STMICROELECTRONICS NV
Form 6-K
August 03, 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 August 3, 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 o

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 £ 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 £ 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 £ 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 Second Quarter and First Half 2012:

- Operating and Financial Review and Prospects;

- Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months and six months ended June 30, 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.

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 six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 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; 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 of ST-Ericsson 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 second 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 June 30, 2012, the value of goodwill amounted to $1,054 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. 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 impairment of certain goodwill.

The table below presents the results of our most recent impairment tests:

Date of most recent impairment test	Reporting Unit	% estimated fair value exceeds carrying value
Q3 2011	HED(1)	275
Q3 2011	MMS	399
Q1 2012	Wireless	99

(1) In 2012, our HED product line was integrated into our DCG product line, which is part of our Digital Segment.

Our reporting unit "Wireless" includes ST-Ericsson JVS, which represents a large majority of Wireless activities. In addition, our Wireless product segment includes other items affecting our operating results related to the Wireless business. We monitor, and will continue to monitor, the carrying value of its assets since our Wireless segment registered the lowest ratio of estimated fair value exceeding carrying value in the above table, and experienced a material decline in revenues and operating results in the last several quarters. We performed an impairment test during the first quarter of 2012 in association with the release of ST-Ericsson's new strategic plan, which was announced on April 23, 2012. The new strategic plan includes the transfer of the development of the application processor platform from ST-Ericsson to our Digital product segment and an additional restructuring plan aimed to significantly reduce its workforce, accelerate time to market and lower the breakeven point by generating significant annual cost savings. The latest five year plan for the Wireless segment is based on our best estimate about future developments as well as market assumptions. Furthermore, ST-Ericsson is still in a challenging situation due to a significant drop in sales of new products expected from one of its largest customers and a continued decline in legacy products. ST-Ericsson 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 or material worsening of business prospects, the value of ST-Ericsson for us could decrease to a value significantly lower than the current carrying amount of ST-Ericsson in our books and we may be required to take an impairment charge, which could be material. ST-Ericsson initiated its new restructuring plan announced in April 2012 aiming at reducing its workforce by 1,700 employees worldwide including the employees transferred to us; significant annual savings from the new and the ongoing restructuring plans are expected upon completion by the end of 2013. In line with expectations, our Wireless product segment's second quarter results improved compared to its first quarter, with net revenues reaching $344 million compared to $290 million in the first quarter of 2012. Our reported Wireless product segment registered a net operating loss of $240 million excluding restructuring charges, improving sequentially from a $293 million operating loss; in addition we have accounted for $55 million of restructuring charges related to the new and ongoing restructuring plans of ST-Ericsson, which are not allocated to the product segments and included in the segment Others. Furthermore, ST-Ericsson continued to report a negative cash flow. In case 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 operating cash flow, this could result in future material non-cash impairment charges. 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 our 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 loss 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.

We did not record any intangible assets impairment charge in the second 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 flow, 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 our carrying amount.

At June 30, 2012, the value of intangible assets subject to amortization amounted to $577 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.

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 the 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 second quarter of 2012, the net amount of restructuring charges and other related closure costs amounted to $56 million before taxes, almost 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.

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 June 30, 2012 are represented by 3Sun and ST-Ericsson JVD. In the second quarter of 2012, we recognized a loss of approximately $3 million related to 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 June 30, 2012, we had current deferred tax assets of $175 million and non current deferred tax assets of $366 million, net of valuation allowances. Our deferred tax assets have increased in the past few years. In particular, a significant portion of the increase in the deferred tax assets was 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 second quarter of 2012, we performed an assessment of 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 most updated business plans, the amount of capitalized deferred tax assets on net operating losses as of March 31, 2012 has reached the limit of the maximum amount to be recovered. As a result, no additional amount of net operating losses has been capitalized since the beginning of the second quarter 2012. The future recoverability of these net operating losses is partly dependent on the successful market penetration of new product releases and additional tax planning strategies. However, negative developments in the new product roll out or in the ongoing evaluation of the tax planning strategies could require adjustments to our evaluation of the deferred tax asset valuation with a negative impact on our results.

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, 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 $10 million to $48 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 other parties' IP rights. We are also involved in certain legal proceedings concerning such issues. See "Legal Proceedings".

As of June 30, 2012, we recorded an immaterial 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 incurrence 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 June 30, 2012, the majority of these claims were assessed as possible or 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. Following a final award on April 5, 2012, by an arbitration tribunal set up according to the rules of the International Chamber of Commerce ("ICC"), we paid approximately $60 million to NXP Semiconductors B.V. ("NXP") in the second quarter pursuant to a dispute related to a claim from NXP for underloading charges to be included in the price of wafers which NXP supplied to our Wireless joint venture.

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 June 30, 2012, our pension and post-retirement benefit obligations net of plan assets amounted to $414 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 will end 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.

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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 2011 and bottomed in the first quarter 2012. In the first part of the second quarter, we experienced a growth in demand, with a good booking evolution; however, in the latest part of the quarter the customer sentiment changed driven by macroeconomic uncertainties. Based on the most recently published estimates by WSTS, semiconductor industry revenues decreased in the second quarter of 2012 on a year-over-year basis by approximately 2% for the TAM and by approximately 3% for the SAM to reach approximately $73 billion and $42 billion, respectively. Sequentially, in the second quarter of 2012, both the TAM and the SAM increased approximately by 5%.

On a year-over-year basis, we continued to register a decrease in our revenue performance driven by the uncertainty in the semiconductor market and a drop in demand by certain of our major customers, while we experienced an improvement on a sequential basis. Our second quarter 2012 revenues were $2,148 million, a 16.3% decrease on a year-over-year basis and a 6.5% increase sequentially, in line with our guidance. The year-over-year decrease was registered by all of our product segments and particularly by Digital. On a sequential basis, our revenue increased by 6.5%. The increase was driven by all of our product segments; in particular, our wholly owned businesses increased by approximately 4% while the Wireless segment grew by approximately 19%. Compared to the SAM, our performance was below the SAM on a year-over-year basis and above on a sequential basis.

Our effective average exchange rate for the first half of 2012 was $1.32 for €1.00 compared to $1.35 for €1.00 for the first half of 2011. Our effective exchange rate for the second quarter of 2012 was $1.32 for €1.00 compared to $1.33 for €1.00 for the first quarter of 2012 and $1.37 for €1.00 in the second quarter of 2011. Towards the end of the second quarter 2012, the U.S. dollar rate strengthened significantly compared to the Euro. However, due to hedging contracts maturing in the second quarter 2012, the sequential favorable impact on our manufacturing costs and operating expenses denominated in Euros was not significant. The impact was more important when comparing the second quarter 2012 and the first half 2012 to the equivalent year-ago periods. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see “Impact of Changes in Exchange Rates” below.

Our second quarter 2012 gross margin reached 34.3% of revenues, in line with our guidance, which indicated a gross margin of 34.4% plus or minus 1.5 percentage points. Gross margin decreased by 380 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 470 basis points, mainly due to lower unused capacity charges, the charge related to the NXP arbitration award accounted in the first quarter, a more favorable product mix and some favorable currency effects which started to occur in the later portion of the second quarter.

Our operating result in the second quarter 2012 was a loss of $207 million compared to an operating income of $83 million in the prior year period, which benefited from a higher level of revenues in line with more favorable market conditions. On a sequential basis, our operating result improved from a loss of $352 million, mainly benefiting from higher revenues, lower unused capacity charges and a one-time charge for the NXP arbitration award impacting the first quarter. The operating result also benefited from a reduction in combined SG&A and R&D expenses, as a result of our efforts to continuously reduce expenses on a quarter by quarter basis, principally driven by ST-Ericsson’s ongoing cost realignment initiatives.

Our second quarter financial results improved on a sequential basis despite a macro-driven change in customer sentiment in June. Thanks to broad-based growth and the continued expansion of our product portfolio into new applications, our second quarter net revenues and gross margin results were in line with our business outlook. Further, we saw a significant improvement in our net results, although there remains substantial progress to be made.

A critical component of our capability to improve our financial results is ST-Ericsson. During the second quarter, the joint-venture took its first steps in executing its new strategic plan and showed initial progress on all profit and loss metrics. In parallel, we are committed to ensuring that the “VLSI block”, which for us includes our digital businesses plus ST-Ericsson, becomes self-sustainable and this is one of our top priorities.

Introducing new products into the fastest growing applications, from energy management to healthcare and wellness, from trust and data security to smart consumer devices, is delivering results. During the second quarter, we ramped production of a pressure sensor and an iNEMO module containing an integrated gyroscope and accelerometer for Samsung's latest and most advanced smartphone, we shipped in volume AMOLED drivers for smartphones and we won key design-wins in smart power for automotive and for several STM32 32-bit microcontrollers in new fitness applications. We also took an important step towards creating a unified processing platform thanks to the recently completed transfer of the ST-Ericsson application processor development team. This will enable us to leverage our broad system knowledge and customer relationships to a much larger addressable market.

Business Outlook

As we saw during the end of the second quarter, the global economic environment has weakened. As a result, bookings in June softened and remain somewhat volatile.

Nonetheless, we continue to expect sequential revenue growth and gross margin improvement with respect to the third quarter, thanks to our new product momentum, in particular in MEMS, Microcontrollers and Power MOSFET & IGBT.

Looking forward, key operational priorities as we navigate the softness in the market environment include market share gains in the second half of the year and careful management of our assets and investments in order to maintain a solid net financial position. In this regard, we are reducing by approximately 25% our full year 2012 capital expenditures plan to be in the range of $500 to $600 million for 2012.

Furthermore, we are focused on delivering continued expense reduction. Overall, we will become a much leaner company with increased flexibility to adjust to market conditions and reduce our earnings volatility.

We expect third quarter 2012 revenues to grow sequentially in the range of about 2.5%, plus or minus 3 percentage points. Reflecting a similar level of utilization at our facilities compared to the second quarter, gross margin in the third quarter is expected to be about 35.3%, plus or minus 1.5 percentage points.

This outlook is based on an assumed effective currency exchange rate of approximately $1.27 = €1.00 for the 2012 third quarter and includes the impact of existing hedging contracts. The third quarter will close on September 29, 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 2012

On January 27, 2012, we announced that we were reorganizing our Sales & Marketing organization with the primary objectives to accelerate sales growth and gain market share. The changes have been designed along three key drivers:

- Strengthening the effectiveness of the development of global accounts;
- Boosting demand creation through an enhanced focus on the geographical coverage; and
- Establishing marketing organizations in the Regions fully aligned with the Product Groups.

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Our Sales and Marketing organization is structured in six units:

- Four Regional Sales Organizations, all with a very similar structure to enhance coordination in the go-to-market activities and all strongly focused on accelerated growth:

1. Europe, Middle East and Africa Region led by Paul Grimme;
2. Americas Region led by Bob Krysiak;
3. Greater China-South Asia Region led by François Guibert; and
4. Japan-Korea Region led by Marco Cassis.

- Two Major Accounts units for our established global customers aimed at the further development of the business relationship between us and those clients:

1. Europe Major Accounts led by Paul Grimme; and
2. Americas Major Accounts led by Bob Krysiak.

In each of the four regions, the existing sales organization by market segment is replaced by a new sales organization based on a combination of country/area coverage and key accounts coverage.

In particular, in addition to the above major accounts, about forty accounts will be managed globally by key account managers who will be responsible for the total sales generated worldwide, regardless of the channel and the geography. The main criteria for the selection of these accounts are their growth potential, the size of their transnational business and the geographical dispersion of their R&D activities.

On February 20, 2012, we announced that Carlo Ferro, Chief Financial Officer, has accepted to focus on the turnaround of ST-Ericsson as chief operating officer of the company. Mario Arlati, ST's chief accounting officer and head of corporate external reporting, has been appointed Chief Financial Officer while Carlo Ferro is assigned to ST-Ericsson. Corporate External Communications and Investor Relations, led by Claudia Levo and Tait Sorensen, respectively, now report to Philippe Lambinet, head of the Strategy Office and newly created Digital Sector. With the increased responsibilities of Philippe Lambinet, we announced that we were re-organizing the Digital Sector as follows: the newly-formed Digital Convergence Group (DCG), encompassing all CMOS-based products, both ASIC and Application Processor Platforms and the Imaging, Bi-CMOS ASIC and Silicon Photonics Group (IBP). Effective January 1, 2012, the Products Groups are divided as follows:

- The Automotive Product Group, led by the newly appointed Corporate Vice President Marco Monti;
- The Digital Sector, led by Philippe Lambinet which consists of two Product Groups: the Digital Convergence Group, led by Gian Luca Bertino and the Imaging, Bi-CMOS ASIC and Silicon Photonics Group, led by Eric Aussedat; and
- The Industrial & Multisegment Sector, led by Carmelo Papa which consists of three Product Groups: Industrial & Power Discretes, led by Carmelo Papa, Microcontrollers, Memories & Secure MCUs, led by Claude Dardanne and Analog, MEMS & Sensors, led by Benedetto Vigna.

Giuseppe Notarnicola will maintain his role as head of Corporate Treasury and Otto Kosgalwies will lead Corporate Infrastructures and Services, both directly reporting to Carlo Bozotti.

On February 23, 2012, certain holders redeemed 190,131 of our 2016 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 June 30, 2012, there were no bonds remaining outstanding.

On April 5, 2012, an arbitration tribunal set up according to the rules of the International Chamber of Commerce, ordered us to pay approximately $59 million to NXP concerning a dispute related to a claim from NXP for underloading charges to be included in the price of wafers which NXP supplied to our Wireless joint venture. The tribunal chose not to address certain issues raised by us that are part of a second arbitration before the same ICC tribunal with hearings that occurred in June 2012, with a final decision coming within twelve months. Though the award has been recognized in the first quarter results, we intend to vigorously pursue our claims in the second arbitration aiming to convince the tribunal to reverse the economic effect of its first arbitration award.

On April 23, 2012, ST-Ericsson announced its new strategic plan, which includes the transfer of the development of the application processor platform from ST-Ericsson to us and an additional restructuring plan aimed to significantly reduce its workforce, accelerate time to market and lower the breakeven point by generating significant annual cost savings.

Our Annual General Meeting of Shareholders was held on May 30, 2012 in Amsterdam and the following decisions were approved by our shareholders:

- The appointment of Ms. Martine Verluyten as a new member of the Supervisory Board for a three-year term, expiring at the 2015 Annual General Meeting, in replacement of Mr. Doug Dunn whose mandate expired;

- The approval of our 2011 accounts reported in accordance with International Financial Reporting Standards, as adopted in the European Union (IFRS);

- The distribution of a cash dividend of US$0.40 per share, to be paid in four equal quarterly installments in June, August and December 2012 and February 2013 to shareholders of record in the month of each quarterly payment.

On May 30, 2012, Philippe Dereeper was named Executive Secretary of the Supervisory Board.

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, is 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.

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

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.

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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 comparisons 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, selling, general and administrative 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 unused capacity charges, impairment, restructuring charges and other related closure costs including ST-Ericsson plans, 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)		Six Months Ended (unaudited)	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In millions)			
Net revenues by product segment:				
Automotive (“APG”)	$404	$459	$795	$891
Digital	353	521	689	1,009
Analog, MEMS and Microcontrollers (“AMM”)	774	889	1,532	1,775
Power Discrete Products (“PDP”)	262	337	494	670
Wireless	344	347	635	731
Others (1)	11	14	20	25
Total consolidated net revenues	$2,148	$2,567	$4,165	$5,101

(1) In the second quarter of 2012, “Others” includes revenues from the sales of Subsystems ($6 million) and sales of materials and other products not allocated to product segments ($5 million).

	Three Months Ended (unaudited)		Six Months Ended (unaudited)	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In millions)			
Net revenues by product line:				
Automotive (“APG”)	$404	$459	$795	$891
Digital Convergence Group (“DCG”)	229	304	437	620
Imaging, Bi CMOS ASIC and Silicon Photonics Group (“IBP”)	124	207	252	379
Others	-	10	-	10
Digital	353	521	689	1,009
Analog, MEMS & Sensors (“AMS”)	297	337	599	685
Industrial & Power Conversion (“IPC”)	193	238	374	457
Microcontrollers, Memories & Secure MCUs (“MMS”)	284	313	559	632
Others	-	1	-	1
Analog, MEMS and Microcontrollers (“AMM”)	774	889	1,532	1,775
Power Discrete Products (“PDP”)	262	337	494	670
Connectivity (“COS”)	31	46	57	94
Smartphone and Tablet Solutions (“STS”)	297	267	543	580
Modems (“MOD”)	16	32	35	55
Others	-	2	-	2
Wireless	344	347	635	731
Others	11	14	20	25
Total consolidated net revenues	$2,148	$2,567	$4,165	$5,101

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	Three Months Ended (unaudited)		Six Months Ended (unaudited)	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In millions)			
Operating income (loss) by product segment:				
Automotive ("APG")	$38	$81	$75	$141
Digital	(36)	34	(74)	78
Analog, MEMS and Microcontrollers ("AMM")	98	166	197	343
Power Discrete Products ("PDP")	4	40	(2)	90
Wireless (1)	(240)	(207)	(533)	(386)
Others (2)	(71)	(31)	(222)	(65)
Total consolidated operating income (loss)	$(207)	$83	$(559)	$201

(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 $160 million for the quarter ended June 30, 2012.

(2) Operating loss of "Others" includes items such as unused capacity charges, impairment, restructuring charges and other related closure costs including ST-Ericsson plans, 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.

	Three Months Ended (unaudited)		Six Months Ended (unaudited)	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(As percentage of net revenues)			
Operating income (loss) by product segment:				
Automotive ("APG") (1)	9.4 %	17.6 %	9.4 %	15.8 %
Digital (1)	(10.3)	6.5	(10.7)	7.7
Analog, MEMS and Microcontrollers ("AMM") (1)	12.6	18.7	12.8	19.4
Power Discrete Products ("PDP") (1)	1.6	11.8	(0.4)	13.4
Wireless (1)	(69.6)	(59.7)	(84.0)	(52.9)
Others	-	-	-	-
Total consolidated operating income (loss) (2)	(9.6)%	3.2 %	(13.4)%	3.9 %

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

	Three Months Ended (unaudited)		Six Months Ended (unaudited)	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In millions)			
Reconciliation to consolidated operating income (loss):				
Total operating income (loss) of product segments	$(136)	$114	$(337)	$266
Unused capacity charges	(16)	(6)	(87)	(8)
Impairment, restructuring charges and other related closure costs	(56)	(31)	(74)	(55)
Phase-out and start-up costs	-	(1)	-	(8)
Strategic and other research and development programs	(3)	(2)	(5)	(6)
NXP arbitration award	-	-	(54)	-
Other non-allocated provisions(1)	4	9	(2)	12
Total operating loss Others	(71)	(31)	(222)	(65)
Total consolidated operating income (loss)	$(207)	$83	$(559)	$201

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(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)		Six Months Ended (unaudited)	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(In millions)			
Net Revenues by Location of Shipment:(1)				
EMEA	$535	$639	$1,048	$1,263
Americas	319	359	621	692
Greater China-South Asia	908	1,157	1,738	2,287
Japan-Korea	386	412	758	859
Total	$2,148	$2,567	$4,165	$5,101

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(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)				Six Months Ended (unaudited)			
	June 30, 2012		July 2, 2011		June 30, 2012		July 2, 2011	
	(As percentage of net revenues)							
Net Revenues by Location of Shipment:(1)								
EMEA	24.9	%	24.9	%	25.2	%	24.8	%
Americas	14.8		14.0		14.9		13.6	
Greater China-South Asia	42.3		45.0		41.7		44.8	
Japan-Korea	18.0		16.1		18.2		16.8	
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)				Six Months Ended (unaudited)			
	June 30, 2012		July 2, 2011		June 30, 2012		July 2, 2011	
	(As percentage of net revenues)							
Net Revenues by Market Segment/Channel:(1)								
Automotive	18.7	%	17.4	%	19.4	%	17.0	%
Computer	12.6		13.6		13.5		13.8	
Consumer	10.3		9.6		10.5		10.4	
Telecom	27.1		24.9		25.6		25.2	
Industrial and Other	9.3		9.7		9.5		9.2	
Distribution	22.0		24.8		21.5		24.4	
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.

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

	Three Months Ended (unaudited) June 30, 2012		Three Months Ended (unaudited) July 2, 2011	
	$ million	% of net revenues	$ million	% of net revenues
Net sales	$2,140	99.7 %	$2,545	99.1 %
Other revenues	8	0.3	22	0.9
Net revenues	2,148	100	2,567	100
Cost of sales	(1,412)	(65.7)	(1,590)	(61.9)
Gross profit	736	34.3	977	38.1
Selling, general and administrative	(292)	(13.6)	(316)	(12.3)
Research and development	(617)	(28.7)	(579)	(22.6)
Other income and expenses, net	22	1.0	32	1.2
Impairment, restructuring charges and other related closure costs	(56)	(2.6)	(31)	(1.2)
Operating income (loss)	(207)	(9.6)	83	3.2
Realized gain on financial assets	-	-	323	12.6
Interest expense, net	(6)	(0.3)	(3)	(0.1)
Earnings (loss) on equity method investments	(2)	(0.1)	(9)	(0.3)
Income (loss) before income taxes and noncontrolling interest	(215)	(10.0)	394	15.4
Income tax expense	(20)	(0.9)	(83)	(3.2)
Net income (loss)	(235)	(10.9)	311	12.2
Net loss (income) attributable to noncontrolling interest	160	7.4	109	4.2
Net income (loss) attributable to parent company	$(75)	(3.5)%	$420	16.4 %

Second Quarter 2012 vs. Second Quarter 2011 and First Quarter 2012

Net revenues

	Three Months Ended			% Variation	
	June 30, 2012	March 31, 2012	July 2, 2011	Sequential	Year-Over-Year
	(Unaudited, in millions)				
Net sales	$2,140	$2,010	$2,545	6.5 %	(15.9)%
Other revenues	8	7	22	5.7	(66.4)
Net revenues	$2,148	$2,017	$2,567	6.5 %	(16.3)%

Year-over-year comparison

Our second 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 16.3%, which originated from an approximate 10% decrease in volume and a 6% reduction in average selling prices with a pure pricing effect down by 8% partially offset by a more favorable product mix.

By product segment, our revenues were down by approximately 32% in Digital, 22% in PDP, 13% in AMM and 12% in APG. Wireless sales registered a decline of approximately 1%.

By market segment/channel, our revenues registered a similar downward trend, with a major decline in Distribution, which was down approximately 25%.

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

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

Sequential comparison

On a sequential basis our revenues increased by 6.5%, slightly below the mid-point of our targeted range of a sequential increase of 7.5% plus or minus 3 percentage points. This 6.5% increase was led entirely by higher volumes, which resulted in an approximate 7% increase in units sold, while the usual negative selling price effect was compensated by a more favorable product mix.

By product segment, all segments increased their revenues sequentially. Wireless registered the most significant increase by approximately 19%, while our wholly owned businesses posted a sequential increase of approximately 4%. With reference to our wholly owned businesses, PDP revenues increased by approximately 12%, Digital, APG and AMM increased their revenues sequentially by approximately 5%, 3% and 2% respectively.

By market segment/channel, Telecom, Distribution, Consumer and Industrial and other improved their revenues, while the other market segments registered a slight decline.

By region, all regions grew sequentially, with Greater China-South Asia up about 9%, Americas up about 5%, EMEA and Japan-Korea, each by approximately 4%.

Gross profit

	Three Months Ended			% Variation	
	June 30, 2012	March 31, 2012	July 2, 2011	Sequential	Year-Over-Year
	(Unaudited, in millions)				
Cost of sales	$(1,412)	$(1,421)	$(1,590)	0.7 %	11.2 %
Gross profit	736	596	977	23.5	(24.6)
Gross margin (as percentage of net revenues)	34.3 %	29.6 %	38.1 %	-	-

In the second quarter, gross margin was 34.3%, decreasing on a year-over-year basis by approximately 380 basis points, due to the decline in the volume of revenues and negative pressure on selling prices. On a sequential basis, gross margin in the second quarter increased by 470 basis points, mainly due to lower unused capacity charges, representing a benefit of 280 basis points, the arbitration award paid to NXP, which impacted the first quarter by 260 basis points, and a more favorable product mix; all these factors were partially offset by a decline in average selling prices representing approximately 170 basis points. In the second quarter, our factories were not yet optimally loaded with about 70 basis points of unused capacity charges. Furthermore, the gross margin partially benefited from the significant strength of the U.S. dollar rate since the manufacturing costs in Euros were hedged at a higher rate. See “Impact of Changes in Exchange Rates”.

Selling, general and administrative expenses

	Three Months Ended			% Variation	
	June 30,	March 31,	July 2,	Sequential	Year-Over

	2012	2012	2011		-Year
	(Unaudited, in millions)				
Selling, general and administrative expenses	$(292)	$(310)	$(316)	5.7%	7.5%
As percentage of net revenues	(13.6)%	(15.4)%	(12.3)%	-	-

The amount of our selling, general and administrative 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 in line with our effort to reduce the overall operating expenses and also due to some charges which impacted the previous quarter.

As a percentage of revenues, our selling, general and administrative expenses amounted to 13.6% increasing in comparison to 12.3% in the prior year's second quarter and decreasing compared to 15.4% in the prior quarter.

Research and development expenses

	Three Months Ended			% Variation	
	June 30, 2012	March 31, 2012	July 2, 2011	Sequential	Year-Over -Year
	(Unaudited, in millions)				
Research and development expenses	$(617)	$(633)	$(579)	2.6%	(6.4)%
As percentage of net revenues	(28.7)%	(31.4)%	(22.6)%	-	-

The second quarter 2012 R&D expenses increased year-over-year, mainly because the second quarter 2011 benefited from a $40 million billing of R&D services by ST-Ericsson to a third party. On a sequential basis, R&D expenses decreased mainly driven by our cost realignment programs primarily at ST-Ericsson. The second quarter 2012 R&D expenses were net of research tax credits, which amounted to $37 million, decreasing year-over-year due to the qualification for recognition of additional credits in the prior year quarter, while they were basically flat on a sequential basis.

As a percentage of revenues, the second quarter 2012 ratio equaled 28.7%, an increase of 610 basis points due to the lower level of revenues compared to the year-ago period and a 270 basis point decrease on a sequential basis, due to the reduction in our operating expenses.

Other income and expenses, net

	Three Months Ended		
	June 30, 2012	March 31, 2012	July 2, 2011
	(Unaudited, in millions)		
Research and development funding	$ 24	$ 18	$ 29
Phase-out and start-up costs	-	-	(1)
Exchange gain (loss) net	2	(1)	3
Patent costs	(10)	(6)	(11)
Gain on sale of non-current assets	7	1	13
Other, net	(1)	1	(1)
Other income and expenses, net	$ 22	$ 13	$ 32
As percentage of net revenues	1.0%	0.6%	1.2%

Other income and expenses, net, mainly included, as income, items such as R&D funding and a 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 second quarter of 2012, the balance of these factors resulted in an income, net of $22 million, mainly due to the high level of funding for approximately $24 million and a $7 million gain associated with the sale of non-current assets.

Impairment, restructuring charges and other related closure costs

	Three Months Ended		
	June 30, 2012	March 31, 2012	July 2, 2011
	(Unaudited, in millions)		

Impairment, restructuring charges and other related closure costs	$ (56)	$ (18)	$ (31)

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In the second quarter of 2012, we recorded $56 million of impairment, restructuring charges and other related closure costs, mainly due to the following:

- $44 million was recorded in relation to the new ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits for involuntary departures;

- $10 million related to the ST-Ericsson cost savings plan announced in June 2011, primarily consisting of lease contract termination costs recorded at cease-use date pursuant to the closure of certain locations;

- $1 million related to the ST-Ericsson workforce reduction plans announced in April and December 2009; and

- $1 million related to our manufacturing restructuring plan as part of the closure of our Carrollton (Texas) site.

In the first quarter of 2012, we recorded $18 million of impairment, restructuring charges and other related closure costs of which: (i) $9 million in relation to the manufacturing restructuring plan as part of the closure of our Carrollton and Phoenix (Arizona) sites, of which $8 million was recorded as an impairment on the Carrollton building and facilities; and (ii) $9 million related to the cost savings plan announced in June 2011 by ST-Ericsson, primarily consisting of employee termination benefits.

In the second quarter of 2011, we recorded $31 million of impairment, restructuring charges and other related closure costs, of which: (i) $16 million was recorded in relation to the manufacturing restructuring plan as part of the closure of our Carrollton and Phoenix sites, and was composed of one-time termination benefits, as well as other related closure charges, mainly associated with the Phoenix fab; (ii) $1 million related to the workforce reduction plans announced in April and December 2009 by ST-Ericsson, pursuant to the closure of certain locations; (iii) $13 million related to the cost savings plan announced in June 2011 by ST-Ericsson, primarily consisting of the upfront booking of employee termination benefits; and (iv) $1 million related to other restructuring initiatives.

Operating income (loss)

	Three Months Ended		
	June 30, 2012	March 31, 2012	July 2, 2011
	(Unaudited, in millions)		
Operating income (loss)	$ (207)	$ (352)	$ 83
In percentage of net revenues	(9.6)%	(17.5)%	3.2%

The second quarter 2012 registered an operating loss of $207 million, while in the year-ago period, we reported an operating income of $83 million, which was supported by a significantly higher level of revenues; furthermore, the second quarter of 2011 benefited from a $40 million billing of R&D services to a third party. The second quarter 2012 included restructuring charges of $56 million, while the year-ago period included a $31 million charge. The second quarter 2012 sequentially registered a significant improvement in our operating results, driven by higher revenues, a lower amount of unused capacity charges, lower levels of SG&A and R&D expenses, partially offset by a higher amount of restructuring charges.

While all of our product segments reported a decline in their profitability levels compared to the year-ago period mainly driven by lower revenues, APG and AMM were able to maintain a solid profitability level in spite of the difficult market environment. PDP also registered a profit in the second quarter 2012. APG registered an operating income of $38 million or about 9% of revenues, down from the year-ago income of $81 million or approximately 18% of revenues, due to its sales decreasing by approximately 12%. AMM registered an operating income of $98 million or 13% of revenues down from $166 million or 19% of revenues, driven by an approximately 13% decrease in revenues. PDP registered an operating income of $4 million or 2% of revenues versus $40 million operating income, equivalent to about 12% of the prior year second quarter revenues, with its revenues declining by about 22%. Digital registered an operating loss of $36 million or negative 10% of revenues in the current quarter compared to an operating income of $34 million or approximately 7% of the last year second quarter revenues, mainly driven by a 32% decrease in its revenues. Wireless registered a deterioration in its operating result, registering a loss of $240 million, compared to a loss of $207 million in the prior year second quarter; since substantially all of this loss was generated by ST-Ericsson JVS, 50% was attributed to Ericsson as noncontrolling interest below operating income (loss). The segment "Others" increased its losses to $71 million from $31 million in the year-ago period, mainly due to higher restructuring charges and unused capacity charges.

On a sequential basis, the main improvements in the operating results were registered by Wireless and PDP, while APG, Digital and AMM operating results were basically unchanged.

Realized gain on financial assets

	June 30, 2012	March 31, 2012	July 2, 2011
		Three Months Ended (Unaudited, in millions)	
Realized gain on financial assets	$ -	$ -	$ 323

In the second quarter of 2011, we recorded a realized gain on financial assets of $323 million as a result of the cash settlement with Credit Suisse against the transfer of ownership of certain Auction Rate Securities.

Interest expense, net

	June 30, 2012	March 31, 2012	July 2, 2011
		Three Months Ended (Unaudited, in millions)	
Interest expense, net	$ (6)	$ (13)	$ (3)

We recorded a net interest expense of $6 million, which increased on a year-over-year basis due to the higher debt of ST-Ericsson. The second quarter of 2012 registered a significant expense decrease with the previous quarter, mainly due to the sale in the first quarter of 2012, with no recourse, of certain multi-year R&D tax credits in ST-Ericsson (see "Liquidity and Capital Resources").

Earnings (loss) on equity-method investments

	June 30, 2012	March 31, 2012	July 2, 2011
		Three Months Ended (Unaudited, in millions)	
Earnings (loss) on equity-method investments	$ (2)	$ (7)	$ (9)

In the second quarter of 2012, we recorded a charge of $2 million, of which $1 million gain related to our proportionate share in ST-Ericsson JVD as an earnings pick-up and $3 million loss related to 3Sun. In the comparable periods, the loss of ST-Ericsson JVD equity was the most important item.

Gain on financial instruments, net

	June 30, 2012	March 31, 2012	July 2, 2011
		Three Months Ended (Unaudited, in millions)	
Gain on financial instruments, net	$ -	$ 3	$ -

The first quarter 2012 $3 million gain on financial instruments 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.

Income tax benefit (expense)

	Three Months Ended		
	June 30, 2012	March 31, 2012	July 2, 2011
	(Unaudited, in millions)		
Income tax benefit (expense)	$ (20)	$ 34	$ (83)

During the second quarter of 2012, we registered an income tax expense of $20 million, reflecting the yearly effective tax rate estimated in each of our jurisdictions and applied to the second quarter consolidated result before taxes. This income tax charge resulted from the combination of (i) income tax expense estimated at a rate of about 19% on the income of our legal entities and (ii) no income tax benefit from the losses of ST-Ericsson entities, which was subject to a valuation allowance offsetting the second quarter deferred tax assets due to the high level of accumulated losses. Income tax also included the impact of certain discrete items.

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.

Net loss (income) attributable to noncontrolling interest

	Three Months Ended		
	June 30, 2012	March 31, 2012	July 2, 2011
	(Unaudited, in millions)		
Net loss (income) attributable to noncontrolling interest	$ 160	$ 159	$ 109

In the second quarter of 2012, we recorded $160 million representing the loss attributable to noncontrolling interest, which mainly included the 50% less one share owned by Ericsson in the consolidated ST-Ericsson JVS. In the first quarter of 2012, the corresponding amount was $159 million.

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		
	June 30, 2012	March 31, 2012	July 2, 2011
	(Unaudited, in millions)		
Net income (loss) attributable to parent company	$ (75)	$ (176)	$ 420
As percentage of net revenues	(3.5)%	(8.7)%	16.4%

For the second quarter of 2012, we reported a net loss of $75 million, a significant deterioration compared to the year-ago quarterly profit due to the aforementioned factors, but with a significant improvement on a sequential basis.

Earnings (loss) per share for the second quarter of 2012 was $(0.08) compared to $(0.20) in the first quarter of 2012 and $0.46 diluted per share in the year-ago quarter.

In the second 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 $(0.03) per share, while in the first quarter of 2012, it was estimated to be approximately $(0.06) 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 $0.32 per share.

First Half of 2012 vs. First Half of 2011

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

	Six Months Ended (unaudited)		Six Months Ended (unaudited)	
	June 30, 2012	June 30, 2012	July 2, 2011	July 2, 2011
	$ million	% of net revenues	$ million	% of net revenues
Net sales	$ 4,150	99.7 %	$ 5,068	99.3 %
Other revenues	15	0.3	33	0.7
Net revenues	4,165	100.0	5,101	100.0
Cost of sales	(2,833)	(68.0)	(3,134)	(61.4)
Gross profit	1,332	32.0	1,967	38.6
Selling, general and administrative	(602)	(14.5)	(628)	(12.3)
Research and development	(1,250)	(30.0)	(1,141)	(22.4)
Other income and expenses, net	35	0.8	58	1.1
Impairment, restructuring charges and other related closure costs	(74)	(1.7)	(55)	(1.1)
Operating income (loss)	(559)	(13.4)	201	3.9
Other-than-temporary impairment charge and realized gain on financial assets	-	-	318	6.2
Interest expense, net	(19)	(0.5)	(18)	(0.3)
Loss on equity-method investments	(9)	(0.2)	(15)	(0.2)
Gain on financial instruments, net	3	0.1	22	0.4
Income (loss) before income taxes and noncontrolling interest	(584)	(14.0)	508	10.0
Income tax benefit (expense)	14	0.3	(114)	(2.2)
Net income (loss)	(570)	(13.7)	394	7.8
Net loss (income) attributable to noncontrolling interest	318	7.7	196	3.8
Net income (loss) attributable to parent company	$ (252)	(6.0)%	$ 590	11.6 %

Net revenues

	Six Months Ended		% Variation
	June 30, 2012	July 2, 2011	
	(Unaudited, in millions)		
Net sales	$ 4,150	$ 5,068	(18.1)%
Other revenues	15	33	(56.9)
Net revenues	$ 4,165	$ 5,101	(18.4)%

Our first half 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 approximately 18% driven by a decrease of approximately 13% in volume and a decline in average selling prices by approximately 5%.

By product segment, revenues decreased by approximately 32% for Digital, 26% for PDP, 14% for AMM and 11% 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, which was down by approximately 28%.

By location of shipment, all regions were negatively impacted in terms of revenues by the difficult market conditions. In the first half of 2012, no customer exceeded 10% of our total net revenues, while in the first half of 2011, the Nokia group of companies accounted for approximately 10%.

Gross profit

	Six Months Ended		% Variation
	June 30, 2012	July 2, 2011	
	(Unaudited, in millions)		
Cost of sales	$ (2,833)	$ (3,134)	9.6 %
Gross profit	1,332	1,967	(32.3)
Gross margin (as percentage of net revenues)	32.0 %	38.6 %	-

Gross margin was 32.0%, decreasing by 660 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

	Six Months Ended		% Variation
	June 30, 2012	July 2, 2011	
	(Unaudited, in millions)		
Selling, general and administrative expenses	$ (602)	$ (628)	4.1 %
As percentage of net revenues	(14.5)%	(12.3)%	-

The amount of our SG&A expenses decreased mainly associated with cost control initiatives and the favorable impact of the U.S. dollar exchange rate. As a percentage of revenues, our SG&A expenses amounted to 14.5% slightly increasing in comparison to 12.3% in the prior year's half.

Research and development expenses

	Six Months Ended		% Variation
	June 30, 2012	July 2, 2011	
	(Unaudited, in millions)		
Research and development expenses	$ (1,250)	$ (1,141)	(9.5)%
As percentage of net revenues	(30.0)%	(22.4)%	-

R&D expenses increased compared to the prior year's first half, mainly because the first half of 2011 benefited from a $100 million billing of R&D services by ST-Ericsson to a third party.

Total R&D expenses were net of research tax credits, which amounted to $74 million, decreasing compared to $82 million in the year ago period, because of the qualification for recognition of additional credits in the first half of 2011.

Other income and expenses, net

	Six Months Ended	
	June 30, 2012	July 2, 2011
	(Unaudited, in millions)	
Research and development funding	$ 42	$ 63
Phase-out and start-up costs	-	(8)
Exchange gain net	1	6
Patent costs	(16)	(14)
Gain on sale of non-current assets	8	14
Other, net	-	(3)
Other income and expenses, net	$ 35	$ 58
As percentage of net revenues	0.8 %	1.1 %

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 half of 2012, the balance of these factors resulted in an income net of $35 million, declining compared to $58 million in the first half of 2011, mainly due to the lower level of R&D funding.

Impairment, restructuring charges and other related closure costs

	Six Months Ended	
	June 30, 2012	July 2, 2011
	(Unaudited, in millions)	
Impairment, restructuring charges and other related closure costs	$ (74)	$ (55)

In the first half of 2012, we recorded $74 million of impairment, restructuring charges and other related closure costs, of which:

- $44 million related to the new ST-Ericsson restructuring plan announced in April 2012, primarily consisting of employee termination benefits for involuntary departures;

- $19 million related to the ST-Ericsson cost savings plan announced in June 2011, primarily consisting of employee termination benefits and lease contract termination costs recorded at cease-use date pursuant to the closure of certain locations;

- $1 million related to the ST-Ericsson workforce reduction plans announced in April and December 2009; and

- $10 million related to the manufacturing restructuring plan as part of the closure of our Carrollton (Texas) and Phoenix (Arizona) sites of which $8 million was recorded as an impairment on the Carrollton building and facilities.

In the first half of 2011, we recorded $55 million of impairment, restructuring charges and other related closure costs of which: (i) $35 million related to our 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 fabs; (ii) $6 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; (iii) $13 million related to the cost savings plan announced in June 2011 by ST-Ericsson, primarily consisting of the upfront booking of employee termination benefits; and (iv) $1 million related to other restructuring initiatives.

Operating income (loss)

	Six Months Ended	
	June 30, 2012	July 2, 2011
	(Unaudited, in millions)	
Operating income (loss)	$ (559)	$ 201
As percentage of net revenues	(13.4)%	3.9%

Our operating results deteriorated compared to the first half of 2011 mainly due to the negative impact of revenues both in terms of a volume decrease and average selling price decline, higher unused capacity charges which accounted for $87 million in the first half 2012, the $54 million charge related to the arbitration award paid to NXP; furthermore, the first half of 2011 benefited from $100 million billing of R&D services by ST-Ericsson to a third party. This resulted in a first half operating loss of $559 million compared to an operating income of $201 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 registered an operating income of $75 million or approximately 9% of revenues, down from $141 million, or 16% of the first half revenues of 2011, mainly driven by about an 11% decrease in revenues. AMM profit declined from $343 million or 19% of revenues to $197 million or about 13% of revenues, led by a 14% decline in revenues. PDP's operating result decreased from $90 million income or about 13% of revenues, down to $2 million loss, originated by a 26% decrease in revenues. Digital registered an operating loss of $74 million or about negative 11% of current half revenues, down from $78 million operating income or approximately 8% of the first half revenues of 2011, originated by a 32% decline in revenues. Wireless' operating loss increased from $386 million to $533 million, of which the largest part was generated from ST-Ericsson JVS, which was partially originated by a 13% decline in revenues and by a $100 million from R&D services, which benefited the first half 2011; as usual, 50% of this loss was attributed to Ericsson as noncontrolling interest below operating loss. The segment "Others" increased its losses to $222 million, from $65 million in the year ago period, mainly due to higher amounts of unused capacity charges and restructuring charges and the NXP arbitration award charge.

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

	Six Months Ended June 30, 2012	Six Months Ended July 2, 2011
	(Unaudited, in millions)	
Other-than-temporary impairment charge and realized gain on financial assets	$ -	$ 318

In the first half of 2011, the income 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 certain 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

	Six Months Ended June 30, 2012	Six Months Ended July 2, 2011
	(Unaudited, in millions)	
Interest expense, net	$ (19)	$ (18)

The first half of 2012 registered an interest expense of $19 million, basically equivalent to the year-ago period despite the increased costs associated with the higher ST-Ericsson debt.

Loss on equity-method investments

	Six Months Ended June 30, 2012	Six Months Ended July 2, 2011

	(Unaudited, in millions)	
Loss on equity-method investments	$ (9)	$ (15)

In the first half of 2012, we recorded a charge of $9 million, out of which $6 million related to 3Sun, while the remaining $ 3 million loss related to our proportionate share in the loss of ST-Ericsson JVD, including amortization of basis difference. In the first half of 2011, we recorded a charge of $15 million, which comprised a $12 million loss related to our proportionate share in the loss of ST-Ericsson JVD.

Gain on financial instruments, net

	Six Months Ended	
	June 30, 2012	July 2, 2011
	(Unaudited, in millions)	
Gain on financial instruments, net	$ 3	$ 22

The $3 million gain on financial assets in the first half 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 half 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 benefit (expense)

	Six Months Ended	
	June 30, 2012	July 2, 2011
	(Unaudited, in millions)	
Income tax benefit (expense)	$ 14	$ (114)

During the first half of 2012, we registered an income tax benefit of $14 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 19% rate on the ST entities income, and (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 in the second quarter 2012 since the relevant deferred tax assets were fully offset by a valuation allowance.

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.

Net loss (income) attributable to noncontrolling interest

	Six Months Ended	
	June 30, 2012	July 2, 2011
	(Unaudited, in millions)	
Net loss (income) attributable to noncontrolling interest	$ 318	$ 196

In the first half of 2012, we recorded $318 million income representing the loss attributable to noncontrolling interest, which mainly included the 50% less one share owned by Ericsson in the consolidated ST-Ericsson JVS. In the first half of 2011, the corresponding amount was $196 million.

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.