

Bonds exercising their August 4, 2006 put option, we repurchased \$1,397 million aggregate principal amount of the outstanding convertible bonds at a conversion ratio of \$985.09 per \$1,000 aggregate principal amount at issuance resulting in a cash disbursement of \$1,377 million.

- (4) In 2001, we repurchased 9,400,000 common shares for \$233 million, and in 2002, we repurchased an additional 4,000,000 shares for \$115 million. In 2008, we repurchased 29,520,220 of our shares, for a total cost of \$313 million. We reflected this purchase at cost as a reduction of shareholders' equity. The repurchased shares have been designated for allocation under our share-based compensation programs as nonvested shares, including the plans as approved by the 2005, 2006, 2007 and 2008 annual general shareholders' meetings, and those which may be attributed in the future. As of December 31, 2008, 6,889,748 shares were transferred to employees upon vesting of such stock awards.
- (5) Dividend per share represents the yearly dividend as approved by our annual general meeting of shareholders, which relates to the prior year's accounts.
- (6) Capital expenditures are net of certain funds received through government agencies, the effect of which is to reduce our cash used in investing activities and to decrease depreciation.
- (7) Net financial position: resources (debt) is representing the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, current and non-current marketable securities, short-term deposits and restricted cash, and our total financial debt include bank overdrafts, current portion of long-term debt and long-term debt, as represented in our consolidated balance sheet. Our net financial position to total shareholders' equity ratio is a non-U.S. GAAP financial measure. The most directly comparable U.S. GAAP financial measure is considered to be "Debt-to-Equity Ratio." However, the Debt-to-Equity Ratio measures gross debt relative to equity, and does not reflect our current cash position. We believe that our net financial position to total shareholders' equity ratio is useful to investors as a measure of our financial position and leverage. The ratio is computed on the basis of our net financial position divided by total shareholders' equity. For more information on our net financial position, see "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Capital Resources – Net financial position." Our computation of net debt (cash) to total shareholders' equity ratio may not be consistent with that of other companies, which could make comparability difficult.

Risk Factors

Risks Related to the Semiconductor Industry

The semiconductor industry has been significantly impacted by the deteriorating global economic situation, and the prospects of a prolonged recession could have a further material impact on our business, financial condition and operating results.

The recent deterioration in general economic conditions, driven by the credit market crisis, has slowed global economic activity and impacted business and consumer confidence. This has resulted in an unprecedented, precipitous decline in the demand for semiconductor products. As a result, our business, financial conditions and results of operations have been and may continue to be affected. A prolonged economic downturn affecting the semiconductor industry may result in a variety of risks to our business, including:

- significant declines in sales;
- significant reductions in selling prices;
- the resulting significant impact on our gross margins and profitability;
- increased volatility and/or declines in our share price;
- increased volatility or adverse movements in foreign currency exchange rates;
- delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of overall economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives or new product development;
- underloading of wafer fabrication plants ("fabs");

- decreased valuations of our equity investments;
- increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by the economic downturn, such as automotive; and
- impairment of goodwill or other assets.

To the extent that the current economic downturn worsens or is prolonged, our business, financial condition and results of operations could be more significantly and adversely affected.

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

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

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

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

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

We have experienced revenue volatility and market downturns in the past and expect to experience them in the future, which could have a material adverse impact on our results of operations and financial condition.

Reduction in demand and/or an increase in production capacity for semiconductor products may lead to overcapacity, which in turn may require us to make decisions that could result in temporary or permanent plant closures, asset impairments, restructuring charges, inventory write-offs and workforce and overhead cost reductions.

Capital investments for semiconductor manufacturing equipment are made both by integrated semiconductor companies like us and by specialist semiconductor foundry companies, which are subcontractors that manufacture semiconductor products designed by others.

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

more mature process technologies and, as a result, to incur significant impairment and restructuring charges and related closure costs. In connection with the difficult market conditions and the recent integration of newly acquired businesses (such as, in 2008, Genesis and NXP Wireless and, in the first quarter of 2009, EMP) we launched new restructuring initiatives aimed at rationalizing our operations and our worldwide workforce. The total cost associated with these programs in 2008 amounted to \$71 million. Additionally, in 2008, we incurred \$164 million impairment and restructuring charges and related closure costs associated with the 2007 plan for the announced closures of our Phoenix, Carrollton, and Ain Sebaa manufacturing facilities, bringing the total cost to \$237 million since the beginning of this plan. Furthermore, previously announced restructuring and cost reduction plans generated additional charges of approximately \$11 million and were almost completed as at December 31, 2008. See "Item 5. Operating and Financial Review and Prospects – Impairment, Restructuring Charges and Other Related Closure Costs."

There can be no assurance that future changes in the market demand for our products and/or the need to mitigate overcapacity or obsolescence in our manufacturing facilities may not require us to lower the prices we charge for our products, and/or that market downturns, or overcapacity or obsolescence may not lead us to incur additional impairment and restructuring charges, which may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

As we are a supplier of a broad range of products, we are required to make significant investments in R&D across our product portfolio in order to remain competitive. Current economic conditions may impair our ability to maintain our current level of R&D investments and, therefore, we may need to become more focused in our R&D investments across our broad range of product lines. This could significantly impair our ability to remain a viable competitor in the product areas where our competitors' R&D investments are higher than ours.

We regularly devote substantial resources to winning competitive bid selection processes, known as "product design wins", to develop products for use in our customers' equipment and products. These selection processes can be lengthy and can require us to incur significant design and development expenditures, with no guarantee of

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

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

Semiconductor and other products that we design and manufacture are characterized by rapidly changing technology and new product introductions, and our success depends on our ability to develop and manufacture complex products cost- effectively and to scale and acquire the necessary intellectual property ("IP").

Semiconductor design and process technologies are subject to constant technological improvements and may require large expenditures for capital investments, advanced research and technology development. Many of the resulting products that we market, in turn, have short life cycles, with some being less than one year.

If we experience substantial delays or are unable to develop new design or process technologies, our results of operations or financial condition could be adversely affected.

We also regularly incur costs to acquire IP from third parties without any guarantee of realizing the anticipated value of such expenditures if our competitors develop technologies that are more accepted than ours, or if market demand does not materialize as anticipated. We charged \$71 million as annual amortization expense on our consolidated statement of income in 2008 related to technologies and licenses acquired from third parties. As of December 31, 2008, the residual value, net of amortization, registered in our consolidated balance sheet for these technologies and licenses was \$342 million. In addition to amortization expenses, the value of these assets may be subject to impairment with associated charges being made to our Consolidated Financial Statements.

There is no assurance that these and other IP purchases will be successful and will not lead to impairments and associated charges.

The competitive environment of the semiconductor industry may lead to further measures to improve our competitive position and cost structure, which in turn may result in loss of revenues, asset impairments and/or capital losses.

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

In the past, our sales have, at times, increased at a slower pace than the semiconductor industry as a whole and our market share has declined, even in relation to the markets we served. Although our sales increased 11% in 2006 compared to an increase of 9% for the industry overall, in 2007, our performance was below the semiconductor industry's performance overall. In 2008, as a result of the global economic downturn, the industry as a whole decreased by approximately 2.8% and our sales decreased by 1.6%. There is no assurance that we will be able to maintain or grow our market share if we are unable to accelerate product innovation, identify new applications for our products, extend our customer base, realize manufacturing improvements and/or otherwise control our costs. In addition, in recent years the semiconductor industry has continued to increase manufacturing capacity in Asia in order to access lower-cost production and to benefit from higher overall efficiency, which has led to a more competitive environment. We may also in the future, if market conditions so require, consider additional measures

to improve our cost structure and competitiveness in the semiconductor market, such as seeking more competitive sources of production, discontinuing certain product families or performing additional restructurings, which in turn may result in loss of revenues, asset impairments and/or capital losses.

Risks Related to Our Operations

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

As a result of a strategic review of our product portfolio, in 2008 we divested our Flash Memory activities by combining our business with that of Intel and creating Numonyx, a new independent semiconductor company in the area of Flash memories. The intent is that Numonyx will benefit from critical size to be competitive in this market. The transaction concerning the creation of Numonyx closed on March 30, 2008. We incurred a total impairment and disposal loss of \$1,297 million in connection with this transaction, of which \$190 million was recorded in the year ended December 31, 2008, and \$31 million of other restructuring charges, of which \$26 million was incurred in the year ended December 31, 2008. We also incurred losses in 2008 related to our equity holding in Numonyx, for a total amount of approximately \$545 million, including a \$480 million impairment on the equity investment. In the first quarter of 2009, we also incurred losses of \$229 million, out of which \$200 million was an additional impairment on the equity investment in Numonyx. There is no assurance that if the flash memory market were to further deteriorate, or if Numonyx were unable to effectively compete or maintain its market position, Numonyx will not be required to undertake further restructurings, which in turn could lead to additional impairments and associated charges.

We also recently undertook new initiatives to reposition our business. In January 2008, we completed the acquisition of Genesis Microchip Inc. ("Genesis Microchip") for \$340 million and in August 2008, we completed the acquisition of NXP's wireless business for \$1,550 million, creating the joint venture, ST-NXP Wireless. Furthermore, in February 2009, we completed the merger of ST-NXP Wireless with EMP, thereby forming ST-Ericsson and in connection therewith we purchased the outstanding 20% held by NXP's ST-NXP Wireless for a price of \$92 million. The wireless activities run through ST-Ericsson represent a significant portion of our business. The integration process may be long and complex due to the fact that we are merging three different companies. On April 29, 2009, ST-Ericsson announced a restructuring plan giving rise to costs estimated in the range of \$70 million to \$90 million. We may not be able to exercise the same control over management as we did when the business was operated by us. There is no assurance that we will be successful or that the joint venture will produce the planned operational and strategic benefits.

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

Future acquisitions or divestitures may adversely affect our business.

Our strategies to improve our results of operations and financial condition may lead us to make significant acquisitions of businesses that we believe to be complementary to our own, or to divest ourselves of activities that we believe do not serve our longer term business plans. In addition, certain regulatory approvals for potential acquisitions may require the divestiture of business activities.

Our potential acquisition strategies depend in part on our ability to identify suitable acquisition targets, finance their acquisition and obtain required regulatory and other approvals. Our potential divestiture strategies depend in part on our ability to define the activities in which we should no longer engage, and then determine and execute appropriate methods to divest of them.

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results, including the risk that we may be unable to successfully integrate businesses or teams we acquire with our culture and strategies on a timely basis or at all, and the risk that we may be required to record charges related to the goodwill or other long-term assets associated with the acquired businesses. Changes in our expectations due to changes in market developments that we cannot foresee have in the past resulted in our writing off amounts

associated with the goodwill of acquired companies, and future changes may require similar further write-offs in future periods. We cannot be certain that we will be able to achieve the full scope of the benefits we expect from a particular acquisition, divestiture or investment. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any acquired businesses. In addition, the financing of future acquisitions may negatively impact our financial condition and could require us to need additional funding from the capital markets.

Other risks associated with our acquisition activities include:

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

Other risks associated with our divestiture activities include:

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

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

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

In less favorable industry environments, we are driven to reduce prices in response to competitive pressures and we are also faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. Reduced average selling prices for our products adversely affect our results of operations. Since the semiconductor industry is characterized by high fixed costs, we are not always able to reduce our total costs in line with revenue declines. Furthermore, in periods of reduced customer demand for our products, our fabs do not operate at full capacity and the costs associated with the excess capacity are charged directly to cost of sales as unused capacity charges. Additionally, a significant number of our manufacturing facilities are located in France and Italy and their cost of operation have been significantly affected by the rise of the Euro against the U.S. dollar, our reporting currency over the last few years. In 2008 the U.S. dollar was \$1.49 to €1.00 compared to \$1.35 in 2007 and may weaken further in the future. Over the last five years, our gross profit margin has varied from a high of 37.9% in the third quarter of 2004 to a low of 26.3% in the first quarter of 2009. The current difficult market conditions have had a significant affect on the capacity utilization of our fabs and, consequently, our gross margins. We cannot guarantee that such market conditions, and increased competition in our core product markets, will not lead to further price erosion, lower revenue growth rates and lower margins.

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

The intensely competitive environment of the semiconductor industry and the high costs associated with developing marketable products and manufacturing technologies, not to mention the financial difficulties facing

some of our competitors, may lead to further consolidation in the industry. Such consolidation can allow a company to further benefit from economies of scale, provide improved or more diverse product portfolios and increase the size of its serviceable market. Consequently, we may seek to acquire a competitor to improve our market position and the applications and products we can market. Some of our competitors, however, may also try to take advantage of such a consolidation process and may have greater financial resources to do so.

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

A significant variation of the value of the U.S. dollar against the principal currencies that have a material impact on us (primarily the Euro, but also certain other currencies of countries where we have operations) could result in a favorable impact on our net income in the case of an appreciation of the U.S. dollar, or a negative impact on our net income if the U.S. dollar depreciates relative to these currencies. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major part of our revenues, while, more importantly, we incur a significant portion of our costs in currencies other than the U.S. dollar. Certain significant costs incurred by us, such as manufacturing labor costs and depreciation charges, selling, general and administrative expenses, and R&D expenses, are incurred in the currencies of the jurisdictions in which our operations are located, which mainly includes the euro zone. Our effective average exchange rate, which reflects actual exchange rate levels combined with the impact of hedging programs, was \$1.49 to €1.00 in 2008, compared to \$1.35 in 2007.

A decline of the U.S. dollar compared to the other major currencies that affect our operations negatively impacts our expenses, margins and profitability, especially if we are unable to balance or shift our Euro-denominated costs to other currency areas or to U.S. dollars. Any such actions may not be immediately effective, could prove costly, and their implementation could prove demanding on our management resources.

In order to reduce the exposure of our financial results to the fluctuations in exchange rates, our principal strategy has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of purchases from our suppliers denominated in U.S. dollars and to reduce the weight of the other costs, including labor costs and depreciation, denominated in Euros and in other currencies. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have hedged certain line items on our consolidated statements of income, in particular with respect to a portion of the cost of goods sold, most of the R&D expenses and certain selling and general and administrative expenses located in the Euro zone. No assurance can be given that our hedging transactions will prevent us from incurring higher Euro-denominated manufacturing costs when translated into our U.S. dollar-based accounts in the event of a weakening of the U.S. dollar on the non-hedged portion of our costs and expenses. See "Item 5. Operating and Financial Review and Prospects – Impact of Changes in Exchange Rates" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk." See "Item 5. Operating and Financial Review and Prospects – Impact of Changes in Exchange Rates" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

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

As a result of our choice to maintain control of a certain portion of our advanced proprietary manufacturing technologies to better serve our customer base and to develop our strategic alliances, significant amounts of capital to maintain or upgrade our facilities could be required in the future. Although in the last three years our overall capital expenditures, as expressed in terms of percentage to sales, have significantly decreased, they remain high, and in 2008 we spent \$983 million. See "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources." By pursuing our strategy of a less capital intensive model, we expect to reduce our capital expenditures by 50% in 2009 compared to 2008.

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

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

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

We are dependent on alliances to develop or access new technologies, particularly in light of the increasing levels of investment required for R&D activities, and there can be no assurance that these alliances will be successful. For example, from 2002 and until the end of 2007, we cooperated as part of the Crolles 2 Alliance with Freescale Semiconductor and NXP Semiconductors to develop submicron complementary metal-on silicon oxide semiconductor ("CMOS") logic processes on 300mm wafers and to build and operate an advanced 300mm wafer pilot line in Crolles, France. Such alliance terminated on December 31, 2007, pursuant to notifications by both NXP Semiconductors and Freescale Semiconductor to terminate their participation at the end of the initial five year period. Effective January 1, 2008, we signed an agreement with IBM to collaborate on the development of advanced CMOS process technology that is used in semiconductor development and manufacturing. The agreement includes 32-nm and 22-nm CMOS process-technology development, design enablement and advanced research adapted to the manufacturing of 300-mm silicon wafers which is being developed at IBM premises in Fishkill. In addition, it includes value-added derivative System-on-Chip ("SoC") technologies which is to be developed in Crolles. The agreement with IBM also includes collaboration on IP development and platforms to speed the design of SoC devices in these technologies.

In August 2008, we signed an agreement with Infineon Technologies ("Infineon") and STATS ChipPAC Ltd. ("STATS ChipPAC") to jointly develop the next-generation of embedded Wafer-Level Ball Grid Array ("eWLB") technology, based on Infineon's first-generation technology, for use in manufacturing future-generation semiconductor packages. We believe this alliance will fully exploit the potential of Infineon's existing eWLB packaging technology, which has been licensed by Infineon to us and STATS ChipPAC.

We continue to believe that we can maintain proprietary R&D for derivative technology investments and share R&D business models, which are based on cooperation and alliances, for core R&D process technology if we receive adequate support from state funding, as in the case of the Crolles 3 NANO 2012 frame agreement signed by us with the French government in the first quarter of 2009. This, coupled with manufacturing and foundry partnerships, provides us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. In addition, it contributes to the fast acceleration of semiconductor process technology development while allowing us to lower our development and manufacturing costs. However, there can be no assurance that alliances will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. Certain companies, such as Intel and TSMC, develop their own process technologies, which may be more advanced than the technologies we develop through our cooperative alliances. Furthermore, if these alliances terminate before our intended goals are accomplished we may lose our investment, or incur additional unforeseen costs, and our business, results of operations and prospects could be materially adversely affected. In addition, if we are unable to develop or otherwise access new technologies independently, we may fail to keep pace with the rapid technology advances in the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share in the market addressed by our products.

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

Our operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability or lead to significant variability of operating results. These factors include, among others, the cyclical nature of the semiconductor and electronic systems industries, capital requirements, inventory management, availability of funding, competition, new product developments, technological changes and manufacturing problems. For example, if anticipated sales or shipments do not occur when expected, expenses and inventory levels in a given quarter can be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, may be adversely affected. In addition, our effective tax rate currently takes into consideration certain favorable tax rates and incentives, which, in the future, may not be available to us. See Note 23 to our Consolidated Financial Statements.

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

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

Unfavorable changes in any of the above factors have in the past and may in the future adversely affect our operating results. Furthermore, in periods of industry overcapacity or when our key customers encounter difficulties in their end markets, orders are more exposed to cancellations, reductions, price renegotiation or postponements, which in turn reduce our management's ability to forecast the next quarter or full year production levels, revenues and margins. For these reasons and others that we may not yet have identified, our revenues and operating results may differ materially from our expectations or guidance as visibility is reduced. See "Item 4. Information on the Company – Backlog."

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

We derive and expect to continue to derive significant sales from the telecommunications equipment, industrial and automotive industries, as well as the home, personal and consumer segments generally. Growth of demand in the telecommunications equipment, industrial and automotive industries as well as the home, personal and consumer segments has in the past fluctuated, and may in the future fluctuate, significantly based on numerous factors, including:

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

We cannot guarantee the rate, or the extent to which, the telecommunications equipment or automotive industries or the home, personal or consumer segments will grow. The current decline in these industries or segments has resulted in slower growth and a decline in demand for our products, which will have a material adverse effect on our business, financial condition and results of operations.

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

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

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

A substantial portion of our sales is derived from several large customers, some of whom have entered into strategic alliances with us. As of December 31, 2008, our largest customer was Nokia, which accounted for approximately 17.5% of our 2008 net revenues, compared to 21.1% in 2007 and 21.8% in 2006. We cannot guarantee that our largest customers will continue to book the same level of sales with us that they have in the past and will not solicit alternative suppliers. Many of our key customers operate in cyclical businesses that are also highly competitive, and their own demands and market positions may vary considerably. In recent years, certain customers of the semiconductor industry have experienced consolidation. Such consolidations may impact our business in the sense that our relationships with the new entities could be either reinforced or jeopardized pursuant thereto. Our customers have in the past, and may in the future, vary order levels significantly from period to period, request postponements to scheduled delivery dates or modify their bookings. We cannot guarantee that we will be able to maintain or enhance our market share with our key customers or distributors. If we were to lose one or more design wins for our products with our key customers, or if any key customer or distributors were to reduce or change its bookings, seek alternate suppliers, increase its product returns or become unable or fail to meet its payment obligations, our business financial condition and results of operations could be materially adversely affected. Some of our customers have recently faced financial difficulties and liquidity constraints, which have made them unable to fulfill their contractual obligations, or could make them unable to fulfill such obligations in the future. If customers do not purchase products made specifically for them, we may not be able to resell such products to other customers or require the customers who have ordered these products to pay a cancellation fee. Furthermore, developing industry trends, including customers' use of outsourcing and new and revised supply chain models, may reduce our ability to forecast the purchase date for our products and evolving customer demand, thereby affecting

our revenues and working capital requirements. For example, pursuant to industry developments, some of our products are required to be delivered on consignment to customer sites with recognition of revenue delayed until such moment, which must occur within a defined period of time, when the customer chooses to take delivery of our products from our consignment stock.

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

Our operating results can also vary significantly due to impairment of goodwill booked pursuant to acquisitions and to the purchase of technologies and licenses from third parties, which has increased significantly since 2008, particularly for our wireless business. As of December 31, 2008, the value registered on our audited consolidated balance sheet for goodwill was \$958 million. The value for technologies and licenses acquired from third parties was \$342 million, net of amortization, and the value for other intangible assets was \$521 million. Because the market for our products is characterized by rapidly changing technologies, and because of significant changes in the semiconductor industry, our future cash flows may not support the value of goodwill and other intangibles registered in our consolidated balance sheet. Furthermore, the ability to generate revenues for our fixed assets located in Europe may be impaired by an increase in the value of the Euro with respect to the U.S. dollar, as the revenues from the use of such assets are generated in U.S. dollars. We are required to annually test goodwill and to assess the carrying values of intangible and tangible assets when impairment indicators exist. As a result of such tests, we could be required to book impairment in our statement of income if the carrying value in our consolidated balance sheet is in excess of the fair value. The amount of any potential impairment is not predictable as it depends on our estimates of projected market trends, results of operations and cash flows. In addition, the introduction of new accounting standards can lead to a different assessment of goodwill carrying value, which could lead to a potential impairment of the goodwill amount. Any potential impairment, if required, could have a material adverse impact on our results of operations.

We last performed our annual impairment testing in the third quarter of 2008. Since, during the fourth quarter of 2008 and the first quarter of 2009, our market capitalization declined to a level below our book value, we also performed further analyses during the fourth quarter using the most current long term financial plan available. While we recorded specific impairment charges related to the carrying value of certain marketable securities and equity investments during the period, a minor impairment charge was indicated by such analyses on the net value of our assets subject to testing. However, many of the factors used in assessing fair values for such assets are outside of our control and the estimates used in such analyses are subject to change. Due to the ongoing uncertainty of the current market conditions, which may continue to negatively impact our market value, we will continue to monitor the carrying value of our assets. If market and economic conditions deteriorate further, this could result in future non-cash impairment charges against income. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or strategic transactions, including ST-Ericsson, and possible further impairment charges relating to our investment in Numonyx, particularly, in the event of a downward shift in expected revenues or operating cash flow in relation to our current plans.

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

Our ability to meet our customers' demand to manufacture our products depends upon obtaining adequate supplies of quality raw materials on a timely basis. A number of materials are available only from a limited number of suppliers, or only from a limited number of suppliers in a particular region. In addition, we purchase raw materials such as silicon wafers, lead frames, mold compounds, ceramic packages and chemicals and gases from a number of suppliers on a just-in-time basis, as well as other materials such as copper and gold whose prices on the world markets have fluctuated significantly during recent periods. Although supplies for the raw materials we currently use are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. In addition, the costs of certain materials, such as copper and gold, may increase due to market pressures and we may not be able to pass on such cost increases to the prices we charge to our customers. We also purchase

semiconductor manufacturing equipment from a limited number of suppliers and because such equipment is complex it is difficult to replace one supplier with another or to substitute one piece of equipment for another. In addition, suppliers may extend lead times, limit our supply or increase prices due to capacity constraints or other factors. Furthermore, suppliers tend to focus their investments on providing the most technologically advanced equipment and materials and may not be in a position to address our requirements for equipment or materials of older generations. Shortages of supplies have in the past impacted and may in the future impact the semiconductor industry, in particular with respect to silicon wafers due to increased demand and decreased production. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurances that we will not encounter these problems in the future. Our quarterly or annual results of operations would be adversely affected if we were unable to obtain adequate supplies of raw materials or equipment in a timely manner or if there were significant increases in the costs of raw materials or problems with the quality of these raw materials.

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

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

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

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

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

We may be faced with product liability or warranty claims.

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

We depend on patents to protect our rights to our technology.

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

We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other intellectual property rights. Furthermore, we may become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. We are currently involved in several lawsuits, including litigation before the U.S. International Trade Commission. See "Item 8. Financial Information – Legal Proceedings." Such lawsuits may have a material adverse effect on our business if we do not prevail. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third party intellectual property and/or face an injunction.

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

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

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

A number of environmental requirements in the European Union, including some that have only recently come into force, affect our business. These requirements include:

- European Directive 2002/96/EC ("WEEE" Directive), which imposes a "take back" obligation on manufacturers for the financing of the collection, recovery and disposal of electrical and electronic equipment.

Because of unclear statutory definitions and interpretations in individual member states, we are unable at this time to determine in detail the consequences of this directive for us.

- European Directive 2002/95/EC ("ROHS" Directive), which banned the use of lead and some flame retardants in electronic components as of July 2006.
- European Directive 2003/87/EC, which established a scheme for greenhouse gas allowance trading.
- Regulation 1907/2006 of December 18, 2006, which requires the registration, evaluation, authorization and restriction of a large number of chemicals ("REACH"). The REACH pre-registration process started on June 1, 2008.

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

We therefore have not booked reserves for any specific environmental risks. See "Item 4. Information on the Company – Environmental Matters."

Loss of key employees could hurt our competitive position.

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

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

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

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

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

We are required to prepare Consolidated Financial Statements using both International Financial Reporting Standards ("IFRS") in addition to our Consolidated Financial Statements prepared pursuant to Generally Accepted Accounting Principles in the United States ("U.S. GAAP") and dual reporting may impair the clarity of our financial reporting.

We are incorporated in the Netherlands and our shares are listed on Euronext Paris and on the Borsa Italiana, and, consequently, we are subject to an EU regulation requiring us to report our results of operations and Consolidated Financial Statements using IFRS (previously known as International Accounting Standards or "IAS"). As of January 1, 2009, we are also required to prepare a semi-annual set of accounts using IFRS reporting standards. We use U.S. GAAP as our primary set of reporting standards, as U.S. GAAP has been our reporting standard since our creation in 1987. Applying U.S. GAAP in our financial reporting is designed to ensure the comparability of our results to those of our competitors, as well as the continuity of our reporting, thereby providing our investors with a clear understanding of our financial performance.

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

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

If our internal control over financial reporting fails to meet the requirements of Section 404 of the Sarbanes-Oxley Act, it may have a materially adverse effect on our stock price.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules that require us to include a management report assessing the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. In addition, we must also include an attestation by our independent registered public accounting firm regarding the effectiveness of our internal control over financial reporting. We have successfully completed our Section 404 assessment and received the auditors' attestation as of December 31, 2008. However, in the future, if we fail to complete a favorable assessment from our management or to obtain our auditors' attestation, we may be subject to regulatory sanctions or may suffer a loss of investor confidence in the reliability of our financial statements, which could lead to an adverse effect on our stock price.

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

Like many other manufacturers operating in Europe, we benefit from governmental funding for R&D expenses and industrialization costs (which include some of the costs incurred to bring prototype products to the production stage), as well as from incentive programs for the economic development of underdeveloped regions. Public funding may also be characterized by grants and/or low-interest financing for capital investment and/or tax credit investments. See "Item 4. Information on the Company – Public Funding." We have entered into public funding agreements in France and Italy, which set forth the parameters for state support to us under selected programs. These funding agreements require compliance with EU regulations and approval by EU authorities. We have also recently entered into the Crolles 3 NANO 2012 funding program (for the years 2008-2012) which, following approval by EU authorities, is designed to promote and develop future advanced derivative CMOS process technologies related to our 12-inch pilot line in Crolles 3.

Furthermore, we receive a material amount of R&D tax credits in France, which is directly linked to the amount spent for our R&D activities.

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

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

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

We have been informed that as of December 31, 2008, STMicroelectronics Holding II B.V. ("ST Holding II"), a wholly-owned subsidiary of STMicroelectronics Holding N.V. ("ST Holding"), owned 250,704,754 shares, or approximately 27.5%, of our issued common shares. ST Holding is therefore effectively in a position to control actions that require shareholder approval, including corporate actions, the election of our Supervisory Board and our Managing Board and the issuance of new shares or other securities.

We have also been informed that the shareholders' agreement among ST Holding's shareholders (the "STH Shareholders' Agreement"), to which we are not a party, governs relations between our current indirect shareholders Areva Group, Cassa Depositi e Prestiti S.p.A. ("CDP"), Commissariat à l'Energie Atomique ("CEA") and Finmeccanica S.p.A. ("Finmeccanica"), each of which is ultimately controlled by the French or Italian government, see "Item 7. Major Shareholders and Related Party Transactions – Major Shareholders." The STH Shareholders' Agreement includes provisions requiring the unanimous approval by shareholders of ST Holding before ST Holding can make any decision with respect to certain actions to be taken by us. Furthermore, as permitted by our Articles of Association, the Supervisory Board has specified selected actions by the Managing Board that require the approval of the Supervisory Board. See "Item 7. Major Shareholders and Related Party Transactions – Major Shareholders." These requirements for the prior approval of various actions to be taken by us and our subsidiaries may give rise to a conflict of interest between our interests and investors' interests, on the one hand, and the interests of the individual shareholders approving such actions, on the other, and may affect the ability of our Managing Board to respond as may be necessary in the rapidly changing environment of the semiconductor industry. Our ability to issue new shares or other securities may be limited by the existing shareholders' desire to maintain their proportionate shareholding at a certain minimum level and our ability to buy back shares may be limited by our existing shareholders due to a Dutch law that may require shareholders that own more than 30% of our voting rights to launch a tender offer for our outstanding shares. Dutch law, however, requires members of our Supervisory Board to act independently in supervising our management and to comply with applicable corporate governance standards.

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

On November 27, 2006, our Supervisory Board decided to authorize us to enter into an option agreement with an independent foundation, Stichting Continuïteit ST (the "Stichting"). Our Managing Board and our Supervisory Board, along with the board of the Stichting, have declared that they are jointly of the opinion that the Stichting is legally independent of our Company and our major shareholders. Our Supervisory Board approved this option

agreement, dated February 7, 2007, to reflect changes in Dutch legal requirements, not in response to any hostile takeover attempt. It provides for the issuance of up to a maximum of 540,000,000 preference shares. The Stichting would have the option, which it shall exercise in its sole discretion, to take up the preference shares. The preference shares would be issuable in the event of actions considered hostile by our Managing Board and Supervisory Board, such as a creeping acquisition or an unsolicited offer for our common shares, which are unsupported by our Managing Board and Supervisory Board and which the board of the Stichting determines would be contrary to the interests of our Company, our shareholders and our other stakeholders. If the Stichting exercises its call option and acquires preference shares, it must pay at least 25% of the par value of such preference shares. The preference shares may remain outstanding for no longer than two years.

No preference shares have been issued to date. The effect of the preference shares may be to deter potential acquirers from effecting an unsolicited acquisition resulting in a change of control or otherwise taking actions considered hostile by our Managing Board and Supervisory Board. In addition, any issuance of additional capital within the limits of our authorized share capital, as approved by our shareholders, is subject to the requirements of our Articles of Association, see "Item 10. Additional Information – Memorandum and Articles of Association – Share Capital as of March 28, 2009 – Issuance of Shares, Preemption Rights and Preference Shares (Article 4)."

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

The STH Shareholders' Agreement, to which we are not a party, between respectively FT1CI, our French Shareholder controlled by Areva and CEA, and CDP and Finmeccanica, our Italian shareholders, permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at its sole discretion at any time from their current level, and to reduce the current level of their respective indirect interests in our common shares. The details of the STH Shareholders' Agreement, as reported by ST Holding II, are further explained in "Item 7. Major Shareholders and Related Party Transactions – Major Shareholders." Disposals of our shares by the parties to the STH Shareholders' Agreement can be made by way of the issuance of financial instruments exchangeable for our shares, equity swaps, structured finance transactions or sales of our shares. An announcement with respect to one or more of such dispositions could be made at any time without our advance knowledge.

On February 26, 2008, Finmeccanica sold approximately 26 million of our shares representing approximately 2.85% of our share capital to FT1CI, and, hence, CEA has become a shareholder of FT1CI and now adheres to the STH Shareholders' Agreement.

In addition, Finmeccanica Finance S.A. ("Finmeccanica Finance"), a subsidiary of Finmeccanica, has issued €501 million aggregate principal amount of exchangeable notes, exchangeable into up to 20 million of our existing common shares due 2010 (the "Finmeccanica Notes"). The Finmeccanica Notes have been exchangeable at the option of the holder into our existing common shares since January 2, 2004. As of December 31, 2008, none of the Finmeccanica Notes had been exchanged for our common shares.

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

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

Our corporate affairs are governed by our Articles of Association and by the laws governing corporations incorporated in the Netherlands. The corporate affairs of each of our consolidated subsidiaries are governed by the Articles of Association and by the laws governing such corporations in the jurisdiction in which such consolidated subsidiary is incorporated. The rights of the investors and the responsibilities of members of our Supervisory Board

and Managing Board under Dutch law are not as clearly established as under the rules of some U.S. jurisdictions. Therefore, U.S. investors may have more difficulty in protecting their interests in the face of actions by our management, members of our Supervisory Board or our controlling shareholders than U.S. investors would have if we were incorporated in the United States.

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

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

Removal of our common shares from the CAC 40 on Euronext Paris, the S&P/MIB on the Borsa Italiana or the Philadelphia Stock Exchange Semiconductor Sector Index ("SOX") could cause the market price of our common shares to drop significantly.

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

Item 4. Information on the Company

History and Development of the Company

STMicroelectronics N.V. was formed and incorporated in 1987 and resulted from the combination of the semiconductor business of SGS Microelettronica (then owned by Società Finanziaria Telefonica (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by the former Thomson-CSF, now Thales, a French corporation). We completed our initial public offering in December 1994 with simultaneous listings on Euronext Paris and the New York Stock Exchange ("NYSE"). In 1998, we listed our shares on the Borsa Italiana. Until 1998, we operated as SGS-Thomson Microelectronics N.V. Our length of life is indefinite. We are organized under the laws of the Netherlands. We have our corporate legal seat in Amsterdam, the Netherlands, and our head offices at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol Airport, the Netherlands. Our telephone number there is +31-20-654-3210. Our headquarters and operational offices are located at 39 Chemin du Champ des Filles, 1228 Plan-Les-Quates, Geneva, Switzerland. Our main telephone number there is +41-22-929-2929. Our agent for service of process in the United States related to our registration under the U.S. Securities Exchange Act of 1934, as amended, is STMicroelectronics, Inc., 1310 Electronics Drive, Carrollton, Texas, 75006-5039 and the main telephone number there is +1-972-466-6000. Our operations are also conducted through our various subsidiaries, which are organized and operated according to the laws of their country of incorporation, and consolidated by STMicroelectronics N.V.

Business Overview

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor products used in a wide variety of microelectronic applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. According to industry data published by iSuppli, we have been ranked the world's fifth largest semiconductor company based on 2008 total market sales and we held leading positions in sales of Analog Products and application-specific integrated circuits (or "ASICs"). Based on 2008 results published by iSuppli, we were ranked number one in industrial products, number two in analog products and number three in wireless and automotive electronics. In addition, we were ranked as a leading supplier of semiconductors in 2008 for consumer and portable applications of motion-sensing chips, set-top boxes, power management devices and for the inkjet printer market. Our major customers include Bosch, Cisco, Continental, Delphi, Delta, Garmin, Hewlett-Packard, LG Electronics, Nagra, Nintendo, Nokia, Philips, Research in Motion, Samsung, Seagate, Sharp, Siemens, Sony Ericsson, Thomson and Western Digital. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Future Electronics, Rutronik, and Yosun.

The semiconductor industry has historically been a cyclical one and we have responded through emphasizing balance in our product portfolio, in the applications we serve, and in the regional markets we address. Consequently, from 1994 through 2008, our revenues grew at a compounded annual growth rate of 9.8% compared to 6.6% for the industry as a whole.

We offer a broad and diversified product portfolio and develop products for a wide range of market applications to reduce our dependence on any single product, application or end market. Within our diversified portfolio, we have focused on developing products that leverage our technological strengths in creating customized, system-level solutions with high-growth digital and mixed-signal content. As of August 2, 2008, following the acquisition of the NXP wireless business, our product families comprised differentiated application-specific products (which we define as being our dedicated analog, mixed-signal and digital ASIC and application-specific standard products ("ASSP") offerings and semi-custom devices) that we organized under our Automotive, Consumer, Computer and Communication Infrastructure Product Groups ("ACCI") and Wireless Products Sector ("WPS") and power devices, microcontrollers, discrete products, special nonvolatile memory and Smartcard products organized under our Industrial and Multi-segment Products Sector ("IMS"). Our ACCI and WPS products, which are generally less vulnerable to market cycles than standard commodity products, accounted for 42.0% and 20.6% of our reported net revenues in 2008, respectively. Our IMS product accounted for 33.8% of our reported net revenues in 2008, while sales of our deconsolidated Flash Memory business (Flash Memory Group ("FMG"))