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	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In millions except per share and ratio data)				
Consolidated Balance Sheets Data (end of period):					
Cash and cash equivalents	2,250	1,912	1,892	1,588	1,009
Short-term deposits	1	—	67	—	—
Marketable securities	238	413	1,052	1,032	651
Restricted cash	4	8	7	250	250
Non-current marketable securities	—	—	72	42	242
Total assets	10,434	12,094	13,349	13,655	13,913
Short-term debt	630	733	720	176	143
Long-term debt (excluding current portion) ⁽³⁾	671	826	1,050	2,316	2,554
Total parent company stockholders' equity ⁽⁴⁾	6,225	7,603	7,587	7,147	8,156
Common stock and capital surplus	3,711	3,700	3,671	3,637	3,480
Other Data:					
Dividends per share ⁽⁵⁾	0.40	0.40	0.28	0.12	0.36
Capital expenditures ⁽⁶⁾	476	1,258	1,034	451	983
Net cash from operating activities	612	880	1,794	816	1,722
Depreciation and amortization	1,107	1,279	1,240	1,367	1,366
Debt-to-equity ratio ⁽⁷⁾	\$ 0.21	\$ 0.21	\$ 0.23	\$ 0.35	\$ 0.33

- (1) Our reported research and development expenses ("R&D") are mainly in the areas of product design and technology development. They do not include marketing design center costs, which are accounted for as selling expenses, or process engineering, pre-production and process-transfer costs, which are accounted for as cost of sales. Our R&D expenses are net of certain tax credits.
- (2) "Other income and expenses, net" includes, among other things: funds received through government agencies for research and development programs; costs incurred for start-up and phase-out activities not involving saleable production; foreign currency gains and losses; gains on sales of tangible assets and non-current assets; and the costs of certain activities relating to IP protection.
- (3) We repurchased a portion of our 2016 convertible bonds ("2016 Convertible Bonds") during 2009 (98,000 bonds for a total cash consideration of \$103 million), 2010 (385,830 bonds for a total cash consideration of \$410 million), 2011 (289,768 bonds for a total cash consideration of \$314 million of which 41,123 convertible bonds were redeemed by certain holders on February 23, 2011) and 2012 (200,402 bonds for a total cash consideration of \$219 million of which 190,131 convertible bonds were redeemed by certain holders on February 23, 2012). Our 2016 Convertible Bonds were fully redeemed in the second quarter of 2012. We also repurchased a portion of our 2013 senior bonds ("2013 Senior Bonds") in 2010 and 2011 for an amount of \$98 million and \$107 million, respectively.
- (4) Following repurchases in earlier periods, we also repurchased 29,520,220 of our shares in 2008, for a total cost of \$313 million and we reflected this purchase at cost as a reduction of stockholders' 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 through 2012 annual general shareholders' meetings, and those which may be attributed in the future. As of December 31, 2012, 20,313,617 shares had been transferred to employees upon the vesting of such stock awards. As of December 31, 2012, we owned 22,606,603 treasury shares.
- (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 proceeds from sale and certain funds received through government agencies, the effect of which is to reduce our cash used in investing activities and to decrease depreciation.
- (7) Debt-to-equity ratio is the ratio between our total financial debt and our total parent company stockholder's equity.

Risk Factors

Risks Related to the Semiconductor Industry which Impact Us

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 downturns at various times, impacted by global economic conditions. Downturns are typically characterized by reduction in overall demand, accelerated erosion of selling prices, reduced revenues and high inventory levels, which could result in a significant deterioration of our results of operations. Furthermore, downturns may be the result of industry-specific factors, such as built-in excess capacity, product obsolescence, price erosion and changes in

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end-customer demand. 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 or the introduction of new advanced technologies 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.

In the event of a global or regional economic slowdown impacting business and consumer confidence, the demand for semiconductor products can decline precipitously. As a result, our business, financial conditions and results of operations have been affected in the past and could also be affected in the future. To the extent that the economic environment in which we conduct our operations worsens, our business, financial condition and results of operations could be significantly and adversely affected.

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

- declines in revenues;
- reductions in selling prices;
- underutilization of manufacturing capacity;
- deterioration of our gross margins, profitability and net cash flow;
- increased volatility and/or declines in our share price;
- increased volatility or adverse movements in foreign currency exchange rates;
- delays in, or curtailment of, purchasing decisions by our customers or potential customers either as a result of overall economic uncertainty or as a result of their inability to access the liquidity necessary to engage in purchasing initiatives or new product development;
- closure of our wafer fabrication plants ("fabs") and associated restructuring plans;
- lower valuations of our equity-method investments and lower valuations on our divestitures or our exit from joint ventures;
- downgrade of our corporate credit ratings / outlook from one or more independent rating agencies, which may negatively impact our ability to access additional liquidity;
- increased credit risk associated with our customers or potential customers, particularly those that may operate in industries most affected by the economic downturn; and
- impairment of goodwill or other assets associated with our product segments.

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

As a result of the cyclical nature and volatility of the semiconductor industry, it is difficult to predict future developments in the markets we serve, making it hard to estimate requirements for production capacity. If markets, major customers or certain product designs or technologies do not perform as we have anticipated, we risk underutilization of our facilities or the manufacturing of excess inventories, in the event of overestimated demand or having insufficient capacity to meet customer demand in the event of underestimated demand.

The net increase of manufacturing capacity, defined as the difference between capacity additions and capacity reductions, may exceed demand requirements, leading to overcapacity and price erosion. If the semiconductor market or major customers do not grow as we anticipated when making investments in production capacity, we risk overcapacity and relevant unused capacity charges. 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 the past, overcapacity for certain products or technologies and cost optimization have led us to close manufacturing facilities and, as a result, to incur significant impairment and restructuring charges and other related closure costs. Furthermore, during certain periods, we have also experienced an increasing demand in certain market segments and product technologies, which has led to a shortage of capacity and an increase in the lead times of our delivery to customers. See "Item 5. Operating and Financial Review and Prospects – Results of Operations – Impairment, restructuring charges and other related closure costs".

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

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

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

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

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

As we are a supplier of a broad range of products, we are required to make significant investments in R&D across our product portfolio in order to remain competitive. Many of the resulting products that we market have short life cycles, with some being one year or less. 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. On December 10, 2012, we announced our new strategic plan, centered on leadership in Sense and Power and Automotive Products and in Embedded Processing Solutions, specifically focusing on five product areas: MEMS and sensors, smart power, automotive products, microcontrollers, and application processors including digital consumer. However, there can be no assurance that we will successfully compete in each product area when our competitors' R&D investments may be higher than ours.

We regularly devote substantial resources to winning competitive 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 or in commencing volume shipments of new products as well as failure to win new design projects for customers 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 efficiency, focus or financial resources. 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. We recently experienced this in our Wireless business, which contributed to our decision to exit from our ST-Ericsson joint venture as part of our new strategic plan, leading to the impairment of our goodwill and intangible assets in ST-Ericsson. For additional information, see "Item 5. Operating and Financial Review and Prospects – Critical Accounting Policies Using Significant Estimates – Impairment of goodwill" and "– Intangible assets subject to amortization".

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

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addition, a major change, 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 change, delay or cancellation. Finally, if our customers fail to successfully market and sell their own products, it could materially adversely affect our business, financial condition and results of operations as the demand for our products falls.

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

The competitive environment of the semiconductor industry as well as the resulting consolidation and vertical integration at the customer level may lead to erosion of our market share, impact our capacity to compete and require us to restructure.

The intensely competitive environment of the semiconductor industry and the high costs associated with developing marketable products and manufacturing technologies as well as investing in production capabilities may lead to further changes, including consolidation and vertical integration, in the industry. 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. In addition, the Wireless market has recently experienced polarization and vertical integration at leading telephone manufacturers.

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 and in particular in the Wireless market. 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, further penetrate and extend our customer base and realize manufacturing improvements. In recent years the major growth of the semiconductor industry has been in Asia, supported also by more competitive production costs, resulting in a more competitive environment. We may also incur losses of market share if we are unable to take the required measures to improve our cost structure and competitiveness in the semiconductor market, such as seeking more competitive sources of production, discontinuing certain product families or performing additional restructurings, which in turn may result in loss of revenues, asset impairments and/or capital losses.

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

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

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

Risks Related to Our Operations

Market dynamics have driven, and continue to drive us, to a strategic repositioning.

In recent years, we have undertaken several new initiatives to reposition our business, both through divestitures and new investments. Our strategies to improve our results of operations and financial condition led us, and may in the future lead us, to acquire 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. 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 compete and to identify the activities in which we should no longer engage, and then determine and execute appropriate methods to divest of them.

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In 2008, we established the Numonyx joint venture by contributing our Flash memory business. We ultimately sold this business in 2010, and as a result of the negative developments in this sector, incurred significant losses and recognized impairment charges and restructuring charges, partially offset by a gain realized upon the sale of the joint venture.

After having established in August 2008 a wireless joint venture with NXP, in 2009, we contributed this joint venture to the newly established ST-Ericsson wireless joint venture. The integration process was long and complex, compounded by a rapidly changing market moving from chipsets to platforms, combining advanced solutions with both hardware and software features, and has required significant cash funding from Ericsson and us. Furthermore, the joint venture business has faced more challenges than anticipated as a result of major changes in the business of one of its largest customers, the polarization of the smartphone market and the evolution of the top players in the wireless sector towards a more vertically integrated structure. In December 2012, we announced our new strategic plan and took the decision to exit ST-Ericsson after a transition period expected to end during the third quarter of 2013. We are currently finalizing our decision regarding available strategic options, which could have a negative impact on our results in terms of additional provisions for restructuring charges and write-downs of assets. At the end of 2012, we also recognized significant impairments on the goodwill and intangible assets of ST-Ericsson and abandoned significant cash advances made together with Ericsson to support the funding requirements of our joint venture.

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 executed and possible future acquisitions, dispositions or joint ventures, will be successful and may not result in further impairment and associated charges.

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results, including the risk that we may be unable to successfully integrate businesses or teams we acquire with our culture and strategies on a timely basis or at all, and the risk that we may be required to record charges related to the goodwill or other long-term assets associated with the acquired businesses. As illustrated by the aforementioned examples of Numonyx and ST-Ericsson, 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 or divestitures may negatively impact our financial position and could require us to raise additional funding.

Other risks associated with acquisitions or joint ventures include:

- in the case of joint ventures, our ability to effectively control the joint venture, when management acts independently pursuant to the joint ventures rules of governance;
- also in the case of joint ventures, our ability to plan and anticipate business and financial results which relies, for that portion of our business, on the joint venture's management ability to plan and anticipate business and financial results and their timely and accurate reporting to us;
- the diversion of management's attention;
- insufficient IP rights or issues concerning 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;
- the ability for businesses acquired or contributed to a joint venture to maintain the quality of products and services that we have historically provided;
- our ability to attract and retain qualified management for the acquired business or business contributed to a joint venture;
- our ability to retain customers of an acquired entity or business;
- employment issues and costs linked to restructuring plans; and

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- the ability of the joint venture to succeed in a new business not associated with our core business such as the ability of our 3Sun joint venture, which we hold as an equity interest and which we have set up in Italy together with Enel and Sharp, to successfully compete in the market for photovoltaic products.

Identified risks associated with divestitures, and in particular, our decision to exit the ST-Ericsson joint venture, 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;
- impairment of goodwill and other assets associated with the business to be divested;
- issues that may arise between ST-Ericsson and customers or suppliers of ST-Ericsson; and
- employment issues and 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.

ST-Ericsson experienced greater than anticipated declining revenues and an increase in operating losses in 2012 leading to our decision to exit the ST-Ericsson joint venture.

During 2012, we continuously monitored ST-Ericsson's business evolution and evaluated their progress on a regular basis. ST-Ericsson continued to suffer in 2012 from extremely difficult conditions as well as reduced demand. Our Wireless segment revenues decreased in 2012 to \$1,345 million or approximately 13% less than the \$1,552 million registered in 2011. This significant decline in revenues led to an increase in operating losses, which reached \$885 million in 2012 compared to \$812 million in 2011, as well as a continuing negative cash flow, which reached approximately \$700 million in 2012. This negative trend and the realization that a return to profitability could no longer be anticipated in a reasonable time period without further requirements by the joint venture for financial support from us ultimately led us to decide in December 2012 to exit the ST-Ericsson joint venture. As a result, we have written off the carrying value of our goodwill and other intangible assets, recognizing an impairment charge of \$1.2 billion in 2012. We anticipate that we will complete our exit from ST-Ericsson after a transition period expected to end during the third quarter of 2013, and we are finalizing our decision regarding available strategic options, which could have a negative impact on our results in terms of additional provisions for restructuring charges and write-downs of assets. Our current best estimate is that we could have funding requirements, including the ongoing operations of ST-Ericsson during the transition period and restructuring costs, in the range of approximately \$300 million to \$500 million during 2013.

Our new strategic plan may be unsuccessful if we cannot respond to significant changes in the semiconductor market.

On December 10, 2012, we announced our new strategic plan centered on leadership in Sense and Power and Automotive Products and in Embedded Processing Solutions, which included, as part of this new plan, our decision to exit ST-Ericsson after a transition period and established a targeted operating margin of 10% or more. There can be no assurance that we will successfully implement our new strategic plan and achieve our new financial model, which is dependent upon solid revenue growth and our objective of reducing our operating costs. Our success is contingent upon our ability to respond to the following significant changes currently characterizing the semiconductor market: the long-term structural growth of the overall market for semiconductor products, which has moved from double digit average annual growth rate to a mid-single digit average growth rate over the last several years and which has become more strongly correlated with the global macroeconomic environment; the acceleration of new product innovation and the strong development of new applications in areas such as smart consumer devices, trust and data security, healthcare & wellness, and energy and power management savings; the growing importance of the Asia Pacific region, particularly Greater China and other emerging countries, which represent the fastest growing regional markets; the evolving customer demand to seek new system level, turnkey solutions from semiconductor suppliers; the evolution of the customer base, which also includes polarization and vertical integration at leading manufacturers; the expansion of available manufacturing capacity through third party providers; and the evolution of advanced process development R&D partnerships.

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 and demand for our products both adversely affect our results of operations. Since the semiconductor industry is characterized by high fixed costs, we are not always able to cut our total costs in line with revenue declines. Furthermore, in periods of lower customer demand for our products, our fabs do not operate at full capacity and the costs associated with the excess capacity are charged directly to cost of sales as unused capacity charges. Additionally, a significant number of our manufacturing facilities are located in France and Italy and their cost of operation could be significantly affected by the rise of the Euro against the U.S. dollar, our reporting currency. See “Item 5. Operating and Financial Review and Prospects – Impact of Changes in Exchange Rates”. The difficult conditions experienced in 2011 and 2012 had a significant effect on the capacity utilization and related manufacturing efficiencies of our fabs, generating significant unused capacity charges in the second half of 2011 and in 2012, which led to a significant decline in our gross margin. 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.

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, such as the Swedish Krona and the Singapore dollar) 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, in particular with respect to the Euro. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major portion 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 a significant part of our manufacturing costs, selling, general and administrative (“SG&A”) expenses, and R&D expenses, and – in certain jurisdictions – depreciation charges are incurred in the currencies of the jurisdictions in which our operations are located, which mainly includes the Euro zone. Our effective average exchange rate, which reflects actual exchange rate levels combined with the impact of cash flow hedging programs, was \$1.31 to €1.00 in 2012, compared to \$1.37 to €1.00 in 2011.

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 SG&A expenses located in the Euro zone and in Sweden. During the second quarter of 2012, we started to hedge certain manufacturing costs denominated in Singapore dollars. 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. 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”.

Our results of operations and financial condition could be adversely impacted by a negative resolution of the economic and sovereign debt crisis in Europe.

The financial markets and global economic conditions have been negatively impacted by the European sovereign debt crisis that began in 2010 and has spread to several Euro zone countries, in particular Greece, Ireland, Italy, Portugal and Spain. This resulted in a sovereign liquidity crisis, with a significant increase in the interest rates on the national debt of several Euro zone countries and the downgrading of several sovereign debt ratings, which has contributed to a general slowdown of economic growth and higher debt levels. While it appears that the financial crisis in the Euro zone may be beginning to ease, we cannot exclude a potential further deterioration of economic conditions, in particular in the event of a default by certain countries. It cannot be ruled out that the default of a Euro zone member could eventually even lead to its exit from the Euro and the readoption of a national currency.

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We have significant operations in Europe, in particular our manufacturing activities in France, Italy and Malta, where our total net assets, equivalent to total assets less total liabilities, were approximately \$4 billion as of December 31, 2012. In the event of the re-denomination of currencies of these countries, the most significant potential impact could be a material devaluation of their values against the U.S. dollar, which could lead to a significant reduction of the value of our assets when expressed in U.S. dollars.

We generate significant cash flows in the ordinary course of our business and, as a result, maintain significant cash and cash equivalents with European financial institutions. As of December 31, 2012, our cash and cash equivalents held by financial institutions in the Euro zone totaled \$829 million. While we follow internal treasury guidelines to minimize concentration and the resulting risk, in the event of a major default of European sovereign debt, particularly in France or Italy, we could suffer a negative impact on our liquidity and/or be required to recognize significant losses.

Furthermore, we have a significant amount of receivables relating to tax credits, refunds and funding from the governments of certain countries in the Euro zone. As of December 31, 2012, we had \$470 million of long-term government receivables almost entirely from France and Italy. See Note 12 to our Consolidated Financial Statements. In the event of budgetary constraints imposed to meet deficit reduction targets in these countries, governments may not meet their prior commitments, which could require us to recognize a significant loss.

Finally, in the event of a further deterioration of the sovereign financial situation, we may face difficulties obtaining sufficient financing or we may experience higher borrowing costs than those which we currently pay on our borrowings from the European Investment Bank, which is currently our major lender.

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

As a result of our choice to maintain control of a certain portion of our advanced and proprietary manufacturing technologies to better serve our customer base, significant amounts of capital to maintain or upgrade our facilities could be required in the future. We monitor our capital expenditures taking into consideration factors such as trends in the semiconductor market and capacity utilization. While our capital expenditures decreased in 2012 to \$476 million, net of proceeds from sales, compared to \$1.26 billion in 2011, these expenditures may increase in the future and if we are required to upgrade or expand the capacity of our manufacturing facilities in order to respond to customer demand for increased quantities or for new more advanced products in certain segments we serve. There is no assurance that future market demand and products required by our customers will meet our expectations. Failure to invest appropriately or in a timely manner could have a material adverse effect on our business, and results of operations. See "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources".

We may also need additional funding in the coming years to finance our investments, 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, in IP and/or in technology developed either by us or by third parties to maintain or improve our position in the market or to complement or expand our existing business. In addition, a portion of the outstanding cash is devoted to redeem maturing indebtedness and will also be required to support restructuring costs linked to our decision to exit ST-Ericsson. Although there are no current plans to issue new debt or equity, the foregoing may also require us to secure additional financing, including through the issuance of debt, equity, or both; the timing and the size of any new share or bond offering would depend upon market conditions as well as a variety of factors, and any such transaction or any announcement concerning such a transaction could materially impact the market price of our common shares. If we are unable to access such capital on acceptable terms, this may adversely affect our business and results of operations.

Our R&D efforts are expensive and dependent on technology alliances, and our business, results of operations and prospects could be materially adversely affected by the failure or termination of such alliances.

We are dependent on alliances to develop or access new technologies, particularly in light of the high levels of investment required for R&D activities, and there can be no assurance that these alliances will be successful.

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Since 2009, we have been a member of the International Semiconductor Development Alliance (“ISDA”), a technology alliance led by IBM and in which Samsung and Global Foundries are our main co-development partners, to develop complementary metal on silicon oxide semiconductor (“CMOS”) process technology used in semiconductor development and manufacturing up to 20nm node. This alliance also includes collaboration with IBM on IP development and platforms to speed the design of System on Chip (“SoC”) devices in CMOS process technologies. We recently extended and amended our participation in this alliance to cover further developments up to 7nm node. See “Item 4. Information on the Company – Research and Development”.

To support our proprietary R&D investments for derivative technology investments and investments in cooperative R&D ventures such as the ISDA alliance, we have benefited from state funding, such as Crolles Nano-2012 frame agreement (the “Nano-2012 agreement”) signed by us with the French government in 2009, covering the period from 2009 to 2012. We are currently negotiating with the French government to establish a new Crolles Nano frame agreement for the period 2013 to 2017. There can be no assurance that our discussions for a new frame agreement will provide for a continuation of a program funded by the French government or that any such funding will ultimately be received. If no agreement is reached, we could experience a material adverse effect on our business and financial results and may not be able to continue our participation in certain technology alliances.

Our R&D alliances provide 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, they contribute to the fast acceleration of semiconductor process technology development while allowing us to lower our development and manufacturing costs. However, there can be no assurance that alliances will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. Certain companies develop their own process technologies, which may be more advanced than the technologies we develop through our cooperative alliances. Furthermore, if these alliances terminate before our intended goals are accomplished we may lose our investment, or incur additional unforeseen costs, and our business, results of operations and prospects could be materially adversely affected. In addition, if we are unable to develop or otherwise access new technologies independently, we may fail to keep pace with the rapid technology advances in the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share in the markets addressed by our products.

We also receive a material amount of R&D tax credits in France, which are directly linked to the amount spent for our R&D activities. In 2012, we booked \$152 million, which reflected amounts relating to our R&D activities in France during 2012. In 2011 and 2010, the amounts were \$159 and \$146 million, respectively. In the event of a change in the French R&D tax credit regime, this could affect our continued ability to invest in R&D as we currently do and we could experience a material adverse effect on our business and financial results.

If we fail to meet the condition and approval requirements applicable to public funding we have received in the past, we may face demands for repayment, which may increase our costs and impact our results of operations.

Like many other manufacturers operating in Europe, we have benefited from governmental funding for R&D expenses and certain industrialization costs. 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. These agreements also set forth certain conditions relating to the nature and amount of the investments, as well as employment. See “Item 4. Information on the Company – Public Funding”.

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 under certain circumstances be required to refund previously received amounts, which could have a material adverse effect on our results of operations. In addition, if we do not complete projects for which public funding has been approved, or meet certain objectives set forth in funding programs, which may include certain conditions of employment and manufacturing capacity to be met, we may be required to repay any advances received for ongoing milestones, which may lead to a material adverse effect on our results of operations and our financial position. See “Item 4. Information on the Company – Public Funding”.

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 21 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-method investments;
- fluctuations in currency exchange rates, particularly between the U.S. dollar and other currencies in jurisdictions where we have activities;
- IP developments;
- receipt of governmental funding;
- changes in distribution and sales arrangements;
- failure to win new design projects;
- manufacturing performance and yields;
- product liability or warranty claims;
- litigation;
- taxation;
- 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".

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

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

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

We cannot predict the rate, or the extent to which, the telecommunications, consumer, computer peripherals, automotive and industrial markets will grow. Changes in these markets, coupled with a lower penetration of certain of our customers, in particular in Wireless, resulted in slower growth and a decline in demand for our products, which had a material adverse effect on our business, financial condition and results of operations.

In addition, our 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 who are successful in identifying and serving new potential, fast-growing markets. The competition for such new customers or new markets is intense. There can be no assurance that we will be successful in attracting and retaining new customers or be able to identify early on any new market prospects. Our failure to do so could materially adversely affect our business, financial position and results of operations.

Our business is also dependent upon continuing to supply existing large customers, their business success and the fit of our product offering with their products road-map. Our customers' products strategy may change from time to time and we have no certainty that our business, financial position and results of operations will not be affected.

Disruptions in our relationships with any one of our key customers, and/or material changes in their strategy or 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 agreements with us. However, in 2012, none of our customers represented 10% or more of our revenues. We cannot guarantee that our largest customers will continue to book the same level of sales with us that they have in the past, or will not solicit alternative suppliers or will continue to succeed in the markets they serve. 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 and have vertically integrated their businesses. Such consolidations and vertical integrations 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 important design wins for our products with our key customers, or if any key customer or distributor 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. 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 understand 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 the earlier of such moment when the customer chooses to take delivery of our products from our consignment stock and the expiry of a defined period of time.

Our operating results can also vary significantly due to impairment of goodwill and other intangible assets incurred in the course of acquisitions and equity investments, 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, other intangible assets and equity investments booked pursuant to acquisitions, joint venture agreements and the purchase of technologies and licenses from third parties. Because the market for our products is characterized by rapidly changing technologies, significant changes in the semiconductor industry, and the potential failure of our business initiatives, our future cash flows may not support the value of goodwill and other intangibles registered in our consolidated balance sheet. We are required to perform an impairment test of our goodwill on an annual basis, which is done in the third quarter. In addition, we are also required 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 an impairment charge in our consolidated 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. Any potential impairment, if required, could have a material adverse impact on our results of operations.

We performed our annual impairment test in the third quarter of 2012 and, with the exception of our Wireless business discussed below, incurred no charge as the value generated by those reporting units exceeded the carrying value of their assets. We also performed an impairment test of our Wireless assets on a quarterly basis as a result of the ongoing losses suffered in that segment, and booked an impairment charge in the third quarter of \$690 million. As part of our new strategic plan announced on December 10, 2012, we decided to exit the ST-Ericsson joint venture. Following this decision, we performed an additional impairment test and booked an additional impairment charge of \$544 million, leading to a total impairment charge in 2012 in the amount of \$1,234 million relating to our goodwill and other intangible assets in the Wireless business. See “– ST-Ericsson experienced declining revenues and an increase in operating losses in 2012 leading to our decision to exit the ST-Ericsson joint venture” and “Item 5. Operating and Financial Review and Prospects – Overview – Critical Accounting Policies Using Significant Estimates – Impairment of goodwill”, “– Intangible assets subject to amortization” and “– Income (loss) on Equity-method Investments”.

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

Our ability to meet our customers’ demand to manufacture our products depends upon obtaining adequate supplies of quality raw materials on a timely basis. A number of materials are available only from a limited number of suppliers, or only from a limited number of suppliers in a particular region. In addition, we purchase raw materials such as silicon wafers, lead frames, mold compounds, ceramic packages and chemicals and gases from a number of suppliers on a just-in-time basis, as well as other materials such as copper and gold whose prices on the world markets have fluctuated significantly during recent periods. Although supplies for the raw materials we currently use are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. In addition, the costs of certain materials, such as copper and gold, have increased due to market pressures and we may not be able to pass on such cost increases to the prices we charge to our customers. We also purchase semiconductor manufacturing equipment from a limited number of suppliers and, because such equipment is complex, it is difficult to replace one supplier with another or to substitute one piece of equipment for another. In addition, suppliers may extend lead times, limit our supply or increase prices due to capacity constraints or other factors. Furthermore, suppliers tend to focus their investments on providing the most technologically advanced equipment and materials and may not be in a position to address our requirements for equipment or materials of older generations. Shortages of supplies have in the past impacted and may in the future impact the semiconductor industry, in particular with respect to silicon wafers due to increased demand and decreased production, which we experienced as a result of certain natural disasters that have occurred in recent years. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurance 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 front and back-end activities, and we will increasingly rely on foundries for a portion of our needs. The foundries we contract with are primarily manufacturers of high-speed

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complementary metal-on silicon oxide semiconductor ("HCMOS") wafers, while our back-end subcontractors engage in the assembly and testing of a wide variety of packaged devices. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. Our internal manufacturing costs include depreciation and other fixed costs, while costs for products outsourced are based on market conditions. Prices for these services also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter to quarter and, in cases of industry shortages, they can increase significantly further, negatively impacting our gross margin and our results of operations.

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 using ever finer geometries, 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.

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

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

We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other IP rights. Some of those claims are made by so called non-practicing entities against which we are unable to assert our own broad patent portfolio to lever licensing terms and conditions. Competitors with whom we do not have patent cross-license agreements may also develop technologies that are protected by patents and other IP rights and which may be unavailable to us or only made available on unfavorable terms and conditions. We may therefore become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. We are currently involved in several lawsuits. See "Item 8. Financial Information – Legal Proceedings". IP litigation and specifically litigation in the U.S. International Trade Commission ("ITC") may also involve our customers who in turn may seek indemnification from us should we not prevail and/or who may decide to curtail their orders for those of our products over which claims have been asserted before the ITC. Such lawsuits may therefore have a material adverse effect on our business. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third party IP and/or face an injunction.

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The outcome of IP litigation, given the complex technical issues it involves, is inherently uncertain and may divert the efforts and attention of our management and other specialized technical personnel. Furthermore, litigation can result in significant costs and, if not resolved in our favor, could materially and adversely affect our business, financial condition and results of operations.

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. We may face product liability or warranty claims based on epidemic, security or delivery failures. Although our general practice, in line with industry standards, is to contractually limit our liability to the repair, replacement or refund of defective products, warranty or product liability claims could result in significant expenses relating to compensation payments or other indemnification to maintain good customer relationships if a customer threatens to terminate or suspend our relationship pursuant to a defective product supplied by us. No assurance can be made that we will be successful in maintaining our relationships with customers with whom we incur quality problems, which could have a material adverse effect on our business. Furthermore, we could incur significant costs and liabilities if litigation occurs to defend against such claims and if damages are awarded against us. In addition, it is possible for one of our customers to recall a product containing one of our parts. Costs or payments we may make in connection with warranty claims or product recalls may adversely affect our results of operations. There is no guarantee that our insurance policies will be available or adequate to protect us against such claims.

Our information technology systems are subject to security breaches and other cybersecurity incidents.

We may face attempts by others to penetrate our information technology systems and networks to misappropriate our proprietary information and technology or interrupt our business. To the extent that any disruptions or security breaches, which are not addressed by the preventative measures we consistently seek to implement, result in a loss or damage to our data, or inappropriate disclosure of proprietary information, this could ultimately harm our business.

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

Loss of key employees could hurt our competitive position.

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

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

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

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

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. This assessment requires the exercise of judgment on the part of our management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income that is sufficient to utilize loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. The recorded amount of total deferred tax assets could be reduced, resulting in a loss in our consolidated income statement, a decrease in our total assets and, consequently, in our stockholders' equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in management's assessment or due to other factors, such as divestitures, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize tax loss and credit carry-forwards in the future. For example, our decision to exit the ST-Ericsson joint venture led to additional valuation allowances recorded on certain deferred tax assets related to ST-Ericsson, which are no longer supported by tax planning strategies. See "Item 5. Operating and Financial Review and Prospects – Results of Operations – Income tax expense". A change in the estimated amounts and the character of the future result may require additional valuation allowances, resulting in a negative impact on our consolidated income statement.

We are subject to the possibility of loss contingencies arising out of tax claims, assessment of uncertain tax positions and provisions for specifically identified income tax exposures. There are currently tax audits ongoing in certain of our jurisdictions, which could result in material adjustments in our tax position. There can be no assurance that we will be successful in resolving potential tax claims that arose or 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 consolidated income statement and our financial position.

We are required to prepare financial statements under IFRS in addition to Consolidated Financial Statements under U.S. GAAP, and such dual reporting may impair the clarity of our financial reporting.

We use U.S. GAAP as our primary set of reporting standards. Applying U.S. GAAP in our financial reporting is designed to ensure the comparability of our results to those of our competitors, as well as the continuity of our reporting, thereby providing our stakeholders and potential investors with a clear understanding of our financial performance. As we are incorporated in The Netherlands and our shares are listed on Euronext Paris and on the Borsa Italiana, we are subject to EU regulations requiring us to also report our results of operations and financial statements using IFRS.

As a result of the obligation to report our financial statements under IFRS, we prepare our results of operations using both U.S. GAAP and IFRS, which are currently not consistent. Such dual reporting can materially increase the complexity of our financial 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.

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, 2012. However, in the future, if we fail to complete a favorable assessment from our management or to obtain an "unqualified" 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 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, 2012, 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. On June 1, 2012, STMicroelectronics Holding II B.V. ("ST Holding II") merged with ST Holding, as a result of which, ST Holding acquired all of the assets and liabilities of ST Holding II, including our common shares held by ST Holding II, by universal transfer of title, and ST Holding II ceased to exist.

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, *Commissariat à l'Energie Atomique et aux Energies Alternatives* ("CEA"), *Fonds Stratégique d'Investissement* ("FSI"), FT1CI, a company jointly controlled by CEA and FSI, and the Italian *Ministero dell'Economia e delle Finanze* (the "Ministry of the Economy and Finance"). Each of these shareholders 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 6. Directors, Senior Management and Employees". 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. Our ability to issue new shares or other securities may be limited by the existing shareholders' desire to maintain their proportionate shareholding at a certain minimum level and our ability to buy back shares may be limited by our existing shareholders due to a Dutch law that may require shareholders that own 30% or more of our voting rights to launch a tender offer for our outstanding shares. Dutch law, however, requires members of our Supervisory Board to act independently in supervising our management and to comply with applicable corporate governance standards.

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

We have an option agreement (the "Option Agreement") with an independent foundation, Stichting Continuïteit ST (the "Stichting"), whereby we could issue a maximum of 540,000,000 preference shares in the event of actions considered hostile by our Managing Board and Supervisory Board, such as a creeping acquisition or an unsolicited offer for our common shares, which are unsupported by our Managing Board and Supervisory Board and which the board of the Stichting determines would be contrary to the interests of our Company, our shareholders and our other stakeholders. See "Item 7. Major Shareholders and Related Party Transactions – Major Shareholders – Shareholders' Agreement – Preference Shares".

No preference shares have been issued to date. The effect of the issuance of preference shares pursuant to the Option Agreement 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, our shareholders have authorized us to issue additional capital within the limits of the authorization by our shareholders' meeting, subject to the requirements of our Articles of Association, without the need to seek a specific shareholder resolution for each capital increase. See "Item 7. Major Shareholders and Related Party Transactions – Major Shareholders – Shareholders' Agreement – Preference Shares".

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 issuances 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 CEA, FSI, FT1CI, our French Shareholder controlled by FSI and CEA, and the Ministry of the Economy and Finance, our Italian

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Shareholder, permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at any time from their current level, thereby reducing the current level of their respective indirect interests in our common shares. Such disposals could be made by way of sales of our shares or through issuance of financial instruments exchangeable for our shares, equity swaps or structured finance transactions. The details of the STH Shareholders' Agreement, as reported by its parties, are further explained in "Item 7. Major Shareholders and Related Party Transactions – Major Shareholders". An announcement with respect to one or more of such dispositions could be made at any time without our advance knowledge.

Sales of our common shares or the issuance of financial instruments exchangeable into our common shares or any announcements concerning a potential sale by ST Holding, FT1CI, FSI, CEA or the Ministry of the Economy and Finance, could materially impact the market price of our common shares depending on the timing and size of such sale, market conditions as well as a variety of factors.

In addition, substantial issuances by us of new common shares or convertible bonds could cause our common share price to drop significantly as a result of substantial dilution in the percentage of our shares held by our then existing shareholders. The issuance of common stock for acquisitions or other corporate actions may have the effect of diluting the value of the shares held by our shareholders, and might have an adverse effect on any trading market for our common stock.

Because we are 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 Managing and Supervisory Boards 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 and most members of our Managing and Supervisory Boards are residents of jurisdictions other than the United States and Canada. As a result, it may be difficult or impossible for shareholders to effect service within the United States or Canada upon us, ST Holding, 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 Dutch counsel that the United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a consequence, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, will not be enforceable in The Netherlands. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to The Netherlands court the final judgment that has been rendered in the United States. If The Netherlands court finds that the jurisdiction of the federal or state court in the United States has been based on grounds that are internationally acceptable and that proper legal procedures have been observed, the court in The Netherlands would, under current practice, give binding effect to the final judgment that has been rendered in the United States unless such judgment contradicts The Netherlands' public policy.

Removal of our common shares from the CAC 40 on Euronext Paris, the FTSE MIB on the Borsa Italiana or the PHLX Semiconductor Sector Index ("SOX") with respect to the U.S. markets could cause the market price of our common shares to drop.

Our common shares have been included in the CAC 40 index on Euronext Paris since November 12, 1997; the FTSE MIB index (which replaced the S&P/MIB on June 1, 2009), on the Italian Stock Exchange, since March 18, 2002; and the SOX since June 23, 2003. However, our common shares could be removed from the