and assessment of provisions for uncertain tax positions and claims.

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

Our Consolidated Financial Statements include the ST-Ericsson joint ventures; in particular, we fully consolidate ST-Ericsson SA and related affiliates (“JVS”), which is owned 50% plus a controlling share by us and is responsible for the full commercial operations of the Wireless business, primarily sales and marketing. The other joint venture is focused on fundamental R&D activities. Its parent company is ST-Ericsson AT SA (“JVD”), which is owned 50% plus a controlling share by Ericsson and is therefore accounted for by us under the equity-method.

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

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

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

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

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

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

We maintain an allowance for doubtful accounts for estimated potential losses resulting from our customers' inability to make required payments. We base our estimates on historical collection trends and record a provision accordingly. Furthermore, we are required to evaluate our customers' financial condition periodically and record a provision for any specific account that we consider doubtful. In the third quarter of 2012, we did not record any new material specific provision related to bankrupt customers. If we receive information that the financial condition of our customers has deteriorated, resulting in an impairment of their ability to make payments, additional allowances could be required.

While the majority of our sales agreements contain standard terms and conditions, we may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. In such cases, following the guidance related to revenue recognition, we allocate the revenue to different deliverables qualifying as separate units of accounting based on vendor-specific objective evidence, third party evidence or our best estimates of selling prices of the separable deliverables.

Business combinations and goodwill. The purchase accounting method applied to business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the identifiable assets acquired and liabilities assumed. If the assumptions and estimates used to allocate the purchase price are not correct

or if business conditions change, purchase price adjustments or future asset impairment charges could be required. At September 29, 2012, the value of goodwill amounted to \$370 million, after having recorded in the third quarter of 2012 a preliminary estimated non-cash impairment charge of \$690 million.

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

This impairment test determines whether the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, we use the lower of a value determined by applying a market approach with financial metrics of comparable public companies compared to an estimate of the expected discounted future cash flows associated with the reporting unit on the basis of the most updated five-year business plan. Significant management judgments and estimates are used in forecasting the future discounted cash flows, including: the applicable industry's sales volume forecast and selling price evolution, the reporting unit's market penetration and its revenues evolution, the market acceptance of certain new technologies and products, the relevant cost structure, the discount rates applied using a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market, our sales expectations and our costs evaluation, and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may prove to be incorrect, and future adverse changes in market conditions, changes in strategies, lack of performance of major customers or operating results of acquired businesses that are not in line with our estimates may require impairments.

We performed our annual impairment test of goodwill on each of our reporting units during the third quarter of 2012. The table below presents the results of our annual impairment test:

| Reporting Unit | % estimated fair value exceeds carrying value |
|----------------|---|
| DCG | 203 |
| AMS | 1,220 |
| MMS | 368 |
| Wireless | * |

*Estimated fair value below carrying value

Based upon the first step of the goodwill impairment test, no impairment was recorded for the DCG, AMS and MMS reporting units since the fair value of the reporting units exceeded their carrying values. However, we were required, based upon step one, to conduct the second step of the impairment test for the Wireless reporting unit whose estimated fair value was lower than its carrying value. The second step consists in allocating a reporting unit's fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets. Based on our preliminary analysis, which calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination, we estimated that the implied fair value of Wireless goodwill was lower than its carrying value. Due to the complexity required to estimate the fair value of the Wireless reporting unit in the first step of the impairment test and to estimate the fair value of all assets and liabilities of the Wireless reporting unit in the second step of the test, the preliminary fair value estimates were derived based on assumptions and analyses that may be subject to change. As a result, we recorded a preliminary non-cash impairment charge of \$690 million for Wireless goodwill in the third quarter of 2012. During the fourth quarter, we will continue to refine our valuation of the fair value of the Wireless reporting unit that may be subject to change when the valuation is finalized. Our Wireless reporting unit includes ST-Ericsson JVS, which represents the majority of our Wireless activities. In addition, our Wireless reporting unit includes other items affecting our operating results related to the Wireless business. If any adjustments to the third quarter of 2012 estimated impairment are found to be necessary, they will be recorded in the fourth quarter of 2012. Our preliminary impairment estimate was based on the latest five year plan for the Wireless segment updated during the third quarter of 2012 and was based on our best estimate about future developments as well as market and customer assumptions.

ST-Ericsson is still in a challenging situation and continues to focus on securing the successful execution and delivery of its NovaThor™ ModAp platforms and Thor modems to customers while working to transform the company, which is aimed at lowering its breakeven point. In the event of the unsuccessful execution of this plan or in case of a delay in the development of new products, in particular with respect to design-wins with customers, or material worsening of business prospects, the value of ST-Ericsson for us could further decrease and we may be required to take an additional impairment charge, which could be material. Furthermore, while during the third quarter of 2012 ST-Ericsson delivered good progress, they continued to report negative cash flow and operating results.

Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic alternatives, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the current carrying value.

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

Following our annual impairment test, we recorded an impairment charge on intangible assets of \$4 million in the third quarter of 2012. We will continue to monitor the carrying value of our assets. If market conditions deteriorate or our Wireless business experiences a lack of or delay in results, in particular with respect to design-wins with customers, to generate future revenues and cash flows, this could result in future non-cash impairment charges against earnings. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or by strategic transactions, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the one underlying the carrying amount.

At September 29, 2012, the value of intangible assets subject to amortization amounted to \$554 million.

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

We evaluate each period if there is reason to suspect impairment on tangible assets or groups of assets held for use and we perform an impairment review when there is reason to suspect that the carrying value of these long-lived assets might not be recoverable, particularly in case of a restructuring plan. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we assess whether the carrying value exceeds the undiscounted cash flows associated with the tangible assets or group of assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. We normally estimate this fair value based on independent market appraisals or the sum of discounted future cash flows, using assumptions such as the utilization of our fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies. We also evaluate and adjust, if

appropriate, the assets' useful lives at each balance sheet date or when impairment indicators are identified. Assets classified as held for sale are reported as current assets at the lower of their carrying amount and fair value less costs to sell and are not depreciated. Costs to sell include incremental direct costs to transact the sale that we would not have incurred except for the decision to sell. During the third quarter of 2012, we recorded an impairment charge of \$13 million on our Carrollton building and facilities in Texas which have remained unsold. As a result, the remaining carrying value was reclassified into assets held for use.

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

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

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

Restructuring charges. We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us, or may require us in the future, to develop formalized plans for exiting any of our existing activities. We recognize the fair value of a liability for costs associated with exiting an activity when we have a present obligation and the amount can be reasonably estimated. Given the significance and timing of the execution of our restructuring activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. This process can require more than one year due to requisite governmental and customer approvals and our capability to transfer technology and know-how to other locations. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or newer initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, we may be required to incur additional charges as well as change estimates of the amounts previously recorded. The potential impact of these changes could be material and could have a material adverse effect on our results of operations or financial condition. In the third quarter of 2012, the amount of restructuring charges and other related closure costs amounted to \$6 million before taxes, entirely related to ST-Ericsson initiatives.

Share-based compensation. We measure our share-based compensation expense based on the fair value of the award on the grant date. This cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. Our share-based compensation plans may award shares contingent on the achievement of certain performance conditions based on financial objectives, including our financial results when compared to certain industry performances. In order to determine share-based compensation to be recorded for the period, we use significant estimates on the number of awards expected to vest, including the probability of achieving certain industry performances compared to our financial results, award forfeitures and employees' service period. Our assumption related to industry performances is generally taken with a lag of one quarter in line with the availability of the information. In the third quarter of 2012, we recorded a total charge of approximately \$2 million relating to our 2010 and 2012 outstanding stock award plans while the 2011 plan did not meet any performance conditions.

Earnings (loss) on Equity-method Investments. We are required to record our proportionate share of the results of the entities that we account for under the equity-method. This recognition is based on results reported by these entities, relying on their internal reporting systems to measure financial results. The main equity-method investments as of September 29, 2012 are represented by 3Sun and ST-Ericsson JVD. In the third quarter of 2012, we recognized a loss of approximately \$5 million related to our minority equity investment in 3Sun. In case of triggering events, we are required to determine whether our investment is temporarily or other-than-temporarily impaired. If impairment is considered to be other-than-temporary, we need to assess the fair value of our investment and record an impairment charge directly in earnings when fair value is lower than the carrying value of the investment. We make this assessment by evaluating the business on the basis of the most recent plans and projections or to the best of our estimates.

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

Held-for-trading and available-for-sale-financial assets are valued at fair value. The fair value of quoted debt and equity securities is based on current market prices. If the market for a financial asset is not active, if no observable market price is obtainable, or if the security is not quoted, we measure fair value by using assumptions and estimates. For unquoted equity securities, these assumptions and estimates include the use of recent arm's-length transactions; for debt securities without available observable market price, we establish fair value by reference to publicly available indexes of securities with the same rating and comparable or similar underlying collaterals or industries' exposure, which we believe approximates the orderly exit value in the current market. In measuring fair value, we make maximum use of market inputs and rely as little as possible on entity-specific inputs.

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

We are also required to assess the likelihood of recovery of our deferred tax assets originated by our net operating loss carry-forwards. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income that is sufficient to utilize loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. If recovery is not likely, we are required to record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable, which would increase our provision for income taxes.

As of September 29, 2012, we had current deferred tax assets of \$155 million and non-current deferred tax assets of \$365 million, net of valuation allowances. Our deferred tax assets have increased in the past few years. In particular, \$225 million of our deferred tax assets were recorded in relation to net operating losses incurred in the ST-Ericsson joint venture. These net operating losses may not be realizable before their expiration in seven years, unless ST-Ericsson is capable of identifying successful tax strategies. In the third quarter of 2012, we continued to assess the future recoverability of the deferred tax assets resulting from past net operating losses. On the basis of ST-Ericsson's tax planning strategies and its updated business plan at the time, the amount of capitalized deferred tax assets on net operating losses as of March 31, 2012 had reached the limit of the maximum amount to be recovered. As a result, no additional amount of net operating losses had been capitalized since the beginning of the second quarter of 2012. The future recoverability of these net operating losses is dependent on the successful market penetration of new product releases and additional tax planning strategies. However, negative developments in the business evolution or in the ongoing evaluation of the tax planning strategies could require adjustments to our estimates of the deferred tax asset valuation with a negative impact on our results, which could result in a material amount.

We could be required to record further valuation allowances thereby reducing the amount of total deferred tax assets, resulting in a decrease in our total assets and, consequently, in our equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in our assessment or due to other factors, such as the restructuring, sale or liquidation of certain activities, or if changes in current tax regulations are

enacted that impose restrictions on the timing or extent of our ability to utilize net operating losses and tax credit carry-forwards in the future. Likewise, a change in the tax rates applicable in the various jurisdictions or unfavorable outcomes of any ongoing tax audits could have a material impact on our future tax provisions in the periods in which these changes could occur.

Patent and other Intellectual Property (“IP”) litigation or claims. As is the case with many companies in the semiconductor industry, we have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other IP rights of third parties. Furthermore, we may become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. In the event the outcome of a litigation claim is unfavorable to us, we may be required to purchase a license for the underlying IP right on economically unfavorable terms and conditions, possibly pay damages for prior use, and/or face an injunction, all of which singly or in the aggregate could have a material adverse effect on our results of operations and on our ability to compete. See Item 3. “Key Information — Risk Factors — Risks Related to Our Operations — We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others” included in our Form 20-F, which may be updated from time to time in our public filings.

We record a provision when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims with the support of our outside counsel to determine whether they need to be adjusted based on current information available to us. We currently estimate that the possible losses for known claims are in the range of \$0 million to \$28 million. From time to time we face cases where loss contingencies cannot readily be reasonably estimated. In the event of litigation that is adversely determined with respect to our interests, or in the event that we need to change our evaluation of a potential third-party claim based on new evidence or communications, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize. We are in discussion with several parties with respect to claims against us relating to possible infringement of IP rights. We are also involved in certain legal proceedings concerning such issues. See “Legal Proceedings”.

As of September 29, 2012, we did not have any provision in our financial statements relating to third-party claims that, based on our current assessment, give rise to a significant risk of probable loss. There can be no assurance, however, that all other claims to which we are currently subject will be resolved in our favor. If the outcome of any claim or litigation were to be unfavorable to us, we could incur monetary damages, and/or face an injunction, all of which singly or in the aggregate could have an adverse effect on our results of operations and our ability to compete.

Other claims. We are subject to the possibility of loss contingencies arising in the ordinary course of business. These include, but are not limited to: warranty costs on our products not covered by insurance, breach of contract claims, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. In determining loss contingencies, we consider the likelihood of a loss of an asset or the occurrence of a liability, as well as our ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly re-evaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. As of September 29, 2012, the majority of these claims were assessed as remote. In the event we are unable to estimate the amount of such loss in a correct and timely manner, this could have a material adverse effect on our results of operations or financial condition at the time such loss were to materialize.

Pension and Post-Retirement Benefits. Our results of operations and our consolidated balance sheet include amounts for pension obligations and post-retirement benefits that are measured using actuarial valuations. At September 29, 2012, our pension and post-retirement benefit obligations net of plan assets amounted to \$426 million based on the assumption that our employees will work with us until they reach the age of retirement. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds and salary increase rates. These assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. Any changes in the pension schemes or in the above assumptions can have an impact on our valuations. The measurement date we use for our plans is December 31.

Fiscal Year

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. The first and second quarters of 2012 ended on March 31 and June 30, 2012, respectively. The third quarter of 2012 ended on September 29 and the fourth quarter will end on December 31, 2012. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years' periods.

Business Overview

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

The semiconductor market experienced a demand reduction and inventory correction, which started in the second half of 2011 and bottomed in the first quarter of 2012. Based on the most recently published estimates by WSTS, semiconductor industry revenues decreased in the third quarter of 2012 on a year-over-year basis by approximately 4% for both the TAM and the SAM to reach approximately \$74 billion and \$44 billion, respectively. Sequentially, in the third quarter of 2012, the TAM and the SAM increased by approximately 2% and 4%, respectively.

The market environment continued to be weak throughout the third quarter and was characterized by uncertainty in customer demand and lower visibility, which ultimately impacted our revenue performance. Our third quarter 2012 revenues were \$2,166 million, delivering a 0.9% increase sequentially in spite of the difficult market conditions; on a year-over-year basis, our revenues registered an 11.3% decrease. The sequential performance was within the guidance range released to the market, which indicated a mid-point of 2.5% sequential increase plus or minus 3 percentage points. The year-over-year decrease was registered by all of our product segments and particularly by our Digital sector, which was negatively impacted by the significant decline in the Imaging business. On a sequential basis, three of our five product segments registered revenue growth: Analog, MEMS and Microcontrollers (“AMM”), Power Discrete Products (“PDP”) and Wireless. In particular, the Wireless segment grew by approximately 4% including IP licensing, while our wholly owned businesses slightly increased by 0.2% compared to the previous quarter. In comparison with the SAM result, our performance was below the SAM both on a year-over-year basis and on a sequential basis.

Our effective exchange rate for the third quarter of 2012 was \$1.29 for €1.00 compared to \$1.32 for €1.00 for the second quarter of 2012 and \$1.40 for €1.00 in the third quarter of 2011. Our third quarter 2012 gross margin reached 34.8% of revenues, within our guidance range, which indicated a gross margin of 35.3% plus or minus 1.5 percentage points. Gross margin decreased by 100 basis points compared to the prior year period, which benefited from a more favorable market environment. On a sequential basis, our gross margin increased by 50 basis points, mainly due to improved manufacturing efficiencies, a more favorable product mix and currency effects, partially offset by a decline in average selling prices.

Combined SG&A and R&D expenses decreased approximately 6% to \$852 million compared to \$909 million in the prior quarter due to seasonal factors and currency effects and ST-Ericsson’s on-going cost-realignment initiatives. Combined SG&A and R&D expenses as a percentage of sales, improved to 39.3% in 2012 third quarter compared to 42.3% in the prior quarter.

Restructuring and impairment charges significantly increased sequentially to \$713 million, compared to \$56 million in the prior quarter, mainly due to the \$690 million non-cash impairment charge of the Wireless goodwill.

Our operating result in the third quarter of 2012 was therefore negatively impacted by the non-cash impairment charge on Wireless goodwill, resulting in a loss of \$792 million, compared to a loss of \$207 million in the prior quarter. The equivalent prior year period loss was \$23 million, which benefited from a higher level of revenues in line with more favorable market conditions. The third quarter 2012 loss was impacted by a total amount of impairment and restructuring charges of \$713 million, while the prior quarter was impacted by \$56 million. Excluding these impairment and restructuring charges, our results sequentially improved; in the weak semiconductor environment of the third quarter of 2012, our operating results were able to show progress in key areas: margin improvement, significantly lower operating expenses, lower operating losses and progression towards returning to a positive cash

flow in the fourth quarter of 2012.

Our third quarter revenue and gross margin results delivered sequential improvements. Overall, the strength of our product portfolio enabled us to manage the current weak demand environment. As anticipated, we benefited from the revenue growth of our MEMS, Microcontrollers, Power MOSFET and IGBT businesses, which continue to expand into new applications, and we continue to strengthen relationships with key market leaders, such as Audi and Samsung. Our wholly owned businesses' operating margin improved, on a sequential basis, to 5.8%, mainly driven by improvements in our PDP segment.

We have already been taking a number of important steps to advance our key priorities. In December, we will present our new strategic plan which will accelerate the roadmap towards our previously announced financial model and ensure the future success of both our Analog and Digital businesses and, therefore, of our company as a whole.

Through this process, we are progressing in moving our digital businesses towards self-sustainability and we announced on October 23, 2012, a new \$150 million annual savings plan at the ST level: a part of the savings coming from the identified initiatives to leverage on the synergies of our Unified Processing Platform approach, which is aiming to develop application processor platforms with a full set of hardware and software deliverables that will be used across the Digital product sector and by ST-Ericsson for integration with the modem in its ModAp products, and the remainder of the savings coming from other new initiatives, such as efficiencies in our process technology development model and expenses related to design outsourcing.

Our Wireless segment delivered progress during the third quarter; however, the segment's operating loss and negative cash flows still remain significant. As part of our annual impairment test and based upon our assessment of the Wireless segment plan, updated in the third quarter, and the evolving dynamics of the smartphone industry, we posted a non-cash impairment charge of \$690 million. This charge reduced the carrying value of our Wireless business to our current best estimate of its fair value.

Business Outlook

Looking to the fourth quarter, we expect a relatively flat quarter-to-quarter pattern in revenue, reflecting the weak macro environment which has translated into a decrease of our booking levels. In anticipation, we have put in place plans to better align our manufacturing with the market environment by temporarily closing fabs, repatriating activities from subcontractors and executing cost-reduction measures. These extraordinary measures target an estimated inventory reduction of approximately \$150 million and are expected to result in unsaturation charges during the fourth quarter estimated at about \$80 million.

As we have been managing through the difficult Wireless business and macro-economic issues this year, our focus has been on maintaining a solid financial position. ST's attributable net financial position exiting 2012 is expected to improve in the fourth quarter and to be stable compared to the end of December 2011. We have significantly reduced our capital expenditures this year and now project that the full year amount will be about \$500 million. We currently anticipate a modest level of capital expenditures as we believe our current manufacturing capacity is adequate.

Finally, even with the softer macro environment, in the fourth quarter we anticipate strong revenue growth in motion MEMS and environmental sensors and continued progress in microcontrollers. On a longer-term basis, we have greatly expanded our opportunities in automotive with the recently announced strategic alliance with Audi.

We expect the sequential evolution of our fourth quarter 2012 revenues to be in the range of about -5% to +2%. Reflecting significantly higher unsaturation charges compared to the third quarter, gross margin in the fourth quarter is expected to be about 32%, plus or minus 2 percentage points.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.30 = €1.00 for the 2012 fourth quarter and includes the impact of existing hedging contracts. The fourth quarter will close on December 31, 2012.

These are forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially; in particular, refer to those known risks and uncertainties described in "Cautionary Note Regarding Forward-Looking Statements" and Item 3. "Key Information — Risk Factors" in our Form 20-F as may be updated from time to time in our SEC filings.

Other Developments in the Third Quarter 2012

On July 2, 2012, we announced the publication of our 2011 Sustainability Report. Containing comprehensive details of our sustainability strategy, policies and performance during 2011, the Report also illustrates how we embed sustainability into every level of our operations to create value for all our stakeholders.

On July 17, 2012, we announced that Alisia Grenville-Mangold, Corporate Vice President and Chief Compliance Officer, was leaving the company effective July 31, 2012.

On July 26, 2012, Franck Freymond, Chief Audit Executive, took on responsibility for the Ethics Committee, the whistle-blowing hotline and the process and reporting on related investigations and Enterprise Risk Management, in addition to his current assignment.

On July 31, 2012, Alisia Grenville-Mangold was succeeded by Philippe Dereeper as Corporate Compliance Officer, reporting to Tjerk Hooghiemstra, Chief Administrative Officer.

Effective July 31, 2012, Patrice Chastagner, Corporate Vice President, Human Resources, was succeeded by Philippe Brun, reporting to Tjerk Hooghiemstra.

On August 6, 2012, we announced the completion of an IP and talent acquisition from bTendo, an Israeli projection-technology innovator.

On August 30, 2012, we announced a strategic agreement with MicroOLED, a France-based company dedicated to the development and commercialization of state-of-the-art organic light emitting diodes, as well as an equity investment of approximately €6 million in the company.

On September 13, 2012, we announced that Georges Penalver was appointed Executive Vice President, Member of the Corporate Strategic Committee, Corporate Strategy Officer, effective immediately. Jean-Marc Chery, Executive Vice President, will take the additional responsibility of General Manager, Digital Sector, while maintaining his current role of Executive Vice President, Chief Technology and Manufacturing Officer. As a result of Mr. Chery's expanded responsibilities, Eric Aussedat, General Manager, Imaging and Bi-CMOS ASICs Group, Joel Hartmann, Corporate Vice President, Front-end Manufacturing & Process R&D, Digital Sector, and Philippe Magarshack, Corporate Vice President, Design Enablement & Services, are promoted to Executive Vice Presidents while maintaining their previous roles. Stephane Delivre, Corporate Vice President, Global Chief Information Officer, will now report to Carlo Bozotti. Philippe Lambinet, Executive Vice President, Corporate Strategy Officer and General Manager, Digital Sector, left the company to pursue other interests, effective September 13, 2012.

On October 23, 2012, in a move to enhance performance and optimize asset utilization, we announced a new savings plan designed to achieve \$150 million in annual savings at the ST level upon completion by the end of 2013. A portion of the savings coming from the identified initiatives will leverage the synergies of our previously disclosed Unified Processing Platform approach by integrating the development of System-On-Chip for digital TV. The plan also involves other new initiatives, such as efficiencies in our process-technology development model and expenses related to design outsourcing. Total restructuring costs are expected to be about \$25 to \$30 million through completion and might affect up to 500 jobs including contractors and attritions. As a consequence, in combination with the savings to be realized through the restructuring plan announced in April 2012 underway at ST-Ericsson and considering our 50% holding in ST-Ericsson, we expect to capture \$220 million in annualized savings benefiting operating income attributable to ST by the end of 2013 (based on a fourth quarter 2011 cost base).

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

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

As of January 1, 2012, we changed the segment organization structure. The current organization is as follows:

- Automotive Segment (APG);
 - Digital Segment, consisting of two product lines:
 - Digital Convergence Group (DCG); and
 - Imaging, Bi-CMOS ASIC and Silicon Photonics Group (IBP).
 - Analog, MEMS and Microcontrollers Sector (AMM), comprised of three product lines:
 - Analog, MEMS & Sensors (AMS);
 - Industrial & Power Conversion (IPC); and
 - Microcontrollers, Memories & Secure MCUs (MMS).
 - Power Discrete Product Segment (PDP);
 - Wireless Segment comprised of the following product lines:
 - Connectivity (COS);
 - Smartphone and Tablet Solutions (STS);
 - Modems (MOD); and
- Other Wireless, in which we report other revenues, gross margin and other items related to the Wireless business but outside the ST-Ericsson JVS.

In 2012, we restated our results from prior periods for illustrative comparisons of our performance by product segment due to the former Automotive, Consumer, Computer and Communication Infrastructure (“ACCI”) now being split into three segments (“APG”, “Digital” and “AMM”). In addition, we restated the product lines of the Wireless segment due to Entry Solutions being reclassified into Smartphone and Tablet Solutions (“STS”). The preparation of segment information based on the current segment structure requires us to make significant estimates, assumptions and judgments in determining the operating income (loss) of the segments for the prior reporting periods. We believe that the restated 2011 presentation is consistent with that of 2012 and we use these comparatives when managing our company.

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

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

guidance on disclosures about segments of an enterprise and related information. All the financial values related to Subsystems including net revenues and related costs, are reported in the segment “Others”.

The following tables present our consolidated net revenues and consolidated operating income (loss) by product segment. For the computation of the segments’ internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, SG&A expenses and a significant part of research and development expenses.

In compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs including ST-Ericsson plans, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, the NXP arbitration award, strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold.

| | Three Months Ended (unaudited) | | Nine Months Ended (unaudited) | |
|--|-----------------------------------|--------------------|----------------------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (In millions) | | | |
| Net revenues by product segment: | | | | |
| Automotive (“APG”) | \$ 391 | \$ 404 | \$ 1,186 | \$ 1,295 |
| Digital | 325 | 442 | 1,014 | 1,451 |
| Analog, MEMS and Microcontrollers (“AMM”) | 804 | 856 | 2,336 | 2,631 |
| Power Discrete Products (“PDP”) | 275 | 316 | 770 | 986 |
| Wireless | 359 | 412 | 994 | 1,143 |
| Others (1) | 12 | 12 | 31 | 37 |
| Total consolidated net revenues | \$ 2,166 | \$ 2,442 | \$ 6,331 | \$ 7,543 |

(1) In the third quarter of 2012, “Others” includes revenues from the sales of Subsystems (\$6 million), sales of materials and other products not allocated to product segments (\$4 million) and miscellaneous (\$2 million).

| | Three Months Ended (unaudited) | | Nine Months Ended (unaudited) | |
|--|-----------------------------------|--------------------|----------------------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (In millions) | | | |
| Net revenues by product line: | | | | |
| Automotive (“APG”) | \$391 | \$404 | \$1,186 | \$1,295 |
| Digital Convergence Group (“DCG”) | 234 | 246 | 671 | 865 |
| Imaging, Bi-CMOS ASIC and Silicon Photonics Group (“IBP”) | 85 | 175 | 337 | 554 |
| Others | 6 | 21 | 6 | 32 |
| Digital | 325 | 442 | 1,014 | 1,451 |
| Analog, MEMS & Sensors (“AMS”) | 324 | 339 | 923 | 1,024 |
| Industrial & Power Conversion (“IPC”) | 184 | 228 | 559 | 685 |
| Microcontrollers, Memories & Secure MCUs (“MMS”) | 296 | 287 | 854 | 919 |
| Others | - | 2 | - | 3 |
| Analog, MEMS and Microcontrollers (“AMM”) | 804 | 856 | 2,336 | 2,631 |
| Power Discrete Products (“PDP”) | 275 | 316 | 770 | 986 |
| Connectivity (“COS”) | 33 | 77 | 91 | 172 |

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| | | | | |
|---|---------|---------|---------|---------|
| Smartphone and Tablet Solutions (“STS”) | 281 | 301 | 823 | 880 |
| Modems (“MOD”) | 45 | 34 | 80 | 89 |
| Others | - | - | - | 2 |
| Wireless | 359 | 412 | 994 | 1,143 |
| Others | 12 | 12 | 31 | 37 |
| Total consolidated net revenues | \$2,166 | \$2,442 | \$6,331 | \$7,543 |

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| | Three Months Ended (unaudited) September | | Nine Months Ended (unaudited) | |
|---|--|--------------------|----------------------------------|--------------------|
| | 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| (In millions) | | | | |
| Operating income (loss) by product segment: | | | | |
| Automotive (“APG”) | \$34 | \$46 | \$108 | \$187 |
| Digital | (30) | 20 | (103) | 98 |
| Analog, MEMS and Microcontrollers (“AMM”) | 101 | 147 | 298 | 490 |
| Power Discrete Products (“PDP”) | 18 | 33 | 16 | 123 |
| Wireless (1) | (184) | (215) | (717) | (601) |
| Others (2) | (731) | (54) | (954) | (119) |
| Total consolidated operating income (loss) | \$(792) | \$(23) | \$(1,352) | \$178 |

(1) The majority of Wireless’ activities are run through ST-Ericsson JVS. In addition, Wireless includes other items affecting operating results related to the Wireless business. The noncontrolling interest of Ericsson in ST-Ericsson JVS’ operating results (which are 100% included in Wireless) is credited on the line “Net loss (income) attributable to noncontrolling interest” of our Consolidated Statements of Income, which represented \$351 million for the quarter ended September 29, 2012.

(2) Operating loss of “Others” includes items such as impairment, restructuring charges and other related closure costs including ST-Ericsson plans, unused capacity charges, phase-out and start-up costs, the NXP arbitration award and other unallocated expenses such as: strategic or special R&D programs, certain corporate-level operating expenses and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group. The \$690 million non-cash Wireless impairment charge has been attributed to the segment “Others”.

| | Three Months Ended (unaudited) September | | Nine Months Ended (unaudited) September | |
|--|--|--------------------|---|--------------------|
| | 29, 2012 | October 1, 2011 | 29, 2012 | October 1, 2011 |
| (As percentage of net revenues) | | | | |
| Operating income (loss) by product segment: | | | | |
| Automotive (“APG”) (1) | 8.6 | % 11.4 | % 9.1 | % 14.4 |
| Digital (1) | (9.0) | 4.5 | (10.2) | 6.8 |
| Analog, MEMS and Microcontrollers (“AMM”) (1) | 12.6 | 17.2 | 12.8 | 18.6 |
| Power Discrete Products (“PDP”) (1) | 6.4 | 10.6 | 2.1 | 12.5 |
| Wireless (1) | (51.3) | (52.1) | (72.2) | (52.6) |
| Others | - | - | - | - |
| Total consolidated operating income (loss) (2) | (36.6)% | (0.9)% | (21.4)% | 2.4 % |

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

(2)

As a percentage of total net revenues.

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| | Three Months Ended (unaudited) September | | Nine Months Ended (unaudited) | |
|---|--|--------------------|----------------------------------|--------------------|
| | 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| (In millions) | | | | |
| Reconciliation to consolidated operating income (loss): | | | | |
| Total operating income (loss) of product segments | \$(61) | \$31 | \$(398) | \$297 |
| Unused capacity charges | (19) | (42) | (106) | (50) |
| Impairment, restructuring charges and other related closure costs | (713) | (10) | (788) | (65) |
| Phase-out and start-up costs | - | - | - | (8) |
| Strategic and other research and development programs | (3) | (2) | (8) | (7) |
| NXP arbitration award | - | - | (54) | - |
| Other non-allocated provisions(1) | 4 | - | 2 | 11 |
| Total operating loss Others | (731) | (54) | (954) | (119) |
| Total consolidated operating income (loss) | \$(792) | \$(23) | \$(1,352) | \$178 |

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

Net revenues by location of shipment and by market segment

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

| | Three Months Ended (unaudited) September | | Nine Months Ended (unaudited) September | |
|--|--|--------------------|---|--------------------|
| | 29, 2012 | October 1, 2011 | 29, 2012 | October 1, 2011 |
| (In millions) | | | | |
| Net Revenues by Location of Shipment:(1) | | | | |
| EMEA | \$563 | \$594 | \$1,611 | \$1,857 |
| Americas | 316 | 332 | 938 | 1,025 |
| Greater China-South Asia | 904 | 1,076 | 2,642 | 3,363 |
| Japan-Korea | 383 | 440 | 1,140 | 1,298 |
| Total | \$2,166 | \$2,442 | \$6,331 | \$7,543 |

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

The tables below show our net revenues by location of shipment and market segment application in percentage of net revenues:

| | Three Months Ended (unaudited) | | | | Nine Months Ended (unaudited) | | | |
|--|-----------------------------------|---|--------------------|---|----------------------------------|---|--------------------|---|
| | September 29, 2012 | | October 1, 2011 | | September 29, 2012 | | October 1, 2011 | |
| (As percentage of net revenues) | | | | | | | | |
| Net Revenues by Location of Shipment:(1) | | | | | | | | |
| EMEA | 26.0 | % | 24.3 | % | 25.5 | % | 24.6 | % |
| Americas | 14.6 | | 13.6 | | 14.8 | | 13.6 | |
| Greater China-South Asia | 41.7 | | 44.1 | | 41.7 | | 44.6 | |
| Japan-Korea | 17.7 | | 18.0 | | 18.0 | | 17.2 | |
| Total | 100 | % | 100 | % | 100 | % | 100 | % |

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

| | Three Months Ended (unaudited) | | | | Nine Months Ended (unaudited) | | | |
|--|-----------------------------------|---|--------------------|---|----------------------------------|---|--------------------|---|
| | September 29, 2012 | | October 1, 2011 | | September 29, 2012 | | October 1, 2011 | |
| (As percentage of net revenues) | | | | | | | | |
| Net Revenues by Market Segment/Channel:(1) | | | | | | | | |
| Automotive | 18.4 | % | 16.6 | % | 19.0 | % | 16.9 | % |
| Computer | 13.1 | | 14.0 | | 13.4 | | 13.9 | |
| Consumer | 10.5 | | 9.8 | | 10.5 | | 10.2 | |
| Telecom | 25.1 | | 28.2 | | 25.5 | | 26.1 | |
| Industrial and Other | 9.4 | | 9.5 | | 9.4 | | 9.3 | |
| Distribution | 23.5 | | 21.9 | | 22.2 | | 23.6 | |
| Total | 100 | % | 100 | % | 100 | % | 100 | % |

(1) The above table estimates, within a variance of 5% to 10% in the absolute dollar amount, the relative weighting of each of our target segments. Net revenues by market segment/channel are classified according to the status of the final customer. For example, products ordered by a computer company, even including sales of other applications such as Telecom, are classified as Computer revenues.

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

| | Three Months Ended (unaudited) September 29, 2012 | | Three Months Ended (unaudited) October 1, 2011 | | |
|--|--|----------------------|---|----------------------|---|
| | \$ million | % of net revenues | \$ million | % of net revenues | |
| Net sales | \$2,119 | 97.8 | % \$2,392 | 98.0 | % |
| Other revenues | 47 | 2.2 | 50 | 2.0 | |
| Net revenues | 2,166 | 100 | 2,442 | 100 | |
| Cost of sales | (1,413) | (65.2) | (1,569) | (64.2) | |
| Gross profit | 753 | 34.8 | 873 | 35.8 | |
| Selling, general and administrative | (274) | (12.7) | (302) | (12.4) | |
| Research and development | (578) | (26.7) | (596) | (24.4) | |
| Other income and expenses, net | 20 | 0.9 | 12 | 0.5 | |
| Impairment, restructuring charges and other related closure costs | (713) | (32.9) | (10) | (0.4) | |
| Operating loss | (792) | (36.6) | (23) | (0.9) | |
| Interest expense, net | (8) | (0.3) | (3) | (0.1) | |
| Earnings (loss) on equity-method investments | (4) | (0.2) | (7) | (0.3) | |
| Gain on financial instruments, net | - | - | 1 | 0.0 | |
| Loss before income taxes and noncontrolling interest | (804) | (37.1) | (32) | (1.3) | |
| Income tax benefit (expense) | (25) | (1.1) | 3 | 0.1 | |
| Net loss | (829) | (38.2) | (29) | (1.2) | |
| Net loss (income) attributable to noncontrolling interest | 351 | 16.1 | 100 | 4.1 | |
| Net income (loss) attributable to parent company | \$(478) | (22.1) | % \$71 | 2.9 | % |

Third Quarter 2012 vs. Third Quarter 2011 and Second Quarter 2012

Net revenues

| | Three Months Ended | | | % Variation | |
|----------------|--|------------------|--------------------|-------------|--------------------|
| | September 29, 2012 (Unaudited, in millions) | June 30, 2012 | October 1, 2011 | Sequential | Year-Over- Year |
| Net sales | \$ 2,119 | \$ 2,140 | \$ 2,392 | (1.0)% | (11.4)% |
| Other revenues | 47 | 8 | 50 | 539.2 | (5.4) |
| Net revenues | \$ 2,166 | \$ 2,148 | \$ 2,442 | 0.9 % | (11.3)% |

Year-over-year comparison

Our third quarter 2012 net revenues decreased in all product segments and in all regions, reflecting a more difficult industry environment, which negatively impacted the demand for our products. As a result, our revenues declined 11.3%, which originated from an approximate 4% decrease in volume and a 7% reduction in average selling prices entirely due to the impact of negative pricing pressure since the product mix was basically unchanged.

Our third quarter 2012 net revenues benefited from \$47 million of other revenues, compared to \$50 million of other revenues in the third quarter of 2011.

By product segment, our revenues were down by approximately 26% in Digital and 13% in PDP, both driven by prices and volume, while AMM and APG were down 6% and 3% respectively mainly due to negative pricing pressure since volume was increasing. Wireless sales registered a decline of approximately 13%.

By market segment/channel, our revenues registered an equivalent downward trend, with a major decline in Telecom, which was down approximately 21%.

By location of shipment, all regions registered a negative performance in terms of revenues, globally driven by difficult market conditions.

Both in the third quarter of 2012 and in the third quarter of 2011, no customer exceeded 10% of our total net revenues.

Sequential comparison

On a sequential basis our revenues increased by 0.9%, below the mid-point of our targeted range of a sequential increase of 2.5% plus or minus 3 percentage points. This sequential increase was led by higher volumes, which resulted in an approximate 5% increase in units sold, partially offset by a 4% reduction in average selling prices with a pricing effect down by 3% and a negative product mix by 1%. The third quarter also benefited from \$47 million of other revenues, which consisted mainly of \$42 million of technology licensing, primarily related to the Wireless business.

By product segment, with reference to our wholly owned businesses, our revenues increased by approximately 5% in PDP and 4% in AMM while they decreased by about 8% in Digital and 3% in APG. Wireless revenues increased by approximately 4%, including a \$35 million benefit from technology licensing. Our revenues increased in all market segments/channels, except Automotive and Telecom.

Our revenues registered a slight decline in all regions, except EMEA, which registered an approximate 5% growth, benefiting from the licensing revenues.

Gross profit

| | Three Months Ended | | | % Variation | |
|--|--|------------------|--------------------|-------------|--------------------|
| | September 29, 2012 (Unaudited, in millions) | June 30, 2012 | October 1, 2011 | Sequential | Year-Over- Year |
| Cost of sales | \$ (1,413) | \$ (1,412) | \$ (1,569) | (0.1)% | (9.9)% |
| Gross profit | 753 | 736 | 873 | 2.3 | (13.8) |
| Gross margin (as percentage of net revenues) | 34.8 % | 34.3 % | 35.8 % | - | - |

In the third quarter, gross margin was 34.8%, decreasing on a year-over-year basis by 100 basis points, due to the decline in the volume of revenues and the negative impact of the declining selling prices, partially balanced by a favorable currency effect and by lower unused capacity charges which amounted to \$19 million in the third quarter of 2012 compared to \$42 million in the prior year quarter. On a sequential basis, gross margin in the third quarter was up by 50 basis points, mainly due to improved manufacturing efficiencies and favorable currency effects, partially offset by the negative selling prices impact.

Selling, general and administrative expenses

| | Three Months Ended | | | % Variation | |
|---|--|------------------|--------------------|-------------|--------------------|
| | September 29, 2012 (Unaudited, in millions) | June 30, 2012 | October 1, 2011 | Sequential | Year-Over- Year |
| Selling, general and administrative expenses | \$ (274) | \$ (292) | \$ (302) | 6.3 % | 9.4 % |
| As percentage of net revenues | (12.7)% | (13.6)% | (12.4)% | - | - |

The amount of our SG&A expenses decreased year-over-year, mainly due to the positive impact of the U.S. dollar exchange rate, which strengthened against the Euro. On a sequential basis, SG&A expenses decreased mainly due to favorable seasonal factors and exchange rate contribution.

As a percentage of revenues, our SG&A expenses amounted to 12.7% slightly increasing in comparison to 12.4% in the prior year's third quarter and decreasing compared to 13.6% in the prior quarter.

Research and development expenses

| | Three Months Ended | | | % Variation | |
|-----------------------------------|--|------------------|--------------------|-------------|--------------------|
| | September 29, 2012 (Unaudited, in millions) | June 30, 2012 | October 1, 2011 | Sequential | Year-Over- Year |
| Research and development expenses | \$ (578) | \$ (617) | \$ (596) | 6.2 % | 3.0 % |
| As percentage of net revenues | (26.7)% | (28.7)% | (24.4)% | - | - |

The third quarter 2012 R&D expenses decreased year-over-year, mainly due to the positive impact of the U.S. dollar exchange rate, which strengthened against the Euro and the benefit of the cost-realignment program by ST-Ericsson. On a sequential basis, R&D expenses decreased mainly driven by favorable seasonal factors and our cost savings programs primarily at ST-Ericsson. The third quarter 2012 R&D expenses were net of research tax credits, which amounted to \$36 million, decreasing year-over-year while they were basically flat on a sequential basis.

As a percentage of revenues, the third quarter 2012 ratio equaled 26.7%, an increase of 230 basis points due to the lower level of revenues compared to the year-ago period and a 200 basis point decrease on a sequential basis, due to the reduction in our operating expenses.

Other income and expenses, net

| | Three Months Ended | | |
|--|--|------------------|--------------------|
| | September 29, 2012 (Unaudited, in millions) | June 30, 2012 | October 1, 2011 |
| Research and development funding | \$19 | \$24 | \$19 |
| Exchange gain net | 3 | 2 | - |
| Patent costs, net of reversals for unused provisions | 1 | (10) | (7) |
| Gain on sale of non-current assets | - | 7 | 1 |
| Other, net | (3) | (1) | (1) |
| Other income and expenses, net | \$20 | \$22 | \$12 |
| As percentage of net revenues | 0.9 % | 1.0 % | 0.5 % |

Other income and expenses, net, mainly included, as income, items such as R&D funding and exchange gain. Income from R&D funding was associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies in locations where we pursue our activities. In the third quarter of 2012, the balance of these factors resulted in an income, net of \$20 million, mainly due to research and development funding for approximately \$19 million and the reversal of certain provisions previously booked for patent claims.

Impairment, restructuring charges and other related closure costs

| | Three Months Ended | | |
|---|--------------------------|------------------|--------------------|
| | September 29, 2012 | June 30, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | | |
| Impairment, restructuring charges and other related closure costs | \$ (713) | \$ (56) | \$ (10) |

In the third quarter of 2012, we recorded \$713 million of impairment, restructuring charges and other related closure costs, mainly due to the following:

- \$690 million as a non-cash impairment on our Wireless goodwill;
- \$13 million was recorded as an additional impairment on the Carrollton (Texas) building and facilities, reflecting the persistent difficulty in disposing of this asset;
- \$5 million was recorded in relation to the ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits;
- \$4 million as an impairment on certain intangibles; and
- \$1 million related to the ST-Ericsson cost savings plan previously announced in 2011.

In the second quarter of 2012, we recorded \$56 million of impairment, restructuring charges and other related closure costs of which: \$44 million was recorded in relation to the ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits for involuntary departures; \$11 million related to the ST-Ericsson restructuring plans previously announced in 2011 and 2009; and \$1 million related to our manufacturing restructuring plan as part of the closure of our Carrollton site.

In the third quarter of 2011, we recorded \$10 million of impairment, restructuring charges and other related closure costs, of which: \$2 million was recorded in relation to the manufacturing restructuring plan as part of the closure of our Carrollton and Phoenix (Arizona) sites; \$5 million related to the ST-Ericsson restructuring plans previously announced in 2011 and 2009; and \$3 million related to other restructuring initiatives.

Operating loss

| | Three Months Ended | | |
|-------------------------------|--------------------------|------------------|--------------------|
| | September 29, 2012 | June 30, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | | |
| Operating loss | \$ (792) | \$ (207) | \$ (23) |
| In percentage of net revenues | (36.6)% | (9.6)% | (0.9)% |

The third quarter 2012 registered an operating loss of \$792 million including impairment and restructuring charges of \$713 million, of which \$690 million related to the non-cash impairment charge of Wireless goodwill. Excluding the impairment and restructuring charges, the third quarter 2012 sequentially registered a significant improvement in our operating results, driven by higher revenues and lower levels of SG&A and R&D expenses. On a year-over-year basis, excluding impairment and restructuring charges, the operating loss deteriorated mainly due to a lower amount of revenues.

While all of our product segments except Wireless reported a decline in their profitability levels compared to the year-ago period mainly driven by lower revenues, APG, AMM and PDP were able to maintain a solid profitability level in spite of the difficult market environment. APG operating income was \$34 million or about 9% of revenues, down from the year-ago income of \$46 million or approximately 11% of revenues, with its sales decreasing by 3%. AMM operating income was \$101 million or about 13% of revenues down from \$147 million or about 17% of revenues, driven by a 6% decrease in revenues.

PDP operating income was \$18 million or about 6% of revenues versus \$33 million operating income, equivalent to about 11% of the prior year third quarter revenues, with its revenues declining by 13%. Digital registered an operating loss of \$30 million or negative 9% of revenues in the current quarter compared to an operating income of \$20 million or approximately 5% of the last year third quarter revenues, mainly driven by an approximate 26% decrease in its revenues. Wireless registered an improvement in its operating result, registering a loss of \$184 million, compared to a loss of \$215 million in the prior year third quarter; since substantially all of this loss was generated by ST-Ericsson JVS, 50% was attributed to Ericsson as noncontrolling interest below operating loss. The segment "Others" increased its losses from \$54 million in the year-ago period to \$731 million, mainly due to the \$690 million non-cash impairment charge on Wireless goodwill. Excluding the Wireless goodwill impairment, the segment "Others" decreased its losses mainly due to lower unused capacity charges.

On a sequential basis, all our product segments registered an improvement in their operating results except APG whose operating result was basically unchanged.

Interest expense, net

| | Three Months Ended | | |
|-----------------------|--------------------------|---------------|-----------------|
| | September 29, 2012 | June 30, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | | |
| Interest expense, net | \$ (8) | \$ (6) | \$ (3) |

We recorded a net interest expense of \$8 million, which increased on a year-over-year basis due to the higher debt of ST-Ericsson towards our JV partner while it remained basically flat sequentially.

Earnings (loss) on equity-method investments

| | Three Months Ended | | |
|--|--------------------------|---------------|--------------------|
| | September 29, 2012 | June 30, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | | |
| Earnings (loss) on equity-method investments | \$(4) | \$(2) | \$(7) |

In the third quarter of 2012, we recorded a charge of \$4 million, of which we recognized a \$1 million gain related to our proportionate share in ST-Ericsson JVD offset by a \$5 million loss related to our minority equity investment in 3Sun. In the prior year comparable period, the loss of \$7 million was primarily related to ST-Ericsson JVD while in the prior quarter, it was mainly due to a \$3 million loss related to 3Sun.

Gain on financial instruments, net

| | Three Months Ended | | |
|------------------------------------|--------------------------|---------------|--------------------|
| | September 29, 2012 | June 30, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | | |
| Gain on financial instruments, net | \$- | \$- | \$1 |

A gain of \$1 million was recorded in the third quarter 2011 following unsolicited repurchases of a portion of our 2016 Convertible Bonds with an accreted value of \$73 million, inclusive of the swap, for a cash consideration of \$72 million.

Income tax benefit (expense)

| | Three Months Ended | | October 1, |
|------------------------------|--------------------------|---------------|------------|
| | September 29, 2012 | June 30, 2012 | 2011 |
| | (Unaudited, in millions) | | |
| Income tax benefit (expense) | \$(25) | \$(20) | \$3 |

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During the third quarter of 2012, we registered an income tax expense of \$25 million, reflecting the yearly effective tax rate estimated in each of our jurisdictions and applied to the third quarter consolidated result before taxes. This income tax charge resulted from the combination of (i) income tax expense computed with a yearly effective tax rate of about 23% on the income of our legal entities, (ii) no income tax benefit from the losses of ST-Ericsson entities, which was subject to a valuation allowance offsetting the third quarter deferred tax assets due to the high level of accumulated losses; and (iii) certain discrete items and provisions. The non-cash impairment charge of \$690 million on Wireless goodwill did not have any impact on income taxes.

Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimations of our tax provisions. Our income tax amounts and rates depend also on our loss carry-forwards and their relevant valuation allowances, which are based on estimated projected plans and available tax planning strategies; in the case of material changes in these plans, the valuation allowances could be adjusted accordingly with an impact on our tax charges. We currently enjoy certain tax benefits in some countries. Such benefits may not be available in the future due to changes in the local jurisdictions; our effective tax rate could be different in future quarters and may increase in the coming years. In addition, our yearly income tax charges include the estimated impact of provisions related to potential tax positions which have been considered uncertain. As a result of tax audits or changes in local jurisdictions, we could be required to record a materially higher amount of income tax expenses.

Net loss (income) attributable to noncontrolling interest

| | Three Months Ended | | |
|---|--------------------------|---------------|--------------------|
| | September 29, 2012 | June 30, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | | |
| Net loss (income) attributable to noncontrolling interest | \$351 | \$160 | \$100 |

In the third quarter of 2012, we recorded \$351 million in income representing the loss attributable to noncontrolling interest, which mainly included Ericsson's ownership in ST-Ericsson JVS. In the second quarter of 2012, the corresponding amount was \$160 million. The increase was mainly associated with the \$690 million non-cash impairment charge, of which the largest part was allocated to ST-Ericsson JVS.

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

Net income (loss) attributable to parent company

| | Three Months Ended | | |
|--|--------------------------|------------------|--------------------|
| | September 29, 2012 | June 30, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | | |
| Net income (loss) attributable to parent company | \$(478) | \$(75) | \$ 71 |
| As percentage of net revenues | (22.1)% | (3.5)% | 2.9 % |

For the third quarter of 2012, we reported a net loss of \$478 million, a significant deterioration compared to the year-ago quarterly profit due to the aforementioned factors and the significant non-cash impairment charge on Wireless goodwill.

Earnings (loss) per share for the third quarter of 2012 was \$(0.54) compared to \$(0.08) in the second quarter of 2012 and \$0.08 diluted per share in the year-ago quarter.

In the third quarter of 2012, the impact per share after tax of impairment, restructuring charges and other related closure costs and other one-time items, was estimated to be approximately \$(0.51) per share, while in the second quarter of 2012, it was estimated to be approximately \$(0.03) per share. In the year-ago quarter, the impact after tax of impairment, restructuring charges and other related closure costs, other-than-temporary impairment charge and other one-time items was estimated to be approximately \$(0.01) per share.

Nine months of 2012 vs. Nine months of 2011

The following table sets forth consolidated statements of operations data for the periods indicated:

| | Nine Months Ended (unaudited) | | Nine Months Ended (unaudited) | |
|--|----------------------------------|--|----------------------------------|--|
| | September 29, 2012 | September 29, 2012 % of net revenues | October 1, 2011 | October 1, 2011 % of net revenues |
| | \$ million | | \$ million | |
| Net sales | \$ 6,269 | 99.0 | \$ 7,460 | 98.9 |
| Other revenues | 62 | 1.0 | 83 | 1.1 |
| Net revenues | 6,331 | 100 | 7,543 | 100 |
| Cost of sales | (4,246) | (67.1) | (4,702) | (62.3) |
| Gross profit | 2,085 | 32.9 | 2,841 | 37.7 |
| Selling, general and administrative | (876) | (13.8) | (930) | (12.3) |
| Research and development | (1,828) | (28.9) | (1,738) | (23.0) |
| Other income and expenses, net | 55 | 0.8 | 70 | 0.9 |
| Impairment, restructuring charges and other related closure costs | (788) | (12.4) | (65) | (0.9) |
| Operating income (loss) | (1,352) | (21.4) | 178 | 2.4 |
| Other-than-temporary impairment charge and realized gain on financial assets | - | - | 318 | 4.2 |
| Interest expense, net | (26) | (0.4) | (20) | (0.3) |
| Loss on equity-method investments | (13) | (0.1) | (22) | (0.3) |
| Gain on financial instruments, net | 3 | 0.0 | 22 | 0.3 |
| Income (loss) before income taxes and noncontrolling interest | (1,388) | (21.9) | 476 | 6.3 |
| Income tax expense | (11) | (0.2) | (111) | (1.4) |
| Net income (loss) | (1,399) | (22.1) | 365 | 4.9 |
| Net loss (income) attributable to noncontrolling interest | 669 | 10.6 | 296 | 3.9 |
| Net income (loss) attributable to parent company | \$ (730) | (11.5)% | \$ 661 | 8.8 |

Our effective average exchange rate was \$1.31 for €1.00 for the first nine months of 2012 compared to \$1.37 for €1.00 for the first nine months of 2011.

Net revenues

| | Nine Months Ended | | % Variation |
|----------------|---|-----------------|-------------|
| | September 29, 2012 (Unaudited, in millions) | October 1, 2011 | |
| Net sales | \$ 6,269 | \$ 7,460 | (16.0)% |
| Other revenues | 62 | 83 | (26.0) |
| Net revenues | \$ 6,331 | \$ 7,543 | (16.1)% |

Our first nine months 2012 net revenues decreased in all product segments compared to the year-ago period, which benefited from more favorable market conditions. Net revenues decreased by 16.1% driven by a decrease of approximately 10% in volume and a decline in average selling prices by approximately 6%.

By product segment, revenues decreased by approximately 30% for Digital, 22% for PDP, 11% for AMM and 8% for APG, all driven by a significant decline in volume. Wireless sales registered a decline of approximately 13%.

By market segment/channel, the major decline was in Distribution, Computer and Telecom which were down by approximately 21%, 19% and 18% respectively.

By location of shipment, all regions were negatively impacted in terms of revenues by the difficult market conditions. In the first nine months of 2012 and in the first nine months of 2011, no customer exceeded 10% of our total net revenues.

Gross profit

| | Nine Months Ended | | % Variation | |
|--|--------------------------|--------------------|-------------|---|
| | September 29, 2012 | October 1, 2011 | | |
| | (Unaudited, in millions) | | | |
| Cost of sales | \$ (4,246) | \$ (4,702) | 9.7 | % |
| Gross profit | 2,085 | 2,841 | (26.6 |) |
| Gross margin (as percentage of net revenues) | 32.9 | % 37.7 | % - | |

Gross margin was 32.9%, decreasing by 480 basis points compared to the year-ago period, principally due to a strong decline in the volume of revenues, the negative impact of declining selling prices, the higher unused capacity charges and the arbitration award paid to NXP, partially offset by a more favorable product mix.

Selling, general and administrative expenses

| | Nine Months Ended | | % Variation | |
|--|--------------------------|--------------------|-------------|---|
| | September 29, 2012 | October 1, 2011 | | |
| | (Unaudited, in millions) | | | |
| Selling, general and administrative expenses | \$(876) | \$ (930) | 5.8 | % |
| As percentage of net revenues | (13.8)% | (12.3)% | - | |

The amount of our SG&A expenses decreased mainly associated with the favorable impact of the U.S. dollar exchange rate. As a percentage of revenues, our SG&A expenses slightly increased to 13.8% in comparison to 12.3% in the prior year's nine months due to lower volumes of sales.

Research and development expenses

| | Nine Months Ended | | % Variation | |
|-----------------------------------|--------------------------|--------------------|-------------|----|
| | September 29, 2012 | October 1, 2011 | | |
| | (Unaudited, in millions) | | | |
| Research and development expenses | \$(1,828) | \$ (1,738) | (5.2 |)% |
| As percentage of net revenues | (28.9)% | (23.0)% | - | |

R&D expenses increased compared to the prior year's first nine months, mainly because the first nine months of 2011 benefited from a \$100 million billing of R&D services by ST-Ericsson, partially balanced by the benefit of a more favorable exchange rate in 2012.

Total R&D expenses were net of research tax credits, which amounted to \$110 million, decreasing compared to \$123 million in the year-ago period.

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Other income and expenses, net

| | Nine Months Ended | |
|--|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Research and development funding | \$61 | \$ 82 |
| Phase-out and start-up costs | - | (8) |
| Exchange gain net | 4 | 6 |
| Patent costs, net of reversals for unused provisions | (15) | (21) |
| Gain on sale of non-current assets | 8 | 15 |
| Other, net | (3) | (4) |
| Other income and expenses, net | \$55 | \$ 70 |
| As percentage of net revenues | 0.8 | % 0.9 % |

Other income and expenses, net, mainly included, as income, items such as R&D funding and gain on sale of non-current assets and, as expenses, patent costs. Income from R&D funding was associated with our R&D projects, which, upon project approval, qualifies as funding on the basis of contracts with local government agencies in locations where we pursue our activities. In the first nine months of 2012, the balance of these factors resulted in an income net of \$55 million, declining compared to \$70 million in the first nine months of 2011, mainly due to the lower level of R&D funding.

Impairment, restructuring charges and other related closure costs

| | Nine Months Ended | |
|---|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Impairment, restructuring charges and other related closure costs | \$(788) | \$ (65) |

In the first nine months of 2012, we recorded \$788 million of impairment, restructuring charges and other related closure costs, of which:

- \$690 million as a non-cash impairment on our Wireless goodwill;
- \$50 million related to the ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits;
- \$23 million related to the manufacturing restructuring plan as part of the closure of our Carrollton (Texas) and Phoenix (Arizona) sites of which \$21 million was recorded as an impairment on the Carrollton building and facilities;
- \$21 million related to the ST-Ericsson restructuring plans previously announced in 2011 and 2009; and
- \$4 million impairment on certain intangibles.

In the first nine months of 2011, we recorded \$65 million of impairment, restructuring charges and other related closure costs, of which: \$37 million was recorded in relation to the manufacturing restructuring plan as part of the closure of our Carrollton and Phoenix sites and primarily related to lease contract termination costs recorded at cease-use date and other closure costs, and one-time termination benefits paid to employees who rendered services until the complete closure of the Carrollton and Phoenix fabs; \$7 million related to the workforce reduction plans announced in April and December 2009 by ST-Ericsson, primarily relating to lease contract termination costs and other closure costs pursuant to the closure of certain locations; \$17 million related to the cost savings plan announced in June 2011 by ST-Ericsson, primarily consisting of employee termination benefits; and \$4 million related to other restructuring initiatives.

Operating income (loss)

| | Nine Months Ended | |
|-------------------------------|--------------------------|--------------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Operating income (loss) | \$ (1,352) | \$ 178 |
| As percentage of net revenues | (21.4)% | 2.4 % |

Our operating results deteriorated compared to the first nine months of 2011 mainly due to the non-cash impairment charge on Wireless goodwill of \$690 million, the impact of lower revenues due both to volume and average selling price decline, higher unused capacity charges which accounted for \$106 million in the first nine months of 2012, the \$54 million charge related to the arbitration award paid to NXP; furthermore, the first nine months of 2011 benefited from \$100 million billing of R&D services by ST-Ericsson. This resulted in the first nine months 2012 operating loss of \$1,352 million compared to an operating income of \$178 million in the year-ago period.

Our wholly owned businesses (APG, Digital, AMM and PDP) reported a decline in their profitability levels compared to the year-ago period, due to lower levels of revenues. APG operating income was \$108 million or approximately 9% of revenues, down from \$187 million, or about 14% of the first nine months revenues of 2011, mainly driven by an approximate 8% decrease in revenues. AMM profit declined from \$490 million or about 19% of revenues to \$298 million or about 13% of revenues, led by an approximate 11% decline in revenues. PDP's operating income decreased from \$123 million or about 13% of revenues, down to \$16 million or about 2% of revenues, originated by a 22% decrease in revenues. Digital registered an operating loss of \$103 million or about negative 10% of current first nine months revenues, down from \$98 million operating income or approximately 7% of the first nine months revenues of 2011, originated by an approximate 30% decline in revenues. Wireless' operating loss increased from \$601 million to \$717 million, of which the largest part was generated from ST-Ericsson JVS, partially originated by an approximate 13% decline in revenues and by \$100 million from R&D services which benefited the first nine months of 2011; as usual, 50% of this loss was attributed to Ericsson as noncontrolling interest below operating income (loss). The segment "Others" increased its losses to \$954 million, from \$119 million in the year-ago period, mainly due to higher impairment and restructuring charges, the higher amounts of unused capacity charges and the NXP arbitration award charge.

Other-than-temporary impairment charge and realized gain on financial assets

| | Nine Months Ended | |
|--|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Other-than-temporary impairment charge and realized gain on financial assets | \$ - | \$ 318 |

In the first nine months of 2011, the gain of \$318 million represented a balance of (i) a realized gain on financial assets of \$323 million as a result of the cash settlement from Credit Suisse against the transfer of ownership of the whole portfolio of Auction Rate Securities and (ii) an other-than-temporary impairment charge of \$5 million as an adjustment of the fair value of certain marketable securities.

Interest expense, net

Nine Months Ended

| | September 29, 2012 | October 1, 2011 |
|-----------------------|--------------------------|-----------------|
| | (Unaudited, in millions) | |
| Interest expense, net | \$ (26) | \$ (20) |

The first nine months of 2012 registered an interest expense of \$26 million increasing compared to the year-ago period mainly because of the increased costs associated with the higher ST-Ericsson debt towards our JV partner.

Loss on equity-method investments

| | Nine Months Ended | |
|-----------------------------------|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Loss on equity-method investments | \$ (13) | \$ (22) |

In the first nine months of 2012, we recorded a charge of \$13 million, out of which \$10 million related to 3Sun, while the remaining \$3 million loss related to our proportionate share in the loss of ST-Ericsson JVD. In the first nine months of 2011, we recorded a charge of \$22 million, out of which \$19 million related to our proportionate share in the loss of ST-Ericsson JVD, including the amortization of basis difference, while the remaining \$3 million loss related to other investments.

Gain on financial instruments, net

| | Nine Months Ended | |
|------------------------------------|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Gain on financial instruments, net | \$ 3 | \$ 22 |

The \$3 million gain on financial assets in the first nine months of 2012 was mainly associated with the gain of \$2 million related to the repurchase of our 2016 Convertible Bonds and \$1 million related to the sale of some marketable securities. In the first nine months of 2011, the \$22 million gain on financial instruments was mainly associated with the gain of \$20 million related to the sale of the remaining Micron shares and the unwinding of the related hedging of our equity participation in Micron received upon the Numonyx disposal.

Income tax expense

| | Nine Months Ended | |
|--------------------|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Income tax expense | \$ (11) | \$ (111) |

During the first nine months of 2012, we registered an income tax expense of \$11 million, reflecting the yearly effective tax rate estimated in each of our jurisdictions and applied to consolidated results before taxes. This resulted in a tax rate which is the combination of (i) income tax expense estimated at about 23% rate on the ST entities income, (ii) an income tax benefit in the first quarter 2012 computed with a tax rate applicable to the losses on the ST-Ericsson entities; this benefit was not accounted for since the second quarter 2012 since the relevant deferred tax assets were fully offset by a valuation allowance; and (iii) certain discrete items and provisions. The non-cash impairment charge of \$690 million on Wireless goodwill did not have any impact on income taxes.

Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimations of our tax provisions. Our income tax amounts and rates depend also on our loss carry-forwards and their relevant valuation allowances, which are based on estimated projected plans and available tax planning strategies; in the case of material changes in these plans, the valuation allowances could be adjusted accordingly with an impact on our tax charges. We

currently enjoy certain tax benefits in some countries. Such benefits may not be available in the future due to changes in the local jurisdictions; our effective tax rate could be different in future periods and may increase in the coming years. In addition, our yearly income tax charges include the estimated impact of provisions related to potential tax positions which have been considered uncertain. As a result of tax audits or changes in local jurisdictions, we could be required to record a materially higher amount of income tax expenses.

Net loss (income) attributable to noncontrolling interest

| | Nine Months Ended | |
|---|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Net loss (income) attributable to noncontrolling interest | \$ 669 | \$ 296 |

In the first nine months of 2012, we recorded \$669 million in income representing the loss attributable to noncontrolling interest, which mainly included Ericsson's ownership in ST-Ericsson JVS. In the first nine months of 2011, the corresponding amount was \$296 million. The increase was mainly associated with the \$690 million non-cash impairment charge recorded in the third quarter of 2012, of which the largest part was allocated to ST-Ericsson JVS.

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

Net income (loss) attributable to parent company

| | Nine Months Ended | |
|--|--------------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (Unaudited, in millions) | |
| Net income (loss) attributable to parent company | \$ (730) | \$ 661 |
| As percentage of net revenues | (11.5)% | 8.8 % |

For the first nine months of 2012, we reported a net loss of \$730 million, a significant decline compared to the year-ago period net income due to the aforementioned factors.

Legal Proceedings

As is the case with many companies in the semiconductor industry, we have from time to time received, and may in the future receive, communications from other semiconductor companies or third parties alleging possible infringement of patents. Furthermore, we may become involved in costly litigation brought against us regarding patents, copyrights, trademarks, trade secrets or mask works. In the event that the outcome of such IP litigation would be unfavorable to us, we may be required to take a license for patents or other IP rights upon economically unfavorable terms and conditions, and possibly pay damages for prior use, and/or face an injunction, all of which singly or in the aggregate could have a material adverse effect on our results of operations and ability to compete. See "Item 3. Key Information — Risk Factors — Risks Related to Our Operations — We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others" included in our Form 20-F, which may be updated from time to time in our public filings. We are also party to certain disputes which are not related to patents or other IP rights.

We record a provision when, based on our best estimate, we consider it probable that a liability has been incurred and when the amount of the probable loss can be reasonably estimated. As of September 29, 2012, provisions for estimated probable losses with respect to legal proceedings were not considered material. In addition, the amount we estimated for possible losses was between \$0 million and \$28 million. We regularly evaluate losses and claims to determine whether they need to be adjusted based on the most current information available to us and using our best judgment. There can be no assurance that our recorded reserves will be sufficient to cover the extent of our potential

liabilities. Legal costs associated with claims are expensed as incurred.

We are a party to legal proceedings with Tessera, Inc. (“Tessera”)

In 2006, Tessera initiated a patent infringement lawsuit against us and numerous other semiconductor manufacturers in the U.S. District Court for the Northern District of California. Tessera then filed a complaint in 2007 with the International Trade Commission in Washington, D.C. (“ITC”) against us and numerous other parties. During the ITC proceedings, the District Court action was stayed. On May 20, 2009, the ITC issued a limited exclusion order as well as a cease and desist order, both of which were terminated when the Tessera patents expired. The patents asserted by Tessera, which relate to ball grid array packaging technology, expired in September 2010. The Court of Appeal subsequently affirmed the ITC’s decision and on November 28, 2011, the U.S. Supreme Court denied the defendants’ petition for review, and the ITC decision became final.

In January 2012, the District Court proceedings were revived in California and a trial has been tentatively scheduled for April 2014. Pursuant to these proceedings, Tessera is seeking an unspecified amount of monetary damages as compensation for alleged infringement of its two packaging patents now expired.

We are a party to legal proceedings with Rambus Inc. (“Rambus”)

On December 1, 2010, Rambus filed a complaint with the ITC against us and numerous other parties, asserting that we engaged in unfair trade practices by importing certain memory controllers and devices using certain interface technologies that allegedly infringe certain patents owned by Rambus. The complaint sought an exclusion order to bar importation into the United States of all semiconductor chips that include memory controllers and/or peripheral interfaces that are manufactured, imported, or sold for importation and that infringe any claim of the asserted patents, as well as all products incorporating the same. The complaint further sought a cease and desist order directing us and other parties to cease and desist from importing, marketing, advertising, demonstrating, sampling, warehousing inventory for distribution, offering for sale, selling, distributing, licensing, or using any semiconductor chips that include memory controllers and/or peripheral interfaces, and products containing such semiconductor chips, that infringe any claim of the asserted patents. On December 29, 2010, the ITC voted to institute an investigation based on Rambus’ complaint. We filed our response to the complaint on February 1, 2011. A trial was held before the ITC from October 11, 2011 until October 20, 2011. On March 2, 2012, the ITC issued an Initial Determination ruling that we, along with our other co-defendants, did not violate the five patents asserted by Rambus. On July 25, 2012, the ITC issued its Final Determination confirming that all of Rambus’ asserted patent claims were invalid, except for one, for which it found that Rambus had not demonstrated infringement. In addition, the ITC reversed a determination that Rambus had demonstrated the existence of a domestic industry and affirmed a determination that certain patents are unenforceable under the doctrine of unclean hands. On September 25, 2012, Rambus filed a notice of appeal with the Court of Appeals for the Federal Circuit.

Also on December 1, 2010, Rambus filed a lawsuit against us and other co-defendants in the U.S. District Court for the Northern District of California alleging infringement of nineteen Rambus patents. On June 13, 2011, the District Court issued an order granting in part and denying in part defendants’ motion to stay the action concerning Rambus’ patent infringement claims pending completion of the aforementioned ITC proceedings. The case is stayed as to nine of the asserted patents, and moving forward as to the remaining patents. No trial date has yet been set. We intend to vigorously defend our rights and position in these matters.

We and our subsidiaries are also involved in other legal proceedings, claims and litigation arising in the ordinary course of business.

All pending claims and litigation proceedings involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible, including the risk of an injunction. The resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party’s intellectual property rights that could require one-time license fees or ongoing royalties, which could adversely impact our product gross margins in future periods, or could prevent us from manufacturing or selling some of our products or limit or restrict the focus of employees involved in such litigation with regard to the work they normally perform for us. From time to time we may enter into confidential discussions regarding the potential settlement of pending litigation or other proceedings; however, there can be no assurance that any such discussions will occur or will result in a settlement. The settlement of any pending litigation or other proceeding could require us to incur substantial settlement payments and costs. Furthermore, the settlement of any intellectual property proceeding may require us to grant a license to certain of our intellectual property rights to the other party under a cross-license agreement. If any of those events were to occur, our business, financial condition and results of operations could be materially and adversely affected. In addition, from time to time we are approached

by holders of intellectual property to engage in discussions about our obtaining licenses to their intellectual property. We will disclose the nature of any such discussion if we believe that (i) it is probable an intellectual property holder will assert a claim of infringement, (ii) there is a reasonable possibility the outcome (assuming assertion) will be unfavorable, and (iii) the resulting liability would be material to our financial condition.

We also constantly review the merits of litigation and claims which we are facing and decide to make an accrual when we are able to reasonably determine that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. To date, we have not determined on such basis that any of the litigation or claims which we are facing gives rise to a material liability, singly or in the aggregate.

Related Party Transactions

One of the members of our Supervisory Board is a member of the Board of Directors of Technicolor (formerly known as Thomson), one of the members of the Supervisory Board is a member of the Supervisory Board of BESI and one of the members of our Supervisory Board is a director of Oracle Corporation (“Oracle”) and Flextronics International. One of our executive officers is a member of the Board of Directors of Soitec and Adecco. Adecco, as well as Oracle’s subsidiary PeopleSoft, supply certain services to our Company. We have also conducted transactions with Soitec and BESI as well as with Technicolor and Flextronics. Each of the aforementioned arrangements and transactions is negotiated without the personal involvement of our Supervisory Board members or, where applicable, executive officers concerned, and we believe that they are made on an arm’s length basis in line with market practices and conditions.

In the first nine months of 2012, in the ordinary course of our business, we entered into transactions with the following related parties: Adecco, Areva, BESI, Flextronics, Oracle and Technicolor.

Impact of Changes in Exchange Rates

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

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

In summary, as our reporting currency is the U.S. dollar, currency exchange rate fluctuations affect our results of operations: in particular, if the U.S. dollar weakens, our results are negatively impacted since we receive a limited part of our revenues, and more importantly, we incur a significant part of our costs, in currencies other than the U.S. dollar. On the other hand, our results are favorably impacted when the dollar strengthens. The impact on our accounts could therefore be material, in the case of a material variation of the U.S. dollar exchange rate.

Our principal strategy to reduce the risks associated with exchange rate fluctuations has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of materials, purchases and services from our suppliers denominated in U.S. dollars, thereby reducing the potential exchange rate impact of certain variable costs relative to revenues. Moreover, in order to further reduce the exposure to U.S. dollar exchange

fluctuations, we have hedged certain line items on our consolidated statements of income, in particular with respect to a portion of the costs of goods sold, most of the R&D expenses and certain SG&A expenses, located in the Euro zone, which we account for as cash flow hedging contracts. We use three different types of hedging contracts, consisting of forward contracts, collars and options.

Our consolidated statements of income for the three months ended September 29, 2012 included income and expense items translated at the average U.S. dollar exchange rate for the period, plus the impact of the hedging contracts expiring during the period. Our effective average exchange rate was \$1.31 for €1.00 for the first nine months of 2012 compared to \$1.37 for €1.00 for the first nine months of 2011. Our effective exchange rate was \$1.29 for the third quarter of 2012 and \$1.32 for €1.00 for the second quarter of 2012 while it was \$1.40 for €1.00 for the third quarter of 2011. These effective exchange rates reflect the actual exchange rates combined with the impact of cash flow hedging contracts that matured in the period.

As of September 29, 2012, the outstanding hedged amounts were €623 million to cover manufacturing costs and €394 million to cover operating expenses, at an average exchange rate of about \$1.3141 and \$1.3120 to €1.00, respectively (considering the options and the collars at strike and including the premiums paid to purchase foreign exchange options), maturing over the period from October 2, 2012 to September 3, 2013. As of September 29, 2012, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory represented a deferred gain of approximately \$3 million before tax, recorded in “Accumulated other comprehensive income (loss)” in the consolidated statement of equity, compared to a deferred loss of approximately \$67 million before tax at December 31, 2011. With respect to the portion of our R&D expenses incurred in ST-Ericsson Sweden, as of September 29, 2012, the outstanding hedged amounts were Swedish krona (SEK) 883 million at an average exchange rate of about SEK 6.8462 to \$1.00, maturing over the period from October 4, 2012 to September 4, 2013. As of September 29, 2012, these outstanding hedging contracts represented a deferred gain of approximately \$6 million before tax, recorded in “Accumulated other comprehensive income (loss)” in the consolidated statement of equity, compared to a deferred loss of approximately \$4 million before tax at December 31, 2011. Our cash flow hedging policy is not intended to cover our full exposure and is based on hedging a portion of our exposure in the next quarters and a declining percentage of our exposure in each quarter thereafter. In the third quarter of 2012, as a result of Euro U.S. dollar and U.S. dollar Swedish krona cash flow hedging contracts expired, we recorded a net loss of \$32 million, consisting of a loss of about \$10 million to R&D expenses, a loss of about \$20 million to costs of goods sold and a loss of \$2 million to SG&A expenses, while in the third quarter of 2011, we recorded a net gain of \$33 million. During the second quarter of 2012, we started to hedge certain manufacturing costs denominated in Singapore dollars (SGD); as of September 29, 2012, the outstanding hedged amounts were SGD 100 million at an average exchange rate of about SGD 1.2486 to \$1.00 maturing over the period from October 4, 2012 to May 9, 2013. As of September 29, 2012, these outstanding hedging contracts represented a deferred gain of approximately \$2 million before tax, recorded in “Accumulated other comprehensive income (loss)” in the consolidated statement of equity.

In addition to our cash flow hedging, in order to mitigate potential exchange rate risks on our commercial transactions, we purchase and enter into forward foreign currency exchange contracts and currency options to cover foreign currency exposure in payables or receivables at our affiliates, which we account for as fair value instruments. We may in the future purchase or sell similar types of instruments. See Item 11. “Quantitative and Qualitative Disclosures About Market Risk” in our Form 20-F, which may be updated from time to time in our public filings. Furthermore, we may not predict in a timely fashion the amount of future transactions in the volatile industry environment. No assurance may be given that our hedging activities will sufficiently protect us against declines in the value of the U.S. dollar. Consequently, our results of operations have been and may continue to be impacted by fluctuations in exchange rates. The net effect of the consolidated foreign exchange exposure resulted in a net gain of \$3 million recorded in “Other income and expenses, net” in our third quarter of 2012 consolidated statement of income.

The assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. Income and expenses, as well as cash flows, are translated at the average exchange rate for the period. The balance sheet impact, as well as the income statement and cash flow impact, of such translations have been, and may be expected to be, significant from period to period since a large part of our assets and liabilities and activities are accounted for in Euros as they are located in jurisdictions where the Euro is the functional currency. Adjustments resulting from the translation are recorded directly in equity, and are shown as “Accumulated other comprehensive income (loss)” in the consolidated statements of equity. At September 29, 2012, our outstanding indebtedness was denominated mainly in U.S. dollars and in Euros.

For a more detailed discussion, see Item 3. “Key Information — Risk Factors — Risks Related to Our Operations” in our Form 20-F, which may be updated from time to time in our public filings.

Impact of Changes in Interest Rates

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

Our interest income (expense), net, as reported in our consolidated statements of income, is the balance between interest income received from our cash and cash equivalents and marketable securities investments and interest expense paid on our financial liabilities and bank fees (including fees on committed credit lines). Our interest income is dependent upon fluctuations in interest rates, mainly in U.S. dollars and Euros, since we invest primarily on a short-term basis; any increase or decrease in the market interest rates would mean an equivalent increase or decrease in our interest income. Our interest expense is mainly associated with long- and short-term debt, which mainly consists of 2013 floating rate Senior Bonds, which is fixed quarterly at a rate of Euribor plus 40bps, and European Investment Bank Floating Rate Loans at Libor plus variable spreads. Our 2016 Convertible Bond was almost entirely repaid to the bondholders in the first quarter of 2012 upon the exercise of the put option and fully redeemed in the second quarter of 2012.

At September 29, 2012, our total financial resources, including cash and cash equivalents and marketable securities, generated an average interest income rate of 0.21%. In the same period, the average interest rate on our outstanding debt was 1.63%, made of \$863 million of our debt at 0.67% and including the short-term debt of ST-Ericsson towards our JV partner for \$695 million at 2.82%.

Impact of Changes in Equity Prices

As of September 29, 2012, we did not hold any significant equity participations, which could be subject to a material impact in changes in equity prices.

Liquidity and Capital Resources

Treasury activities are regulated by our policies, which define procedures, objectives and controls. The policies focus on the management of our financial risk in terms of exposure to currency rates and interest rates. Most treasury activities are centralized, with any local treasury activities subject to oversight from our head treasury office. The majority of our cash and cash equivalents are held in U.S. dollars and Euros and are placed with financial institutions rated at least a single A long-term rating, meaning at least A3 from Moody's Investor Service ("Moody's") and A- from Standard & Poor's ("S&P's") or Fitch Ratings ("Fitch"), or better. Part of our liquidity is also held in Euros to naturally hedge intercompany payables and financial debt in the same currency and is placed with financial institutions rated "A3/A-". Marginal amounts are held in other currencies. See Item 11. "Quantitative and Qualitative Disclosures About Market Risk" in our Form 20-F, which may be updated from time to time in our public filings.

Cash flow

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

During the first nine months of 2012, the evolution of our cash flow resulted in a decrease in our cash and cash equivalents of \$226 million, due to the net cash used in investing activities and financing activities exceeding the net cash from operating activities.

The evolution of our cash flow for the comparable periods is set forth below:

| | Nine Months Ended | |
|---------------------------------------|-----------------------|-----------------|
| | September 29, 2012 | October 1, 2011 |
| | (In millions) | |
| Net cash from operating activities | \$ 360 | \$ 743 |
| Net cash used in investing activities | (289) | (330) |
| Net cash used in financing activities | (271) | (316) |
| Effect of changes in exchange rates | (26) | (16) |
| Net cash increase (decrease) | \$ (226) | \$ 81 |

Net cash from operating activities. The net cash from operating activities in the first nine months of 2012 was \$360 million, decreasing compared to the prior year period mainly due to the overall deterioration of our financial results (see “Results of Operations” for more information). Net cash from operating activities is the sum of (i) net income (loss) adjusted for non-cash items and (ii) changes in assets and liabilities. The decrease in net cash from operating activities in the first nine months of 2012 compared to the first nine months of 2011 resulted from:

- Net income (loss) adjusted for non-cash items significantly decreased to \$55 million of cash generated in the first nine months of 2012 compared to \$829 million of cash generated in the prior year period, mainly due to the decline in operating results;
- Changes in assets and liabilities generated cash for a total amount of \$305 million in the first nine months of 2012, compared to \$86 million used in the prior year period. The changes in the first nine months of 2012 were represented by a positive trend in the components of assets and liabilities, mainly associated with a favorable variation in trade payables (\$211 million) and inventories (\$48 million). In the first nine months of 2011 changes were negative, mainly due to the build up of inventory for an amount of \$198 million. Furthermore the first nine months of 2012 also included a favorable net cash impact of \$71 million deriving from the non-recourse factoring of trade and other receivables by ST-Ericsson, compared to \$62 million in the first nine months of 2011.

Net cash used in investing activities. Investing activities used \$289 million of cash in the first nine months of 2012, mainly due to the payments for the purchase of tangible assets and for investment in intangible and financial assets, partially balanced by the net proceeds from the sale of certain marketable securities. Payments for the purchase of tangible assets, net of proceeds, totaled \$398 million, reflecting a significant decrease in our capital expenditures in 2012 compared to \$1,182 million registered in the prior year period. This decrease in capital expenditures reflected the general weakness of overall demand in the semiconductor industry. Investing activities in the first nine months of 2011 used \$330 million of cash, mainly related to payments for purchase of tangible assets and for investment in intangible and financial assets, partially offset by the net proceeds from the sale of marketable securities (\$424 million), the proceeds from the cash settlement with Credit Suisse (\$350 million) and net proceeds from the sale of Micron stock (\$195 million).

Net cash used in financing activities. Net cash used in financing activities was \$271 million in the first nine months of 2012 with a decrease compared to the \$316 million used in the first nine months of 2011 mainly due to an increase in the proceeds from short-term borrowings. Moreover, the first nine months of 2012 reflected the payment of \$266 million in dividends to stockholders, compared to \$239 million in the first nine months of 2011.

Free Cash Flow (non U.S. GAAP measure).

We also present Free Cash Flow, which is a non U.S. GAAP measure, defined as (i) net cash from operating activities plus (ii) net cash used in investing activities, excluding payment for purchases (and proceeds from the sale) of marketable securities, short-term deposits and restricted cash, which are considered as temporary financial investments. The result of this definition is ultimately net cash from operating activities plus payment for purchase of tangible and intangible assets, net proceeds from sales of stock received on investment divestitures and payment for business acquisitions. We believe Free Cash Flow, a non U.S. GAAP measure, provides useful information for investors and management because it measures our capacity to generate cash from our operating activities to sustain our operating investing activities. Free Cash Flow is not a U.S. GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. Free Cash Flow reconciles with the total cash flow and the net cash increase (decrease) by including the payment for purchases (and proceeds from the sale) of marketable securities, short-term deposits and restricted cash, the net cash used in financing activities and the effect of changes in exchange rates. In addition, our definition of Free Cash Flow may differ from definitions used by other companies. Free Cash Flow is determined as follows from our Consolidated Statements of Cash Flow:

| | Three Months | | |
|--|---------------|-------------------|-----------------|
| | Ended | Nine Months Ended | |
| | September | September | October 1, 2011 |
| | 29, 2012 | 29, 2012 | |
| | (In millions) | | |
| Net cash from operating activities | \$148 | \$360 | \$ 743 |
| Net cash used in investing activities | (203) | (289) | (330) |
| Payment for purchase and proceeds from sale of marketable securities, short-term deposits and restricted cash, net (1) | (25) | (183) | (748) |
| Payment for purchase of tangible and intangible assets, net proceeds from sales of stock received on investment divestitures and payment for business acquisitions (2) | (228) | (472) | (1,078) |
| Free Cash Flow (non U.S. GAAP measure) | \$(80) | \$(112) | \$ (335) |

(1) Reflects the total of the following line items reconciled with our Consolidated Statements of Cash Flows relating to temporary financial investments of our liquidity: Payment for purchase of marketable securities, Proceeds from sale of marketable securities, Proceeds from settlement of non-current marketable securities, Investment in short-term deposits, Proceeds from matured short-term deposits, Restricted cash and Release of restricted cash.

(2) Reflects the total of the following line items reconciled with our Consolidated Statements of Cash Flows relating to the operating investing activities: Payment for purchase of tangible assets, Proceeds from sale of tangible assets, Investment in intangible and financial assets, Proceeds from sale of intangible and financial assets, Net proceeds from sale of stock received on investment divestiture and Payment for business acquisitions, net of cash and cash equivalent acquired.

Free Cash Flow was negative by \$112 million in the first nine months of 2012, since the \$360 million net cash from operating activities was lower than the total amount of \$472 million required for the payment for purchase of tangible, intangible and financial assets. Free Cash Flow in the first nine months of 2012 improved however compared to negative \$335 million in the first nine months of 2011, which was mainly related to a significantly higher level of capital expenditures in the prior year. The net cash generated by operating activities declined from \$743 million in the first nine months of 2011 to \$360 million in the first nine months of 2012, largely due to the deterioration of our operating results. Our first nine months 2012 Free Cash Flow benefited from a significantly lower amount of capital expenditures, net of proceeds, which amounted to \$398 million, compared to \$1,182 million in the equivalent year-ago period.

Net Financial Position (non U.S. GAAP measure).

Our Net Financial Position represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities and restricted cash, and our total financial debt includes short-term debt and long-term debt, as represented in our Consolidated Balance Sheets. Net Financial Position is not a U.S. GAAP measure but we believe it provides useful information for investors because it gives evidence of our global position either in terms of net indebtedness or net cash by measuring our capital resources based on cash and cash equivalents and marketable securities and the total level of our financial indebtedness, which includes the 50% of ST-Ericsson indebtedness. Moreover, we also present the Net Financial

Position attributable to ST (“ST Net Financial Position”), which does not include the ST-Ericsson indebtedness towards Ericsson, our partner in the JVS joint venture. Our Net Financial Position has been determined as follows from our Consolidated Balance Sheets:

| | As at September 29, 2012 | June 30, 2012 | December 31, 2011 |
|-------------------------------------|--------------------------------|---------------|----------------------|
| | (In millions) | | |
| Cash and cash equivalents | \$1,686 | \$1,806 | \$ 1,912 |
| Marketable securities | 237 | 259 | 413 |
| Restricted cash | 4 | 4 | 8 |
| Total financial resources | 1,927 | 2,069 | 2,333 |
| Bank overdrafts and short-term debt | (1,260) | (1,173) | (740) |
| Long-term debt | (298) | (362) | (826) |
| Total financial debt | (1,558) | (1,535) | (1,566) |
| Net Financial Position | \$369 | \$534 | \$ 767 |
| ST-Ericsson net debt to Ericsson | \$695 | \$619 | \$ 400 |
| ST Net Financial Position | \$1,064 | \$1,153 | \$ 1,167 |

Our ST Net Financial Position as of September 29, 2012 was a net cash position of \$1,064 million, slightly decreasing compared to \$1,153 million at June 30, 2012 and \$1,167 million at December 31, 2011. Total financial resources declined sequentially mainly following the negative free cash flow, while the total financial debt slightly increased mainly due to a higher amount of short-term borrowings related to the debt due from ST-Ericsson to Ericsson.

Cash and cash equivalents amounted to \$1,686 million as at September 29, 2012, declining sequentially from \$1,806 million as a result of our cash flow evolution as presented above. Cash and cash equivalents are mainly comprised of current accounts of \$279 million and money market deposits of \$1,407 million, which are denominated partly in U.S. dollars and partly in Euros.

Restricted cash of \$4 million is cash in an escrow account which is related to the disposal of the Numonyx investment.

Marketable securities was composed of \$87 million invested in senior floating rate debt securities issued by primary financial institutions with an average rating of Baa1/A- from Moody's and S&P's and of \$150 million invested in U.S. Government Treasury Bills rated Aaa by Moody's with maturities of less than 2 months. Our investments in floating rate notes are classified as available-for-sale and reported at fair value. See Note 11 to our Unaudited Interim Consolidated Financial Statements.

Financial debt was \$1,558 million as at September 29, 2012, composed of (i) \$695 million short-term borrowings, (ii) \$565 million of current portion of long-term debt and (iii) \$298 million of long-term debt. The breakdown of our total financial debt included: (i) \$453 million of our 2013 Senior Bonds, (ii) \$383 million in European Investment Bank loans (the "EIB Loans"), (iii) \$21 million in loans from other funding programs, (iv) \$6 million of capital leases and (v) \$695 million of short-term borrowings owed by ST-Ericsson to Ericsson. The EIB Loans represent two committed credit facilities as part of R&D funding programs. The first, for R&D in France, was drawn in U.S. dollars from 2006 to 2008 for a total amount of \$341 million, of which \$166 million remained outstanding as at September 29, 2012. The second for R&D projects in Italy was drawn in U.S. dollars in 2008 for a total amount of \$380 million, of which \$217 million remained outstanding as at September 29, 2012. Additionally, we had unutilized committed medium-term credit facilities with core relationship banks of \$487 million. In 2010, we signed a €350 million multi-currency loan with the EIB to support our industrial and R&D programs, which was undrawn as at September 29, 2012. Part of this loan was drawn in October 2012.

In 2010, we granted, together with Ericsson, a \$200 million committed facility to ST-Ericsson SA, which was subsequently extended at various times, most recently being increased to \$1.6 billion in August 2012. As of September 29, 2012, \$1,390 million (\$695 million for each parent) was utilized. Withdrawals on the facility are subject to approval by the parent companies at ST-Ericsson's Board of Directors.

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

In February 2006, we issued \$1,131 million principal amount at maturity of zero coupon senior convertible bonds due in February 2016. The bonds were convertible by the holder at any time prior to maturity at a conversion rate of 43.833898 shares per one thousand dollar face value of the bonds corresponding to 42,694,216 equivalent shares. In order to optimize our liability management and yield, we repurchased a portion of our 2016 Convertible Bonds during 2009 (98,000 bonds for a total cash consideration of \$103 million and corresponding to 4,295,722 shares) and in 2010 (385,830 bonds for a total cash consideration of \$410 million and corresponding to 16,912,433 shares).

On February 23, 2011, certain holders redeemed 41,123 convertible bonds at a price of \$1,077.58, out of the total of 490,170 outstanding bonds, or about 8%. In the third and fourth quarters of 2011, we repurchased 248,645 bonds for a total cash consideration of \$270 million, corresponding to 10,899,080 shares. On February 23, 2012, certain holders redeemed 190,131 convertible bonds at a price of \$1,093.81, out of the total of 200,402 outstanding bonds, representing approximately 95% of the then outstanding convertible bonds. In addition, on March 12, 2012, we accepted the further put of 4,980 bonds for a cash consideration of \$5 million. As of March 31, 2012, there were 5,291 bonds remaining outstanding. On March 28, 2012, we published a notice of sweep-up redemption for the remaining 5,291 bonds outstanding, which were redeemed on May 10, 2012. As of September 29, 2012, there were no bonds remaining outstanding.

In March 2006, STMicroelectronics Finance B.V. (“ST BV”), a wholly owned subsidiary, issued floating rate senior bonds with a principal amount of €500 million at an issue price of 99.873% (“2013 Senior Bonds”). The notes, which mature on March 17, 2013, pay a coupon rate of the three-month Euribor plus 0.40% on June 17, September 17, December 17 and March 17 of each year through maturity. The notes have a put for early repayment in case of a change of control. The 2013 Senior Bonds issued by ST BV are guaranteed by ST NV. We have repurchased a portion of our 2013 Senior Bonds: (i) for the amount of \$98 million in 2010, and (ii) for the amount of \$107 million in 2011.

As of September 29, 2012, we had the following credit ratings on our 2013 Senior Bonds:

| | Moody’s Investors Service | Standard & Poor’s |
|-------------------------------------|---------------------------|-------------------|
| Floating Rate Senior Bonds due 2013 | Baa1 | BBB+ |

On April 30, 2012, Moody’s affirmed our Baa1 rating and changed the outlook to negative from stable.

On February 6, 2009 S&P’s lowered our senior debt rating from “A-” to “BBB+”. On August 27, 2012, S&P’s affirmed our BBB+ rating and changed the outlook from negative to stable.

We are also rated “BBB” from Fitch on an unsolicited basis. On May 29, 2012, Fitch lowered our senior debt rating from BBB+ to BBB with negative outlook.

As of September 29, 2012, debt payments due by period were as follows:

| | Payments Due by Period | | | | | | Thereafter |
|--|------------------------|-------|--------|--------|-------|-------|------------|
| | Total | 2012 | 2013 | 2014 | 2015 | 2016 | |
| | (In millions) | | | | | | |
| Long-term debt (including current portion) | \$ 863 | \$ 24 | \$ 564 | \$ 109 | \$ 87 | \$ 77 | \$ 2 |

Financial Outlook

Our policy is to modulate our capital spending according to the evolution of the semiconductor market; based on current visibility, we are planning to significantly reduce our 2012 original capital investment plan. Our focus will be on manufacturing improvements that bring productivity gains so we expect our capital expenditure for the total year 2012 to be approximately \$500 million, aligned with our overall target of capital expenditures below 10% of revenues in a cycle. The most significant of our 2012 capital expenditure projects are expected to be: (a) for our front end facilities: (i) in our 300-mm fab in Crolles, technology evolution to introduce the capability for 20-nm processes, and mix evolution to support the production ramp up of the most advanced technologies, targeting a capacity of 3,700

wafers per week by the second half of 2013; (ii) the startup of the pilot line for the conversion program to 200-mm of our 150-mm fab in Ang Mo Kio (Singapore); (iii) a few selective programs of mix evolution in our 200-mm fabs, mainly in the area of analog processes; and (iv) quality, safety, maintenance and cost savings investments in both 150-mm and 200-mm front end fabs; (b) for our back end facilities, capital expenditures will mainly be dedicated to: (i) capacity growth on strategic package families, mainly in the area of MEMS to sustain market demand; (ii) modernization of package lines targeting cost savings benefits (copper bonding versus gold bonding and increase lead frame density); and (iii) specific investments in the areas of quality, environment and energy savings; and (c) an overall capacity adjustment in final testing and wafers probing (EWS) according to change in demand.

We will continue to monitor our level of capital spending by taking into consideration factors such as trends in the semiconductor industry and capacity utilization. We expect to need significant financial resources in the coming years for capital expenditures and for our investments in manufacturing and R&D. We plan to fund our capital requirements from cash provided by operating activities, available funds and support from third parties, and may have recourse to borrowings under available credit lines and, to the extent necessary or attractive based on market conditions prevailing at the time, the issuance 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 prior years to fund our capital expenditure plans for expanding/upgrading our production facilities, our working capital requirements, our R&D and manufacturing costs.

Furthermore, there may be a need to provide additional financing by the parent companies to ST-Ericsson.

We are expecting to participate in a 3Sun share capital increase under certain conditions together with our partners for an amount estimated up to €13 million in the fourth quarter of 2012.

We believe that we have the financial resources needed to meet our business requirements for the next twelve months, including capital expenditures for our manufacturing activities, working capital requirements, dividend payments and the repayment of our debts in line with their maturity dates.

Contractual Obligations, Commercial Commitments and Contingencies

Our contractual obligations, commercial commitments and contingencies are mainly comprised of operating leases for land, buildings, plants and equipment, purchase commitments for equipment, outsourced foundry wafers and for software licenses, long-term debt obligations, pension obligations and other long-term liabilities.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at September 29, 2012.

Backlog and Customers

During the third quarter of 2012, our bookings plus frame orders decreased compared to the second quarter, due to the continuing weak macro-economic environment. While visibility on customer demand is limited, we entered the fourth quarter 2012 with a backlog slightly lower than the level we had when entering the third quarter 2012. Backlog (including frame orders) is subject to possible cancellation, push back and a lower ratio of frame orders being translated into firm orders and, thus, it is not necessarily indicative of the amount of billings or growth to be registered in subsequent periods.

Both in the third quarter of 2012 and the third quarter of 2011, no customer accounted for more than 10% of our net revenues. There is no guarantee that any customer will continue to generate revenues for us at the same levels as in prior periods. If we were to lose one or more of our key customers, or if they were to significantly reduce their bookings, not confirm planned delivery dates on frame orders in a significant manner or fail to meet their payment obligations, our operating results and financial condition could be adversely affected.

Disclosure Controls and Procedures

Evaluation

As in prior periods, our management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (“Disclosure Controls”) as of the end of the period covered by this report. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this periodic report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis.

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, our implementation of the controls and their effect on the information generated for use in this periodic report. In the course of the controls evaluation, we reviewed identified data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed at least on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 6-K and Form 20-F. The components of our Disclosure Controls are also evaluated on an ongoing basis by our Internal Audit Department, which, as of December 2010, reports directly to the Audit Committee. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

In connection with our Disclosure Controls evaluation, we have received a certification from ST-Ericsson's management with respect to their internal controls at ST-Ericsson and their affiliates, which are consolidated in our financial statements but which act as independent companies under the 50-50% governance structure of their two parents.

Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this periodic report, our Disclosure Controls (including those at ST-Ericsson) were effective.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

No system of internal control over financial reporting, including one determined to be effective, may prevent or detect all misstatements. It can provide only reasonable assurance regarding financial statement preparation and presentation. Also, projections of the results of any evaluation of the effectiveness of internal control over financial reporting into future periods are subject to the inherent risk that the relevant controls may become inadequate due to changes in circumstances or that the degree of compliance with the underlying policies or procedures may deteriorate.

Other Reviews

We have sent this report to our Audit Committee, which had an opportunity to raise questions with our management and independent auditors before we submitted it to the Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements

Some of the statements contained in this Form 6-K that are not historical facts, particularly in "Overview—Business Outlook" and in "Liquidity and Capital Resources—Financial Outlook", are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the

Securities Exchange Act of 1934, each as amended) that are based on management's current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in such statements due to, among other factors:

- the continuing difficult macro-economic and industry conditions have led us to undertake a strategic review of our activities, focusing in particular on Digital, so as to better align our performance in Digital and Analog with our financial model and achieve a sustainable financial balance; as a result, our new strategic plan, to be announced in December, may raise the possibility of further impairment and/or restructuring charges which could have a material impact on our financial results;

- further impairment charges which could be required in the event that ST-Ericsson is unable to successfully execute its new strategic plan and achieve a sustainable financial balance;
- changes in demand in the key application markets and/or from key customers served by our products, including demand for products where we have achieved design-wins and/or demand for applications where we are targeting growth, all of which make it extremely difficult to accurately forecast and plan our future business activities;
- our ability in periods of reduced market demand or visibility to reduce our expenses as required, as well as our ability to operate our manufacturing facilities at sufficient levels with existing process technologies to cover our fixed operating costs;
- our ability, in an intensively competitive environment, to identify and allocate necessary design resources to successfully develop and secure customer acceptance for new products meeting their expectations as well as our ability to achieve our pricing expectations for high-volume supplies of new products in whose development we have been, or are currently, investing;
- the financial impact of obsolete or excess inventories if actual demand differs from our expectations as well as the ability of our customers to successfully compete in the markets they serve using our products;
- our ability to maintain or improve our competitiveness especially in light of the increasing volatility in the foreign exchange markets and, more particularly, in the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;
- the impact of intellectual property claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;
- the outcome of ongoing litigation as well as any new litigation to which we may become a defendant;
- changes in our overall tax position as a result of changes in tax laws, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;
- product warranty or liability claims based on epidemic or delivery failures or recalls by our customers for a product containing one of our parts;
- availability and costs of raw materials, utilities, third-party manufacturing services, or other supplies required by our operations; and
- current macro-economic and industry uncertainties, the Euro zone crisis and other global factors which may result in limited growth or recession in one or more important regions of the world economy, sovereign default, changes in the political, social, economic or infrastructure environment, including as a result of military conflict, social unrest and/or terrorist activities, as well as natural events such as severe weather, health risks, epidemics, earthquakes, tsunamis, volcano eruptions or other acts of nature in, or affecting, the countries in which we, our key customers or our suppliers, operate, all of which may in turn also cause unplanned disruptions in our supply chain and reduced or delayed demand from our customers.

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward-looking terminology, such as “believes”, “expects”,

“may”, “are expected to”, “should”, “would be”, “seeks” or “anticipates” or similar expressions or the negative thereof or variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Some of these risk factors are set forth and are discussed in more detail in “Item 3. Key Information — Risk Factors” in our Form 20-F.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in our Form 20-F as anticipated, believed or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this Form 6-K to reflect subsequent events or circumstances.

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

STMICROELECTRONICS N.V.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

| | Pages |
|---|-------|
| Consolidated Statements of Income for the Three Months Ended September 29, 2012 and October 1, 2011 (unaudited) | F-1 |
| Consolidated Statements of Comprehensive Income for the Three Months Ended September 29, 2012 and October 1, 2011 (unaudited) | F-2 |
| Consolidated Statements of Income for the Nine Months Ended September 29, 2012 and October 1, 2011 (unaudited) | F-3 |
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| Consolidated Balance Sheets as of September 29, 2012 (unaudited) and December 31, 2011 (audited) | F-5 |
| Consolidated Statements of Cash Flows for the Nine Months Ended September 29, 2012 and October 1, 2011 (unaudited) | F-6 |
| Consolidated Statements of Equity (unaudited) | F-7 |
| Notes to Interim Consolidated Financial Statements (unaudited) | F-8 |

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF INCOME

| In million of U.S. dollars except per share amounts | Three months ended (Unaudited) | |
|---|-----------------------------------|--------------------|
| | September 29, 2012 | October 1, 2011 |
| Net sales | 2,119 | 2,392 |
| Other revenues | 47 | 50 |
| Net revenues | 2,166 | 2,442 |
| Cost of sales | (1,413) | (1,569) |
| Gross profit | 753 | 873 |
| Selling, general and administrative | (274) | (302) |
| Research and development | (578) | (596) |
| Other income and expenses, net | 20 | 12 |
| Impairment, restructuring charges and other related closure costs | (713) | (10) |
| Operating loss | (792) | (23) |
| Interest expense, net | (8) | (3) |
| Earnings (loss) on equity-method investments | (4) | (7) |
| Gain on financial instruments, net | - | 1 |
| Loss before income taxes and noncontrolling interest | (804) | (32) |
| Income tax benefit (expense) | (25) | 3 |
| Net loss | (829) | (29) |
| Net loss (income) attributable to noncontrolling interest | 351 | 100 |
| Net income (loss) attributable to parent company | (478) | 71 |
| Earnings (loss) per share (Basic) attributable to parent company stockholders | (0.54) | 0.08 |
| Earnings (loss) per share (Diluted) attributable to parent company stockholders | (0.54) | 0.08 |

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

F-1

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| In million of U.S. dollars | Three months ended (Unaudited) | |
|---|-----------------------------------|--------------------|
| | September 29, 2012 | October 1, 2011 |
| Net loss | (829) | (29) |
| Other comprehensive income (loss), net of tax : | | |
| Currency translation adjustments arising during the period | 90 | (250) |
| Foreign currency translation adjustments | 90 | (250) |
| Unrealized gains (losses) arising during the period | 2 | (5) |
| Unrealized gains (losses) on securities | 2 | (5) |
| Unrealized gains (losses) arising during the period | 31 | (67) |
| Less : reclassification adjustment for (income) losses included in net loss | 24 | (32) |
| Unrealized gains (losses) on derivatives | 55 | (99) |
| Net losses (gains) arising during the period | (1) | 1 |
| Defined benefit pension plans | (1) | 1 |
| Other comprehensive income (loss), net of tax | 146 | (353) |
| Comprehensive loss | (683) | (382) |
| Less : comprehensive loss attributable to noncontrolling interest | (341) | (121) |
| Comprehensive loss attributable to the company's stockholders | (342) | (261) |

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

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF INCOME

| In million of U.S. dollars except per share amounts | Nine months ended (Unaudited) | |
|---|----------------------------------|--------------------|
| | September 29, 2012 | October 1, 2011 |
| Net sales | 6,269 | 7,460 |
| Other revenues | 62 | 83 |
| Net revenues | 6,331 | 7,543 |
| Cost of sales | (4,246) | (4,702) |
| Gross profit | 2,085 | 2,841 |
| Selling, general and administrative | (876) | (930) |
| Research and development | (1,828) | (1,738) |
| Other income and expenses, net | 55 | 70 |
| Impairment, restructuring charges and other related closure costs | (788) | (65) |
| Operating income (loss) | (1,352) | 178 |
| Other-than-temporary impairment charge and realized gain on financial assets | - | 318 |
| Interest expense, net | (26) | (20) |
| Loss on equity-method investments | (13) | (22) |
| Gain on financial instruments, net | 3 | 22 |
| Income (loss) before income taxes and noncontrolling interest | (1,388) | 476 |
| Income tax expense | (11) | (111) |
| Net income (loss) | (1,399) | 365 |
| Net loss (income) attributable to noncontrolling interest | 669 | 296 |
| Net income (loss) attributable to parent company | (730) | 661 |
| Earnings (loss) per share (Basic) attributable to parent company stockholders | (0.82) | 0.75 |
| Earnings (loss) per share (Diluted) attributable to parent company stockholders | (0.82) | 0.73 |

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

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| In million of U.S. dollars | Nine months ended (Unaudited) | |
|--|----------------------------------|--------------------|
| | September 29, 2012 | October 1, 2011 |
| Net income (loss) | (1,399) | 365 |
| Other comprehensive income (loss), net of tax : | | |
| Currency translation adjustments arising during the period | - | 42 |
| Foreign currency translation adjustments | - | 42 |
| Unrealized gains arising during the period | 6 | 1 |
| Less : reclassification adjustment for income included in net income (loss) | - | (33) |
| Unrealized gains (losses) on securities | 6 | (32) |
| Unrealized gains arising during the period | 17 | 24 |
| Less : reclassification adjustment for (income) losses included in net income (loss) | 56 | (116) |
| Unrealized gains (losses) on derivatives | 73 | (92) |
| Net losses arising during the period | 3 | 5 |
| Defined benefit pension plans | 3 | 5 |
| Other comprehensive income (loss), net of tax | 82 | (77) |
| Comprehensive income (loss) | (1,317) | 288 |
| Less : comprehensive loss attributable to noncontrolling interest | (660) | (307) |
| Comprehensive income (loss) attributable to the company's stockholders | (657) | 595 |

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

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STMicroelectronics N.V.

CONSOLIDATED BALANCE SHEETS

| In million of U.S. dollars | September 29, 2012 (Unaudited) | December 31, 2011 (Audited) |
|--|--------------------------------------|-----------------------------------|
| Assets | | |
| Current assets : | | |
| Cash and cash equivalents | 1,686 | 1,912 |
| Restricted cash | - | 3 |
| Marketable securities | 237 | 413 |
| Trade accounts receivable, net | 1,040 | 1,046 |
| Inventories, net | 1,484 | 1,531 |
| Deferred tax assets | 155 | 141 |
| Assets held for sale | - | 28 |
| Other current assets | 612 | 506 |
| Total current assets | 5,214 | 5,580 |
| Goodwill | 370 | 1,059 |
| Other intangible assets, net | 554 | 645 |
| Property, plant and equipment, net | 3,611 | 3,920 |
| Non-current deferred tax assets | 365 | 332 |
| Restricted cash | 4 | 5 |
| Long-term investments | 114 | 121 |
| Other non-current assets | 480 | 432 |
| | 5,498 | 6,514 |
| Total assets | 10,712 | 12,094 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Bank overdrafts | - | 7 |
| Short-term debt | 1,260 | 733 |
| Trade accounts payable | 864 | 656 |
| Other payables and accrued liabilities | 934 | 976 |
| Dividends payable to stockholders | 178 | 88 |
| Deferred tax liabilities | 1 | 14 |
| Accrued income tax | 84 | 95 |
| Total current liabilities | 3,321 | 2,569 |
| Long-term debt | 298 | 826 |
| Post-retirement benefit obligations | 426 | 409 |
| Long-term deferred tax liabilities | 23 | 21 |
| Other long-term liabilities | 315 | 273 |
| | 1,062 | 1,529 |
| Total liabilities | 4,383 | 4,098 |
| Commitment and contingencies | | |
| Equity | | |
| Parent company stockholders' equity | | |

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| | | |
|--|--------|--------|
| Common stock (preferred stock: 540,000,000 shares authorized, not issued; common stock: Euro 1.04 nominal value, 1,200,000,000 shares authorized, 910,559,805 shares issued, 887,928,104 shares outstanding) | 1,156 | 1,156 |
| Capital surplus | 2,549 | 2,544 |
| Retained earnings | 2,388 | 3,504 |
| Accumulated other comprehensive income | 743 | 670 |
| Treasury stock | (240) | (271) |
| Total parent company stockholders' equity | 6,596 | 7,603 |
| Noncontrolling interest | (267) | 393 |
| Total equity | 6,329 | 7,996 |
| | | |
| Total liabilities and equity | 10,712 | 12,094 |

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

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STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| In million of U.S. dollars | Nine months ended | |
|---|--------------------------------------|-----------------------------------|
| | (Unaudited) September 29, 2012 | (Unaudited) October 1, 2011 |
| Cash flows from operating activities: | | |
| Net income (loss) | (1,399) | 365 |
| Items to reconcile net income (loss) and cash flows from operating activities: | | |
| Depreciation and amortization | 835 | 964 |
| Other-than-temporary impairment charge and realized gain on financial assets | - | (318) |
| Gain on financial instruments, net | (3) | (22) |
| Non-cash stock-based compensation | 5 | 23 |
| Other non-cash items | (70) | (85) |
| Deferred income tax | (66) | (48) |
| Loss on equity-method investments | 13 | 22 |
| Impairment, restructuring charges and other related closure costs, net of cash payments | 740 | (72) |
| Changes in assets and liabilities: | | |
| Trade receivables, net | 5 | 25 |
| Inventories, net | 48 | (198) |
| Trade payables | 211 | (74) |
| Other assets and liabilities, net | 41 | 161 |
| Net cash from operating activities | 360 | 743 |
| Cash flows from investing activities: | | |
| Payment for purchase of tangible assets | (412) | (1,200) |
| Proceeds from sale of tangible assets | 14 | 18 |
| Payment for purchase of marketable securities | (150) | (352) |
| Proceeds from sale of marketable securities | 330 | 776 |
| Investment in short-term deposits | - | (240) |
| Proceeds from matured short-term deposits | - | 222 |
| Restricted cash | - | (95) |
| Release of restricted cash | 3 | 87 |
| Proceeds from settlement of non-current marketable securities | - | 350 |
| Investment in intangible and financial assets | (87) | (81) |
| Proceeds from sale of intangible and financial assets | 14 | - |
| Net proceeds from sale of stock received on investment divestiture | - | 195 |
| Payment for business acquisitions, net of cash and cash equivalents acquired | (1) | (10) |
| Net cash used in investing activities | (289) | (330) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 14 | 3 |
| Proceeds from short-term borrowings | 315 | 240 |
| Repurchase of issued debt | (219) | (223) |
| Repayment of short-term borrowings | (20) | (8) |
| Repayment of long-term debt | (85) | (86) |

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| | | | |
|--|-------|---|-------|
| Decrease in short-term facilities | (6 |) | - |
| Dividends paid to stockholders | (266 |) | (239) |
| Other financing activities | (4 |) | (3) |
| Net cash used in financing activities | (271 |) | (316) |
| Effect of changes in exchange rates | (26 |) | (16) |
| Net cash increase (decrease) | (226 |) | 81 |
| Cash and cash equivalents at beginning of the period | 1,912 | | 1,892 |
| Cash and cash equivalents at end of the period | 1,686 | | 1,973 |

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

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STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF EQUITY

In million of U.S. dollars, except per share amounts

| | Common Stock | Capital Surplus | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Equity |
|---|-----------------|--------------------|-------------------|----------------------|---|----------------------------|-----------------|
| Balance as of December 31, 2010 (Audited) | 1,156 | 2,515 | (304) | 3,241 | 979 | 910 | 8,497 |
| Stock-based compensation expense | | 29 | 33 | (33) | | | 29 |
| Business combination | | | | | | 9 | 9 |
| Comprehensive income (loss): | | | | | | | |
| Net income (loss) | | | | 650 | | (495) | 155 |
| Unrealized gains on securities, net of tax | | | | | (32) | | (32) |
| Unrealized gains on derivatives, net of tax | | | | | (116) | (10) | (126) |
| Other components of other comprehensive income (loss), net of tax | | | | | (161) | (16) | (177) |
| Other comprehensive loss, net of tax | | | | | (309) | (26) | (335) |
| Comprehensive loss | | | | | | | (180) |
| Dividends to noncontrolling interest | | | | | | (5) | (5) |
| Dividends, \$0.40 per share | | | | (354) | | | (354) |
| Balance as of December 31, 2011 (Audited) | 1,156 | 2,544 | (271) | 3,504 | 670 | 393 | 7,996 |
| Stock-based compensation expense | | 5 | 31 | (31) | | | 5 |
| Comprehensive income (loss): | | | | | | | |
| Net loss | | | | (730) | | (669) | (1,399) |
| Unrealized gains on securities, net of tax | | | | | 6 | | 6 |
| Unrealized gains on derivatives, net of tax | | | | | 63 | 10 | 73 |
| Other components of other comprehensive income (loss), net of tax | | | | | 4 | (1) | 3 |
| Other comprehensive income, net of tax | | | | | 73 | 9 | 82 |
| Comprehensive loss | | | | | | | (1,317) |
| Dividends, \$0.40 per share | | | | (355) | | | (355) |
| Balance as of September 29, 2012 (Unaudited) | 1,156 | 2,549 | (240) | 2,388 | 743 | (267) | 6,329 |

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

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STMicroelectronics N.V.

Notes to Interim Consolidated Financial Statements (Unaudited)

1. The Company

STMicroelectronics N.V. (the “Company”) is registered in The Netherlands with its corporate legal seat in Amsterdam, The Netherlands, and its corporate headquarters located in Geneva, Switzerland.

The Company is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits (“ICs”) and discrete devices. The Company 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 Company is focused on developing products that leverage its technological strengths in creating customized, system-level solutions with digital and mixed-signal content.

2. Fiscal Year

The Company’s fiscal year ends on December 31. Interim periods are established for accounting purposes on a thirteen-week basis.

The Company’s first quarter ended on March 31, 2012, its second quarter ended on June 30 and its third quarter ended on September 29. Its fourth quarter will end on December 31.

3. Basis of Presentation

The accompanying Unaudited Interim Consolidated Financial Statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), consistent in all material respects with those applied for the year ended December 31, 2011. The interim financial information is unaudited but reflects all normal adjustments which are, in the opinion of management, necessary to provide a fair statement of results for the periods presented. The results of operations for the interim period are not necessarily indicative of the results to be expected for the entire year.

All balances and values in the current and prior periods are in millions of U.S. dollars, except shares and per-share amounts.

The accompanying Unaudited Interim Consolidated Financial Statements do not include certain footnotes and financial presentation normally required on an annual basis under U.S. GAAP. Therefore, these interim financial statements should be read in conjunction with the Consolidated Financial Statements in the Company’s Annual Report on Form 20-F for the year ended December 31, 2011, as filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 5, 2012.

4.

Use of Estimates

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

- sales returns and allowances,
- determination of the best estimate of the selling price for deliverables in multiple element sale arrangements,
- inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory,
 - provisions for litigation and claims and recognition and measurement of loss contingencies,
- valuation at fair value of assets acquired in a business combination, including intangibles, goodwill, investments and tangible assets, as well as the impairment of their related carrying values, and valuation at fair value of assumed liabilities,
- annual and trigger-based impairment review of goodwill and intangible assets, as well as an assessment, in each reporting period, of events, which could trigger interim impairment testing,
- estimated value of the consideration to be received and used as fair value for asset groups classified as assets to be disposed of by sale and the assessment of probability of realizing the sale,
 - assessment of credit losses and other-than-temporary impairment charges on financial assets,
 - restructuring charges,
 - assumptions used in calculating pension obligations, and
- determination of the tax rate estimated on the basis of the projected tax amount for the full year, including deferred income tax assets, valuation allowances and assessment of provisions for uncertain tax positions and claims.

The Company bases the estimates and assumptions on historical experience and on various other factors such as market trends and the latest available business plans that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. While the Company regularly evaluates its estimates and assumptions, the actual results experienced by the Company could differ materially and adversely from those estimates. To the extent there are material differences between the estimates and the actual results, future results of operations, cash flows and financial position could be significantly affected.

5. Recent Accounting Pronouncements

Accounting pronouncements effective in 2012

In May 2011, the FASB issued and amended the guidance on fair value measurement and disclosure requirements in U.S. GAAP. The main changes to current practice are presented hereafter. The new guidance states that the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets. It also prohibits the application of a blockage factor to all fair value measurements. Moreover, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets. The new guidance also required the disclosure of quantitative information about unobservable inputs used, a description of the valuation process used by the entity and a qualitative discussion about the sensitivity of the measurements. Additionally, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but for which fair value is disclosed. The amendment is effective for interim and annual periods beginning on or after December 15, 2011. The Company adopted the amendment as of January 1, 2012, which did not have any significant impact on fair value measurements as applied by the Company, and expanded the additional disclosures described above in Note 25.

In June 2011, the FASB issued new guidance for the presentation of comprehensive income. The new guidance eliminates the current option to report Other Comprehensive Income (“OCI”) and its components in the statement of equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements of net income and comprehensive income. Each component of net income and each component of OCI, together with totals for comprehensive income and its two parts, would need to be displayed under either alternative. The statement(s) would need to be presented with equal prominence as the other primary financial statements. The Company adopted the new guidance as of January 1, 2012 and elected to present items of net income and other comprehensive income in two separate, but consecutive, statements.

In September 2011, the FASB issued new guidance on testing goodwill for impairment. The revised guidance is intended to simplify the goodwill impairment test by providing an option to perform a “qualitative” assessment to determine whether further impairment testing is necessary. The qualitative assessment consists of determining whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the entity concludes pursuant to this qualitative test that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required to conduct the current two-step goodwill impairment test. The revised guidance was adopted as of January 1, 2012 and the Company did not elect to apply the option for qualitative assessment. Consequently, the Company proceeded directly to the two-step quantitative test when it performed in the third quarter of 2012 the annual goodwill impairment test.

In July 2012, the FASB issued new guidance on testing indefinite-lived intangible assets for impairment. It allows entities to perform a “qualitative” assessment to determine whether further impairment testing is necessary, similar in approach to the goodwill impairment test. The revised guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. However, an entity can choose to early adopt the revised guidance, provided that the entity has not yet performed its 2012 annual impairment test or issued its financial statements.

The Company early adopted the revised guidance, which was applied to its annual impairment test performed in the third quarter of 2012. The revised guidance did not have any material effect on the Company's annual impairment testing since the Company does not hold any indefinite-lived intangible assets.

In October 2012, the FASB made technical corrections and improvements to the Accounting Standards Codification. The amendments that are nonsubstantive in nature are effective immediately, while the amendments that are subject to transition guidance are effective for fiscal periods beginning after December 15, 2012. These technical corrections and improvements to the Codification did not result in changes to current practice for the Company.

Accounting pronouncements that are not yet effective and have not been adopted early by the Company

In December 2011, the FASB issued new guidance on disclosures about offsetting assets and liabilities. Entities with balances presented on a net basis in the financial statements shall disclose both gross and net information about instruments and transactions eligible for offset in the consolidated balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company will adopt the new guidance when effective and is currently evaluating the impact that the amended guidance will have on its disclosures.

6. Revenues Under Multiple Deliverable Arrangements

The Company, from time to time, enters into agreements with multiple deliverables. The Company entered into certain agreements related to the licensing of manufacturing processes which include the delivery of a) licenses and process documentation and b) various training and implementation support. In the current agreements, the delivery of each instance of license and process documentation, as well as the training and support, are considered to be separate units of accounting. The timing of services in these arrangements varies depending on the contractual terms, but revenue is recognized either prorata for short duration service periods or as the specific services are rendered for longer duration service periods, as appropriate.

As these manufacturing processes are not normally sold by the Company or other similar manufacturers, the valuation is based on best estimates of selling prices for such deliverables. These best estimates are determined by the groups responsible for the negotiation of the agreements and are primarily based on either: a) the total amount of the agreement, assuming that subsequent services are insignificant to the sale of the license and process documentation, b) cash payments to be paid by the customer in advance of delivery prior to incurring related services or training and/or c) information derived from the negotiation process between the Company and the customer. Training and support are valued based on past history of similar services or the group's determined value based on a cost plus analysis.

The actual past and the expected future revenues for the multiple deliverable arrangements are:

| In millions of U.S. dollars | 2010 | 2011 | 2012 |
|--|------|------|------|
| Licenses and process documentation | 29 | 56 | 9 |
| Training and support services | 28 | 14 | 10 |
| Total Revenues under Multiple Deliverable Arrangements | 57 | 70 | 19 |

Due to the long nature of some of the payments in these agreements, some revenue is deferred until collectability is reasonably assured. These arrangements generally do not include performance-, cancellation-, termination- or refund-type provisions.

7. Other Income and Expenses, Net

Other income and expenses, net consisted of the following:

| In millions of U.S. dollars | Three months ended | | Nine months ended | |
|--|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Research and development funding | 19 | 19 | 61 | 82 |
| Phase-out and start-up costs | - | - | - | (8) |
| Exchange gain, net | 3 | - | 4 | 6 |
| Patent costs, net of reversals for unused provisions | 1 | (7) | (15) | (21) |
| Gain on sale of non-current assets | - | 1 | 8 | 15 |
| Other, net | (3) | (1) | (3) | (4) |
| Total Other income and expenses, net | 20 | 12 | 55 | 70 |

The Company receives significant public funding from governmental agencies in several jurisdictions. Public funding for research and development is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions have been met.

Phase-out costs are costs incurred during the closing stage of a Company's manufacturing facility. They are treated in the same manner as start-up costs. Start-up costs represent costs incurred in the start-up and testing of the Company's new manufacturing facilities, before reaching the earlier of a minimum level of production or six months after the fabrication line's quality certification.

Exchange gains and losses included in "Other income and expenses, net" represent the portion of exchange rate changes on transactions denominated in currencies other than an entity's functional currency and the changes in fair value of held-for-trading derivative instruments which are not designated as hedge and which have a cash flow effect related to operating transactions, as described in Note 24.

Patent costs include legal and attorney fees and payment for claims, patent pre-litigation consultancy and legal fees. They are reported net of settlements, which primarily include reimbursements of prior patent litigation costs.

8. Impairment, Restructuring Charges and Other Related Closure Costs

Impairment, restructuring charges and other related closure costs incurred in the third quarter and in the first nine months of 2012 are summarized as follows:

| In millions of U.S. dollars | Three months ended on September 29, 2012 | | | |
|---|--|-----------------------|-----------------------------|---|
| | Impairment | Restructuring charges | Other related closure costs | Total impairment, restructuring charges and other related closure costs |
| Manufacturing restructuring plan | (13) | - | - | (13) |
| ST-Ericsson cost savings plan | - | (1) | - | (1) |
| ST-Ericsson April 2012 restructuring plan | - | (5) | - | (5) |
| Annual impairment test | (694) | - | - | (694) |
| Total impairment, restructuring charges and other related closure costs | (707) | (6) | - | (713) |

Nine months ended on September 29, 2012

| In millions of U.S. dollars | Impairment | Restructuring charges | Other related closure costs | Total impairment, restructuring charges and other related closure costs |
|---|------------|-----------------------|-----------------------------|---|
| Manufacturing restructuring plan | (21) | - | (2) | (23) |
| ST-Ericsson restructuring plan | - | (1) | - | (1) |
| ST-Ericsson cost savings plan | - | (11) | (9) | (20) |
| ST-Ericsson April 2012 restructuring plan | - | (44) | (6) | (50) |
| Annual impairment test | (694) | - | - | (694) |
| Total impairment, restructuring charges and other related closure costs | (715) | (56) | (17) | (788) |

Impairment, restructuring charges and other related closure costs incurred in the third quarter and in the first nine months of 2011 are summarized as follows:

Three months ended on October 1, 2011

| In millions of U.S. dollars | Impairment | Restructuring charges | Other related closure costs | Total impairment, restructuring charges and other related closure costs |
|---|------------|-----------------------|-----------------------------|---|
| Manufacturing restructuring plan | - | (1) | (1) | (2) |
| ST-Ericsson restructuring plan | - | (1) | - | (1) |
| ST-Ericsson cost savings plan | - | (4) | - | (4) |
| Other restructuring initiatives | - | (2) | (1) | (3) |
| Total impairment, restructuring charges and other related closure costs | - | (8) | (2) | (10) |

Nine months ended on October 1, 2011

| In millions of U.S. dollars | Impairment | Restructuring charges | Other related closure costs | Total impairment, restructuring charges and other related closure costs |
|---|------------|-----------------------|-----------------------------|---|
| Manufacturing restructuring plan | (3) | (13) | (21) | (37) |
| ST-Ericsson restructuring plan | (1) | (3) | (3) | (7) |
| ST-Ericsson cost savings plan | - | (17) | - | (17) |
| Other restructuring initiatives | - | (1) | (3) | (4) |
| Total impairment, restructuring charges and other related closure costs | (4) | (34) | (27) | (65) |

Impairment charges

The Company recorded in the first nine months of 2012 impairment charges amounting to \$715 million of which, as part of the annual impairment test: (i) \$690 million impairment on Wireless goodwill described in note 15 and (ii) \$4 million impairment on certain intangibles. There was also \$21 million impairment on the Carrollton building and facilities. The Company recorded in the first nine months of 2011 impairment charges amounting to \$4 million primarily related to long-lived assets with no alternative future use.

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Restructuring charges and other related closure costs

Provisions for restructuring charges and other related closure costs as at September 29, 2012 are summarized as follows:

| | ST-Ericsson April 2012 restructuring plan | ST-Ericsson cost savings plan | ST-Ericsson restructuring plan | Manufacturing restructuring plan | Other restructuring initiatives | Total Restructuring & Other Related Closure Costs |
|--|--|-------------------------------------|--------------------------------------|--|---------------------------------------|--|
| Provision as at December 31, 2011 | - | 19 | 17 | 4 | 13 | 53 |
| Charges incurred in 2012 | 50 | 20 | 1 | 2 | 2 | 75 |
| Adjustments for unused provisions | - | - | - | - | (2) | (2) |
| Amounts paid | (10) | (23) | (9) | (3) | (3) | (48) |
| Currency translation effect | 1 | - | - | - | - | 1 |
| Provision as at September 29, 2012 | 41 | 16 | 9 | 3 | 10 | 79 |

- ST-Ericsson April 2012 restructuring plan

On April 23, 2012, ST-Ericsson announced a new restructuring plan aiming at reducing its workforce by 1,700 employees worldwide including attritions and employee transfers. This new restructuring plan has been combined with its ongoing cost savings plan formerly announced in June 2011. The Company recorded in the first nine months of 2012 \$50 million restructuring charges. These restructuring charges primarily related to employee termination benefits corresponding to legal, contractual and past practice obligations for involuntary departures primarily in the sites for which closure was announced.

- ST-Ericsson cost savings plan

Pursuant to its commitment to a restructuring plan announced in June 2011 aimed at achieving savings, the Company recorded in the first nine months of 2012 \$20 million restructuring charges. These restructuring charges primarily

related to employee termination benefits and lease contract termination costs recorded at cease-use date pursuant to the closure of certain locations.

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- ST-Ericsson restructuring plan

The Company recorded in the first nine months of 2012 restructuring charges totaling \$1 million, pursuant to the ST-Ericsson restructuring plan announced and expanded in 2009, which was substantially completed during the first half of 2011.

- Manufacturing restructuring plan

Pursuant to its commitment to a restructuring plan aimed at improving its manufacturing competitiveness, the Company recorded in the first nine months of 2012 a total restructuring charge amounting to \$2 million. These restructuring charges primarily related to closure costs in relation with Carrollton fab.

Total impairment, restructuring charges and other related closure costs

The manufacturing restructuring plan, which was expected to result in a total pre-tax charge in the range of \$270 million to \$300 million, registered a total charge of \$313 million as of September 29, 2012. This plan was mainly completed in 2011.

The ST-Ericsson restructuring plan, which was expected to result in a total pre-tax charge in the range of \$135 million to \$155 million, registered a total charge of \$171 million as of September 29, 2012. This plan was mainly completed in 2011.

The ST-Ericsson cost savings plan resulted in a total pre-tax charge of \$46 million incurred as of September 29, 2012. This plan is expected to be substantially completed in 2012.

The ST-Ericsson April 2012 restructuring plan resulted in a total pre-tax charge of \$50 million incurred as of September 29, 2012. This plan is expected to be completed in 2013.

The combined ST-Ericsson cost savings plan and the new ST-Ericsson restructuring plan released in April 2012 are expected to result in a total pre-tax charge in the range of \$130 million to \$150 million in addition to the \$35 million already incurred for the ST-Ericsson cost savings plan before the announcement of the ST-Ericsson April 2012 restructuring plan.

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, the final agreed termination benefits and the costs associated with the transfer of equipment, product and processes.

9. Interest Expense, Net

Interest expense, net consisted of the following:

| In millions of U.S. dollars | Three months ended | | Nine months ended | |
|-----------------------------|--------------------|-----------------|--------------------|-----------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Income | 2 | 6 | 10 | 17 |
| Expense | (10) | (9) | (36) | (37) |
| Total interest expense, net | (8) | (3) | (26) | (20) |

Interest expense mainly included charges related to the sale of trade and other receivables and costs associated with ST-Ericsson debt towards the Company's JV partner.

10. Earnings (Loss) per share

Basic net earnings (loss) per share ("EPS") is computed based on net income (loss) attributable to parent company stockholders using the weighted-average number of common shares outstanding during the reported period; the number of outstanding shares does not include treasury shares. Diluted EPS is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period, such as stock issuable pursuant to the exercise of stock options outstanding, nonvested shares granted and the conversion of convertible debt.

| In millions of U.S. dollars, except share and per share amounts | Three months ended | | Nine months ended | |
|---|--------------------|-----------------|--------------------|-----------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Basic income (loss) per share: | | | | |
| Net income (loss) | (478) | 71 | (730) | 661 |
| Weighted average shares outstanding | 887,783,892 | 884,803,905 | 886,279,698 | 883,163,208 |
| Income (loss) per share (basic) | (0.54) | 0.08 | (0.82) | 0.75 |
| Diluted income (loss) per share: | | | | |
| Net income (loss) | (478) | 71 | (730) | 661 |
| Convertible debt interest | - | 1 | - | 4 |
| Net income (loss) adjusted | (478) | 72 | (730) | 665 |
| Weighted average shares outstanding | 887,783,892 | 884,803,905 | 886,279,698 | 883,163,208 |
| Dilutive effect of nonvested shares | - | 2,750,060 | - | 4,011,099 |
| Dilutive effect of convertible debt | - | 18,091,575 | - | 19,513,791 |
| Number of shares used in calculating income (loss) per share | 887,783,892 | 905,645,540 | 886,279,698 | 906,688,098 |
| Income (loss) per share (diluted) | (0.54) | 0.08 | (0.82) | 0.73 |

As of September 29, 2012, there were outstanding stock options exercisable into the equivalent of 16,808,663 common shares. There was also the equivalent of 5,624 common shares outstanding for convertible debt. The equivalent common shares outstanding for the convertible debt decreased during the first nine months of 2012 because of the partial exercise by the bond holders of the put option and the full redemption by the Company of the remaining 2016 convertible bonds. None of these bonds have been converted into shares during the first nine months of 2012.

11.

Marketable Securities

Changes in the value of marketable securities, as reported in current assets on the consolidated balance sheets as at September 29, 2012 and December 31, 2011 are detailed in the table below:

| In millions of U.S. dollars | December 31, 2011 | Purchase | Sale / Settlement | Change in fair value included in OCI* for available-for-sale marketable securities | Change in fair value recognized in earnings | Foreign exchange result through earnings | September 29, 2012 |
|--|-------------------|------------|-------------------|--|---|--|--------------------|
| Debt securities issued by the U.S. Treasury | 100 | 150 | (100) | - | - | - | 150 |
| Debt securities issued by foreign governments | 81 | - | (81) | - | - | - | - |
| Fixed rate debt securities issued by financial institutions | 27 | - | (25) | - | - | (2) | - |
| Senior debt Floating Rate Notes issued by financial institutions | 205 | - | (124) | 5 | 1 | - | 87 |
| Total | 413 | 150 | (330) | 5 | 1 | (2) | 237 |

The change in fair value of the \$150 million government debt securities classified as available-for-sale was not material as at September 29, 2012. The Company estimated the fair value of these financial assets based on publicly quoted market prices, which corresponds to a level 1 fair value measurement hierarchy. The duration of the government bills portfolio is less than 2 months on average and the securities are rated Aaa by Moody's.

All securities are classified as available-for-sale and recorded at fair value as at September 29, 2012, with changes in fair value recognized as a separate component of "Accumulated other comprehensive income (loss)" in the consolidated statement of equity, except for those changes deemed to be other-than-temporary impairment.

Out of the three investment positions in senior bonds issued by primary financial institutions, all securities are in an unrealized loss position, which has been considered as temporary. For all investments, the Company expects to recover the debt securities' entire amortized cost basis. Since the duration of the portfolio is 1.26 years on average and the securities have a minimum Moody's rating of Baa1, the Company expects the value of the securities to return to par as the final maturity is approaching; as such, no credit loss has been identified on these instruments. As a result, the change in fair value is recognized as a separate component of "Accumulated other comprehensive income (loss)" in the consolidated statement of equity. The Company estimated the fair value of these financial assets based on publicly quoted market prices, which corresponds to a level 1 fair value measurement hierarchy.

As at December 31, 2011, the Company held \$5 million in Euro-denominated senior unsecured bonds issued by Lehman Brothers, for an original investment of Euro 15 million. Those debt securities were sold in 2012, generating a non-operating gain of \$1 million and cash proceeds totaling \$5 million. The gain was reported on the line “Gain on financial instruments, net” on the consolidated statement of income for the nine months ended September 29, 2012.

The debt securities are reported as current assets on the line “Marketable Securities” on the consolidated balance sheet as at September 29, 2012, since they represent investments of funds available for current operations.

12. Trade Accounts Receivable, Net

Trade accounts receivable, net consisted of the following:

| In millions of U.S. dollars | As at September 29, 2012 | As at December 31, 2011 |
|--------------------------------------|--------------------------|-------------------------|
| Trade accounts receivable | 1,051 | 1,061 |
| Valuation allowance | (11) | (15) |
| Total trade accounts receivable, net | 1,040 | 1,046 |

The Company enters into factoring transactions to accelerate the realization in cash of some trade accounts receivable within ST-Ericsson. As at September 29, 2012, \$171 million of trade accounts receivable were sold without recourse. Such factoring transactions totaled \$858 million for the nine months of 2012, with a financial cost totaling \$4 million, reported on the line “Interest expense, net” on the consolidated statement of income for the nine months ended September 29, 2012.

13. Inventories, Net

Inventories are stated at the lower of cost or market 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 Company’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.

Provisions for obsolescence are estimated for excess uncommitted inventories based on the previous quarter’s sales, backlog of orders and production plans.

Inventories, net of reserve consisted of the following:

| In millions of U.S. dollars | As at September 29, 2012 | As at December 31, 2011 |
|-----------------------------|--------------------------|-------------------------|
| Raw materials | 90 | 105 |
| Work-in-process | 1,025 | 1,002 |
| Finished products | 369 | 424 |
| Total Inventories, net | 1,484 | 1,531 |

14.

Business Combinations

On July 31, 2012, the Company completed a transaction to acquire substantially all the assets and employees of bTendo ltd, a company based in Israel. This transaction is intended to position the Company as a leader in the emerging video-sharing market for smartphones and other portable consumer devices. This transaction structured as an asset deal has been accounted for as a business combination. The activities of this business will be included in the reportable segment “Analog, MEMS and Microcontrollers” (“AMM”). The fair value of the identifiable assets and assumed liabilities acquired from bTendo ltd at acquisition date were as follows:

In millions of U.S. dollars

| | Fair value recognized at acquisition date |
|---|---|
| Technology | 6 |
| In-process R&D | 4 |
| Goodwill | 1 |
| Total identifiable net assets at fair value | 11 |