STMicroelectronics N.V.

Annual Report 2010

Statement of the Managing Board

The Managing Board hereby declares that, to the best of its knowledge, the statutory financial statements as at December 31, 2010 and for the year then ended, prepared in accordance with IFRS and Title 9 of Part 2 of the Netherlands Civil Code provide a true and fair view of the assets, liabilities, financial position and profit or loss of STMicroelectronics N.V. and the undertakings included in the consolidation taken as a whole and the Director’s report includes a true and fair review concerning the position as per the statement of financial position date, the development and performance of STMicroelectronics N.V. and the undertakings included in the consolidation taken as a whole, together with the principal risk and uncertainties they face.

Carlo Bozotti,

Sole member of the Managing Board,

President and Chief Executive Officer

This 2010 statutory annual report has been approved and duly signed on March 11, 2011 for presentation to the STMicroelectronics N.V. 2011 Annual General Meeting of shareholders by:

THE MANAGING BOARD

Carlo Bozotti (President and Chief Executive Officer)

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THE SUPERVISORY BOARD

Antonino Turicchi (Chairman)

____

Gérald Arbola (Vice Chairman)

____

Raymond Bingham

____

Douglas Dunn

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Didier Lombard

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Alessandro Ovi

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Bruno Steve

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Tom de Waard

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1. Message from the President and CEO on the financial year 2010

Dear Shareholder,

2010 marked a milestone in the history of STMicroelectronics, as it was the year of our full recovery after the deep 2009 worldwide recession and, most importantly, a year of records, both in our financial performance and in our ongoing operations.

Throughout 2010 we delivered significant improvement on our financial performance in four major areas: revenue and earnings, financial returns, capital structure and strategic initiatives.

- We reached the highest revenue level in our history, a record $10.35 billion, and, at the bottom-line, we delivered earnings of $867 million.
- In terms of financial returns, we met or exceeded almost all of the key financial targets we had set for 2010. In the Automotive, Consumer, Computer and Communication Infrastructure (ACCI) business we had targeted an operating margin in the high single digits for year-end and we exceeded it in second half of 2010, with double-digit operating margins. For the Industrial and Multisegment (IMS) business the target operating margin was in the high teens by year-end. IMS exceeded it, exiting the year with Operating Margin in the low twenties. We met our target range on return on net assets attributable to ST, while sustaining an exceptional period of investment in wireless research and development.
- In terms of capital structure, we managed through the downturn to maintain a strong focus on cash flow generation while continuing to invest significantly in new technologies, expand our manufacturing capacity, support ST-Ericsson and return cash to shareholders through dividends.
- Our financial resources amounted to $2,922 million as at December 31, 2010 compared to $2,912 million a year ago while at the same time, our interest bearing loans and borrowings decreased by $649 million to $1,746 million as at December 31, 2010. Our effort brought us to improve our net financial position (ie. the difference of financial resources minus loans) by 659 million
- Finally, we delivered on our strategic initiatives by completing the divestiture of our FLASH memory business with the sale of Numonyx to Micron Technology, Inc.

To achieve these outstanding results we kept a relentless focus on the key company priorities we committed to at the beginning of the year:

- Priority number one was ST-Ericsson and its recovery. During 2010, ST-Ericsson completed its restructuring according to plan while, at the same time, executing on its transition to a new competitive smartphone and tablet portfolio that is already gaining traction with a number of top-tier customers.
- Priority number two was to quickly ramp-up additional capacity, with the double aim of serving the demands of our customers and improving our manufacturing costs also as a result of higher production volumes. In fact, we increased our overall front-end capacity by about 20% in comparison to the fourth quarter of 2009 in a fast response to the first signs of market recovery. We grew in capacity in advanced CMOS technology in our 300 mm fab in Crolles, France, where we also added 32 nanometers R&D capability. In addition, we increased capacity in our Agrate, Italy, 200 mm fab, both for smart-power technologies and MEMS, and in our Singapore fabs. Finally, we expanded procurement of wafers from silicon foundries.
- Priority number 3 was to grow faster than the markets we serve, through a number of focused strategic initiatives. In 2010 we achieved this in both our Automotive, Consumer, Computer and Communication Infrastructure (ACCI) and our Industrial and Multisegment (IMS) businesses, which, in combination, grew 38 percent in 2010 or about 6 points faster than our estimated served market.
- An important factor in achieving these results was our success in delivering upon our fourth priority: to obtain more value from our products by significantly increasing our sales from new, innovative products.
- In 2010 we were also able to reap the benefits of the strong Research and Development efforts we relentlessly maintained during the last two turbulent years.

In terms of products, MEMS have become pervasive in the exciting smart consumer devices market and during the year we achieved the milestone of shipping our one billionth MEMS device. Also, our new 32-bit microcontrollers and our industrial, analog and automotive products performed strongly on the market with numerous significant breakthroughs.

- Priority number 5 was to continue to excel in our Corporate Responsibility initiatives, with an even stronger focus on people.

  In 2010, our long-standing engagement with Corporate Responsibility was widely recognized and rewarded. We continued to be one of the companies included in all of the top five Socially Responsible Investment indices; in addition we received awards from Nokia and the European Institute of Purchasing Management for our continuous involvement in Sustainable Development. Moreover, we were also included for the first time in the "Global 100 Most Sustainable Corporations" by the "Corporate Knights" publication.

  Our Sustainability strategy addresses fundamental issues that are drivers for our business success; in 2010, our main focus was on People Engagement, Talent Management, Eco-Design and Responsible Products in the domains of energy and healthcare.

  In addition to maintaining strong progress in the environmental field, we also achieved excellent results in the safety field, with steady improvement versus 2009; we successfully continued the deployment of our Company Health Plan and, over the last 18 months, more than 36,700 ST people around the world had medical check-ups paid for by the Company.

On the subject of the ST people — our main, invaluable strength - I would like to emphasize that we have only been able to achieve such record results with the continued support of our employees, all of whom have remained focused and dedicated to the future of ST through all the difficulties and the challenges of 2009. On behalf of the entire Management Team, I wish to express to them our deep gratitude.

Today, ST is a much stronger company. As a result of our actions in 2010, we are now better positioned to achieve worldwide an undisputed leadership in the two application fields that form our vision: sensing and power applications and multimedia convergence applications.

We are also ideally positioned to address the four key growth application areas that we are targeting: energy management and saving, smart consumer devices, trust and data security, and healthcare and wellness.

These are the areas where we see tremendous opportunities, driven by people's and our planet's needs. We've always been at the forefront in facing such societal and economic challenges and we will continue along this road.

As we enter 2011 key new products continuing to ramp will include gyroscopes, accelerometers, 32-bit microcontrollers, and automotive products among others. New products that will contribute to our growth in the coming quarters include SoCs for 3-D and connected TVs, MEMS microphones and pressure sensors and advanced analog products for medical and smart grid applications. Also, ST-Ericsson will ramp new products, such as their thin modem and, in the second half of the year, their U8500 smartphone platform.

While the semi-conductor industry is expected to grow in 2011, although at a much more moderate rate compared to the strong growth in 2010, based on current market conditions, we believe we are positioned to deliver above market revenue growth accompanied by further year-over-year improvements in operating profitability. We are well-positioned for success in our traditional and new growth markets including energy savings, data security, healthcare and wellness, as well as smart consumer devices.

In order to fuel revenue growth faster than the served market dynamic and to support our innovative product portfolio, particularly for MEMS, automotive and the U8500 smartphone platform, we expect to invest approximately $1.1 billion to $1.5 billion in 2011 based on revenue growth.

Our recipe for future success is clear and simple: we will continue to deliver, according to our vision to be the undisputed leader in both sensing and power applications and multimedia convergence applications, enabling and driving our customers to provide benefits to everyone: a greener planet, a higher quality of life, a richer lifestyle, a safer society.

In a world that is changing at an ever-increasing pace, it is imperative to always be one step ahead, anticipating and then riding the new waves of human needs. This one of ST's traditional strengths and recent examples include our intuition, before anyone else, to bring sensors into everyday life and our anticipation of the global need for better energy management and savings.

Intuition, innovation, continuous investment in R&D, the skills and energy of our outstanding employees and solid execution are the strengths that will allow us to create ultimate value for our shareholders and stakeholders and to continue to be a driving force in our industry.

Carlo Bozotti

Sole member of the Managing Board

President and CEO

2. Corporate overview

2.1. History and development of STMicroelectronics

STMicroelectronics N.V. ("STMicroelectronics" or "ST") is 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.

STMicroelectronics was created in 1987 by the merger of SGS Microelettronica of Italy and Thomson Semiconducteurs of France. STMicroelectronics totals more than 53,000 employees, 16 advanced R&D units, 39 design and application centers, 15 main manufacturing sites and 78 sales offices in 36 countries.

We have our corporate legal seat in The Netherlands. Our corporate headquarters and the headquarters for Europe, the Middle East and Africa (EMEA) are seated in Geneva. The U.S. Headquarters are in Carrollton (Texas), Asia-Pacific is in Singapore, the Japanese operations in Tokyo and the 'Greater China' region is headquartered in Shanghai. Our shares are traded on the New York Stock Exchange, on Euronext Paris and on the Milan Stock Exchange.

2.2. Strategy & objectives

The semiconductor industry has historically been a cyclical one. After experiencing a strong recovery from the difficult market conditions of the second half of 2008 and the whole of 2009, it continues to undergo several significant structural changes. Our strategy within this challenging environment is designed to focus on the following complementary key elements: broad, balanced market exposure; product innovation; customer-based initiatives; a global integrated manufacturing infrastructure; reduced asset intensity; process research and development leadership; integrated presence in key regional markets; product quality excellence; sustainable excellence and compliance; and creating shareholder value.

2.3. Organizational structure

STMicroelectronics is a multinational group of companies with management organized in a matrix structure with geographical regions interacting with product divisions, both being supported by central functions. The objective is to bring all levels of management closer to the customer and to facilitate communication among research and development, production, marketing and sales organizations.

While STMicroelectronics N.V. is the parent company, we also conduct our operations through our subsidiaries, which are organized and operated according to the laws of their country of incorporation, and consolidated by our company. We provide certain administrative, human resources, legal, treasury, strategy, manufacturing, marketing and other overhead services to our consolidated subsidiaries pursuant to service agreements for which we receive compensation.

2.4. Products and activities

STMicroelectronics produces one of the industry's broadest ranges of semiconductor products, from discrete diodes and transistors through complex System-on-chips (SoC) devices to complete platform solutions that bundle chips with reference designs, application software, and manufacturing tools and specifications. Our products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods for a wide range of microelectronic applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems.

2.5. Sales

In 2010, we operated regional sales organizations in EMEA (which includes all of Europe, the Middle East and Africa), the Americas, Greater China-South Asia, Japan-Korea.

2.6. Research & Development

STMicroelectronics has maintained an unwavering commitment to R&D and is one of the industry’s most innovative companies. We believe that both Product & Technology and research and development are critical to our success and therefore we spend a large part of our revenues on R&D activities. The main challenge we face is to continually increase the functionality, speed and cost-effectiveness of our semiconductor devices, while ensuring that technological developments translate into profitable commercial products as quickly as possible. We are market driven in our R&D and focused on leading edge products and technologies developed in close collaboration with partners, such as, among others, leading universities and research institutions, certain competitors, key customers and global equipment manufacturers.

2.7. Sustainable Excellence

STMicroelectronics was one of the first global industrial companies to recognize the importance of environmental responsibility, its initial efforts beginning in the early 1990s. Since then we have made outstanding progress. For example: energy and water consumption per product unit have been reduced by 5% and 9% per year, respectively since 1994. CO_2 emissions have been reduced by 61% over the same timescale. In 2006 and 2007 we achieved absolute reductions in CO_2 emissions despite increased production volumes. Over the past 15 years, our sites have received more than 100 awards for excellence in all areas of Corporate Responsibility, from quality to corporate governance, social issues and environmental protection.

STMicroelectronics is a member of the key sustainability indices DJSI (Dow Jones Sustainability Index), FTSE4Good and ASPI (Advanced Sustainability Performance Index). Our corporate responsibility policy is detailed in our Principles for Sustainable Excellence, while our performance in terms of economic, social, environment, health & safety, product responsibility and supply chain issues are reported in detail in our annual Corporate Responsibility Report.

3. Report of the Managing Board

In accordance with Dutch law, our management is entrusted to the Managing Board under the supervision of our Supervisory Board. Mr. Carlo Bozotti, sole member of the Managing Board and President and Chief Executive Officer, was re-appointed in 2008 for a three-year term to expire at the end of our Annual Shareholders' Meeting in 2011. Mr. Carlo Ferro, Chief Financial Officer, Mr. Alain Dutheil, Chief Operating Officer and Mr Didier Lamouche, successor to Mr Alain Dutheil as COO from January 26, 2011, report to Mr. Bozotti.

3.1. Business overview & performance

3.1.1. Full Year 2010 results highlights

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

In 2010, the semiconductor industry significantly rebound after the previous year decline, with the total revenues reaching new historically high levels.

Based on published industry data by WSTS, semiconductor industry revenues increased in 2010 on a year-over-year basis by approximately 32% for the TAM and 26% for the SAM to reach approximately $298 billion and $171 billion, respectively.

With reference to our business performance, in 2010 we registered a solid progression in terms of revenues, with particularly strong results noted by the ACCI and IMS product segments. Our yearly revenues increased to $10,346 million, our highest ever net revenues, resulting in a 21.6% increase over 2009; this performance was below the SAM, as a combination of IMS and ACCI growing faster than their served market and Wireless declining in a growing market due to product portfolio transition.

Our effective average exchange rate for 2010 was $1.36 for €1.00 compared to $1.37 for €1.00 for 2009.

Our 2010 gross margin reached 35.5% of revenues, increasing by 9.2 percentage points compared to the prior year. The main factors contributing to the improvement during 2010 were: (i) higher sales volume and, consequently, the improved loading of our fabs, while the 2009 gross margin was penalized by approximately 4 percentage points by the unused capacity charges; (ii) overall improvement in our manufacturing efficiencies resulting from our cost optimization initiatives and restructuring plans; and (iii) new product introductions in several of our product lines.

Our total operating expenses, combining the selling, general and administrative ("SG&A") and research and development ("R&D") expenses, decreased by $227 million compared to the prior year taking advantage of the cost saving initiatives and as a result of an increase of the amount of capitalized development costs, while we maintained our commitment to support significant investments in the research and development activities.

The 2010 overall improvement of our performances, particularly in terms of higher revenues and manufacturing efficiencies, coupled with a strong decrease in the amount of impairment and restructuring charges, led to a significant turnaround of our operating results, moving from a loss of $860 million in 2009 to an income of $687 million in 2010. Our continued effort to develop new and exciting products has started to translate into increased profitability as operating results improved in 2010 by approximately $1.5 billion on $1.8 billion of higher revenues.

In summary, our profitability in 2010 was generated by the following factors:

- strong progression of our revenues; and
- overall improvement of our manufacturing performances.

These factors were partially offset by the following elements:

- negative pricing trend; and
- the losses of ST-Ericsson JVS, half of which were attributed to non-controlling interest.

ACCI and IMS achieved record sales in 2010, accompanied by further improvements at the operating profit level, with ACCI operating margin increasing to 9.8% and IMS rising to 17.5%. In Wireless, while operating losses remain very significant, ST-Ericsson has completed its restructuring plan and is now well on its way to complete the transition to its new product portfolio.

Our strong sales result, driven by our innovative product portfolio combined with our costs optimization initiatives, enabled us to generate net earnings of $867 million (2009: loss of $1,003 million) for the year.

In 2010, we were well prepared to take advantage of significantly better industry conditions with the right portfolio and we have started to turn our vision of leadership in “Sense and Power” applications and in multimedia convergence into reality. In the last two years, we went through the most severe economic recession and successfully capitalized on the 2010 market recovery. Throughout this time frame, we remained focused on our growth and profitability objectives. Today, our innovative products, which have leadership positions in highly successful applications, customer base and solid capital structure, make us a much stronger company.

3.1.2. 2010 Business Overview

3.1.2.1. Strategy

We aim to become the undisputed leader in multimedia convergence, power and sensor applications, dedicating significant resources to product innovation and increasingly becoming a solution provider in order to drive higher value and increase our market share in the markets we serve. As a worldwide semiconductor leader, we are well positioned to implement our strategy after having accomplished two major strategic transformations, namely a refocus of our product portfolio and our move towards being an asset lighter company. In addition, our strategy to enhance market share by developing innovative products and targeting new key customers is gaining momentum. Our strong capital structure enables us to operate as a long-term, viable supplier of semiconductor products and to possibly participate as a consolidator into the industry consolidation in high margin segments like advanced analog, MEMS, microcontrollers and automotive.

The semiconductor industry, after having experienced a strong recovery from the difficult market conditions of the second half of 2008 and the whole of 2009 continues to undergo several significant structural changes characterized by:

- the changing long-term structural growth of the overall market for semiconductor products, which has moved from double-digit average growth rate to single-digit average growth rate over the last several years;
- the strong development of new emerging applications in areas such as wireless communications, mobile Internet access and smart consumer devices, home digital consumer as well as for energy saving and healthcare & wellness;
- the importance of the Asia Pacific region, particularly China, Taiwan and other emerging countries, which represent the fastest growing regional markets;
- the importance of convergence between wireless, consumer and computer applications, which drives customer demand to seek new system-level, turnkey solutions from semiconductor suppliers;
- the evolution of the customer base from original equipment manufacturers (“OEM”) to a mix of OEM, electronic manufacturing service providers (“EMS”) and original design manufacturers (“ODM”);
- the expansion of available manufacturing capacity through third-party providers;
- the evolution of advanced process development R&D partnerships;
- and the recent consolidation process, which may lead to further strategic repositioning and reorganization amongst industry players.

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

Broad, balanced market exposure. We offer a diversified product portfolio and develop products for a wide range of market applications using a variety of technologies, thereby reducing our dependence on any single product, application or end market. Within our diversified portfolio, we have focused on developing products that leverage our technological strengths in creating customized, system-level solutions for high-growth digital, advanced analog, MEMS and mixed-signal applications. We target five key markets comprised of: (i) industrial and multisegment products, including high performance analog solutions, MEMS, micro-controllers, digital audio, power supply, motor-control, metering, banking and Smartcard; (ii) digital consumer, including set-top boxes and digital TVs; (iii) automotive, including engine, body, safety and infotainment; (iv) ASICs for communication infrastructure and computer peripherals, such as printers; (v) wireless communications and portable multi-media; mostly through a 50-50% Joint Venture.

Product innovation. We aim to be leaders in multi-media convergence and power applications. In order to serve these segments, our plan is to maintain and further establish existing leadership positions for (i) platforms and chipset solutions for multimedia applications; and (ii) power applications, which are driving system solutions for customer specific applications. We have the knowledge, partners and financial resources to develop new, leading edge products, such as cellular modems and application processor solutions for wireless, MEMS, digital consumer products focused on set-top boxes and digital TVs and system-oriented products for the multi-segment sector. We are also targeting new end markets, such as medical and energy saving applications.

Customer-based initiatives. We have a strategy based on four tenets, which we believe will help us gain market share. First, we work with our key customers to identify evolving needs and new applications in order to develop innovative products and product features. We have formal alliances with certain strategic customers that allow us and our customers to exchange information and which give our customers access to our process technologies and manufacturing infrastructure. Secondly, we are targeting new major key accounts, where we can leverage our position as a supplier of application-specific products with a broad range product portfolio to better address the requirements of large users of semiconductor products with whom our market share has been historically quite low. Thirdly, we have targeted the mass market, or those customers outside of our traditional top 50 customers, who require system-level solutions for multiple market segments. Finally, we have focused on two regions as key ingredients in our future sales growth. The first is Greater China-South Asia and the second is Japan-Korea. We have launched important marketing initiatives in both regions.

Global integrated manufacturing infrastructure. We have a diversified, leading-edge manufacturing infrastructure, comprising front-end and back-end facilities, capable of producing silicon wafers using our broad process technology portfolio, including our CMOS, BiCMOS, BCD and MEMS technologies as well as our discrete technologies. Assembling, testing and packaging of our semiconductor products take place in our large and modern back-end facilities, which generally are located in low-cost areas. In order to ensure adequate flexibility, we continue to utilize outside contractors for certain foundry and back-end services.

Reduced asset intensity. While confirming our mission to remain an integrated device manufacturing company, and in conjunction with our decision to pursue the strategic repositioning of our product portfolio, we have decided to reduce our capital intensity in order to optimize opportunities between internal and external front-end production, reduce our dependence on market cycles that impact the loading of our fabs, and decrease the impact of depreciation on our financial performance. We have been able to reduce the capex-to-sales ratio from a historic average of 26% of sales during the period of 1995 through 2004, to approximately 8.6% of sales in the last three years aggregated.

Project research and development ("R&D") leadership. The semiconductor industry is increasingly characterized by higher costs and technological risks involved in the R&D of leading edge CMOS process development. These higher costs and technological risks have driven us to enter into cooperative partnerships, in particular for the development of basic CMOS technology. We are a member of ISDA, a technology alliance led by IBM with GlobalFoundries, Freescale, Infineon, Renesas, Samsung and Toshiba to develop the CMOS process technology for 32/28-nm and 22/20-nm nodes. Furthermore, in order to maintain our differentiation capabilities through process technology leadership, we are continuing our development of proprietary derivatives of CMOS process technologies and of Smart Power, analog, discretes, MEMS and mixed signal processes, for which R&D costs are significantly lower than for CMOS.

Integrated presence in key regional markets. We have sought to develop a competitive advantage by building an integrated presence in each of the world's economic zones that we target: Europe, Asia, China and America. An integrated presence means having product development, sales and marketing capabilities in each region, in order to ensure that we are well positioned to anticipate and respond to our customers' business requirements. We have major front-end manufacturing facilities in Europe and Asia. Our more labor-intensive back-end facilities are located in Malaysia, China, Philippines, Singapore, Morocco and Malta, enabling us to take advantage of more favorable production cost structures, particularly lower labor costs. Major design centers and local sales and marketing groups are within close proximity of key customers in each region, which we believe enhances our ability to maintain strong relationships with our customers.

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

Sustainable Excellence and Compliance. We are committed to sustainable excellence and compliance. We conduct our business based on our "Principles for Sustainable Excellence" ("PSE") and are focused on following the highest ethical standards, empowering our people and striving for quality and customer satisfaction, while creating value for all of our partners.

Creating Shareholder Value. We remain focused on creating value for our shareholders, which we measure in terms of return on net assets attributable to our shareholders (i.e., including 50% of ST-Ericsson's results) in excess of our weighted average cost of capital.

3.1.2.2. Employees

The tables below set forth the breakdown of employees, including the employees of the consolidated entities of ST-Ericsson JVS, by main category of activity and geographic area for the past two years.

	Dec 31, 2010	Dec 31, 2009
France	11,080	10,960
Italy	8,620	8,290
Rest of Europe	2,760	3,200
United States	1,870	2,000
Mediterranean (Malta, Morocco, Tunisia)	4,760	4,630
Asia	24,210	22,480
Total	53,300	51,560

	Dec 31, 2010	Dec 31, 2009
Research and Development	11,910	12,330
Marketing and Sales	2,540	2,640
Manufacturing	33,580	31,300
Administration and General Services	2,620	2,560
Divisional Functions	2,650	2,730
Total	53,300	51,560

Our future success, particularly in a period of strong increased demand, will partly depend on our ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and management personnel. Unions are represented at several of our manufacturing facilities. We use temporary employees, if required, during production spikes and, in Europe, during summer vacations. We have not experienced any significant strikes or work stoppages in recent years. Management believes that our relations with employees are good.

3.1.2.3. Sales, Marketing and Distribution

In 2010, we operated regional sales organizations in EMEA (which includes all of Europe, the Middle East and Africa), the Americas, Greater China-South Asia and Japan-Korea. A description of our regional sales organizations' activities and structure during 2010 is below.

(i) EMEA — The EMEA region is divided into four business units: automotive, convergence EMS, industrial and multimarket. Each business unit is dedicated to customers operating mainly in its market segment, actively promoting a broad range of products, including commodities and dedicated ICs, as well as proposing solutions through its sales force, field application engineers, supply-chain management, customer service and technical competence centre for system solutions, with support functions provided locally or centrally (through central labs).

(ii) Americas — In the Americas region, the sales and marketing team is organized into six business units: automotive (Detroit, Michigan); industrial (Boston, Massachusetts); consumer, industrial and medical (Chicago, Illinois); communications, consumer and computer Peripherals (San Jose, California and Longmont, Colorado); RFID and communications (Dallas, Texas); and distribution (Boston, Massachusetts). A central product-marketing operation in Boston provides product support and training for standard products for the Americas region. In addition, a comprehensive distribution business unit provides product and sales support for the regional distribution network.

(iii) Greater China-South Asia — In the Greater China-South Asia region, which encompasses China, Taiwan, Hong Kong, India, Singapore and other countries in the Asia Pacific region, with the exception of Japan and Korea. Our sales and marketing activities are organized into seven business units (automotive, computer peripherals, consumer, distribution, EMS, industrial and telecom) with seven central support functions (service and business management, field quality, human resources, strategic planning, finance, corporate communication and design center). Our design center in Singapore carries out full custom designs in several applications.

(iv) Japan-Korea — In Japan, the large majority of our sales have historically been made through distributors, as is typical for foreign suppliers to the Japanese market. However, we are now seeking to work more directly with our major customers to address their requirements. We provide marketing and technical support services to customers through sales offices in Tokyo and Osaka. In addition, we have established a quality laboratory and an application laboratory in Tokyo. The quality laboratory allows us to respond quickly to the local requirement, while the application laboratory allows Japanese customers to test our products in specific applications. In Korea, we have a strong local presence serving the local Korean companies in telecom, consumer, automotive and industrial applications.

The sales and marketing activities performed by our regional sales organizations are supported by product marketing that is carried out by each product division, which also includes product development functions. This matrix system reinforces our sales and marketing activities and our broader strategic objectives. An important component of our regional sales and marketing efforts is to expand our customer base, which we seek to do by adding sales representatives, regional competence centers and new generations of electronic tools for customer support.

Most of our regional sales organizations operate dedicated distribution organizations. To support the distribution network, we operate logistic centers in Saint Genis, France and Singapore. We also use distributors and representatives to distribute our products around the world. Typically, distributors handle a wide variety of products, including products that compete with our products, and fill orders for many customers. Most of our sales to distributors are made under agreements allowing for price protection and/or the right-of-return on unsold merchandise. We generally recognize revenues upon the transfer of ownership of the goods at the contractual point of delivery. Sales representatives generally do not offer products that compete directly with our products, but may carry complementary items manufactured by others. Representatives do not maintain a product inventory. Their customers place large quantity orders directly with us and are referred to distributors for smaller orders.

At the request of certain of our customers, we also sell and deliver our products to EMS, which, on a contractual basis with our customers, incorporate our products into the application-specific products they manufacture for our customers. Certain customers require us to hold inventory on consignment in their hubs and only purchase inventory when they require it for their own production. This may lead to delays in recognizing revenues, as revenue recognition will occur, within a specific period of time, at the actual withdrawal of the products from the consignment inventory, at the customer's option.

3.1.2.4. *Research and Development in the area of new products*

We believe that research and development ("R&D") is critical to our success. The main R&D challenge we face is to continually increase the functionality, speed and cost-effectiveness of our semiconductor devices, while ensuring that technological developments translate into profitable commercial products as quickly as possible.

We are market driven in our R&D and focused on leading-edge products and technologies developed in close collaboration with strategic alliance partners, leading universities and research institutions, key customers, leading EDA vendors and global equipment manufacturers working at the cutting edge of their own markets. In addition, we have a technology council comprised of 15 leading experts to review, evaluate and advise us on the competitive landscape. Front-end manufacturing and technology R&D, while being separate organizations, are under the responsibility of our Chief Operating Officer, thereby ensuring a smooth flow of information between the R&D and manufacturing organizations. The R&D activities relating to new products are managed by the Product Segments and consist mainly of design activities.

We devote significant effort to R&D because semiconductor manufacturers face immense pressure to be the first to make breakthroughs that can be leveraged into competitive advantages; new developments in semiconductor technology can make end products significantly cheaper, smaller, faster, more reliable and embedded with more functionalities than their predecessors and enable, through their timely appearance on the market, significant value creation opportunities.

To ensure that new technologies can be exploited in commercial products as quickly as possible, an integral part of our R&D philosophy is concurrent engineering, meaning that new fabrication processes and the tools needed to exploit them are developed simultaneously. Typically, these include not only EDA software, but also cell libraries that allow access to our rich IP portfolio and a demonstrator product suitable for subsequent commercialization. In this way, when a new process is delivered to our product segments or made available to external customers, they are more able to develop commercial products immediately.

In the same spirit, we develop, in a concurrent engineering mode, a complete portfolio of Analog and RF IP. The new generation of products now mix Analog and Digital IP Blocks, and even complex RF solutions, high performance data converters and high speed data transmission ports. Our R&D design centers located in France and India have been specialized in the development of these functions, offering a significant advantage for us in quickly and cost effectively introducing products in the consumer and wireless market.

Our advanced R&D centers are strategically located around the world, including in France, Italy, Belgium, Canada, China, India, Singapore, Sweden, the United Kingdom and the United States.

In 2008, we entered into an R&D alliance with the ISDA to develop leading edge core CMOS technologies at 32/28 nm and 22/20 nm nodes. We are also working with the CEA Leti to develop derivative technologies from our technology portfolio. In this context, five strategic objectives have been established

- Accelerate the development and the number of differentiated technologies for SoC so as to be able to supply amongst the world's leading prototypes ICs, thereby develop a strategy of advanced differentiated products.
- Develop libraries and perform transversal R&D on the methods and tools necessary to develop complex ICs using these technologies.
- Provide Crolles 300mm operation with competitive leading edge technologies.
- Perform advanced technology research linked to the conception of CMOS nano electric functionalities advanced devices on 300mm wafers.
- Pervade local, national and European territories, taking advantage of nano-electronic diffusion technologies to further promote innovation in various application sectors.

In 2009, we entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the "Nano2012" Research and Development program. In addition, our manufacturing facility in Crolles, France houses a R&D center that is operated in the legal form of a French Groupement d'intérêt économique named "Centre Commun de Microelectronique de Crolles." Laboratoire d'Electronique de Technologie d'Instrumentation ("LETI"), a research laboratory of CEA (one of our indirect shareholders), is our partner.

There can be no assurance that we will be able to develop future technologies and commercially implement them on satisfactory terms, or that our alliances will allow the successful development of state-of-the-art core or derivative CMOS technologies on satisfactory terms. Our R&D 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 and/or develop new process technologies and products."

The R2 activity in Agrate encompasses prototyping, pilot and volume production of the newly developed technologies with the objective of accelerating process industrialization and time-to-market for Smart Power affiliation (BCD), including on SOI, High Voltage CMOS and MEMS. It is the result of an ongoing cooperation under a consortium agreement with Micron Technologies. Our IP design center in Greater Noida, India supports all of our major design activities worldwide and hosts a major central R&D activity focused on software and core libraries development, with a strong emphasis on system solutions. The fundamental mission of our Advanced System Technology ("AST") organization is to create system knowledge that supports our SoC development. AST's objective is to develop the advanced architectures that will drive key strategic applications, including digital consumer, wireless communications, computer peripherals and Smartcards, as well as the broad range of emerging automotive applications such as car multi-media. AST's challenge is to combine the expertise and expectations of our customers, industrial and academic partners, our central R&D teams and product segments to create a cohesive, practical vision that defines the hardware, software and system integration knowledge that we will need in the next three to five years and the strategies required to master them.

All of these worldwide activities create new ideas and innovations that enrich our portfolio of IP and enhance our ability to provide our customers with winning solutions. Furthermore, an array of important strategic customer alliances ensures that our R&D activities closely track the changing needs of the industry, while a network of partnerships with universities and research institutes around the world ensures that we have access to leading-edge knowledge from all corners of the world. We also play leadership roles in numerous projects running under the European Union's IST (Information Society Technologies) programs. We actively participate in these programs and continue collaborative R&D efforts such as the CATRENE, ARTEMIS and ENIAC programs.

Finally, we believe that platforms are the answer to the growing need for full system integration, as customers require from their silicon suppliers not just chips, but an optimized combination of hardware and software. Our world-class engineers and designers are currently developing platforms we selected to spearhead our future growth in some of the fastest developing markets of the microelectronics industry. The platforms include the application processors and integrated modem, set-top boxes/integrated digital TV, which include high definition and 3-D capability, and in the area of computer peripherals, the SPEArTM family of reconfigurable SoC ICs for printers and related applications.

3.1.2.5. Property, Plants and Equipment

In 2010, we operated 15 main manufacturing sites around the world. Front-end manufacturing facilities are fabs and back-end facilities are assembly, packaging and final testing plants. At the end of 2010, our front-end facilities had a total capacity of approximately 125,000 200-mm equivalent wafer starts per week. The number of wafer starts per week varies from facility to facility and from period to period as a result of changes in product mix. Among the 200-mm wafers production facilities, the fabs based in Europe (Crolles and Rousset, France; Agrate and Catania, Italy) had full installed capacity as of December 31, 2010. Among the 150-mm wafers production facilities, two (at Catania, Italy and Tours, France) had full designed capacity installed as of December 31, 2010. As of the same date, the fab in Singapore had approximately two thirds of the full designed capacity installed. Our advanced 300-mm wafer pilot-line fabrication facility in Crolles, France had an installed capacity of 3,200 wafers per week at the end of 2010, and we plan to increase production to up to approximately 4,500 wafers per week as required by market conditions and within the framework of our R&D Nano 2012 program.

We own all of our manufacturing facilities, except Crolles2, France, which is the subject of leases for the building shell and some equipment that represents overall a small percentage of total assets.

Our manufacturing processes are highly complex, require technologically advanced and costly equipment and are continuously being modified 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 has increased and sub-micron technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision and excellence have become even more demanding.

3.1.2.6. Intellectual property

Intellectual property rights that apply to our various products include patents, copyrights, trade secrets, trademarks and mask work rights. A mask work is the two- or three-dimensional layout of an integrated circuit. Including patents and pending patent applications owned by us and our affiliate ST-Ericsson, we currently own over 20,000 patents and pending patent applications which have been registered in multiple countries around the world and correspond to more than 10,000 patent families (each patent family containing all patents originating from the same invention). Together we also increased to 839 our filings of new patent applications around the world in 2010.

Our success depends in part on our ability to obtain patents, licenses and other IP rights covering our products and their design and manufacturing processes. To that end, we intend to continue to seek patents on our innovations in our circuit designs, manufacturing processes, packaging technology and system applications as well as on industry standards and other inventions. The process of seeking patent protection can be long and expensive, and there can be no assurance that patents will issue from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. In addition, effective copyright and trade-secret protection may be unavailable or limited in certain countries.

Competitors may also develop technologies that are protected by patents and other IP rights and therefore such technologies may be unavailable to us or available to us subject to adverse terms and conditions. Management believes that our IP represents valuable assets and intends to protect our investment in technology by enforcing all of our IP rights. We are also endeavouring to optimize the value from our IP portfolio by creating a new business unit in 2010. We have used our patent portfolio to enter into several broad patent cross- licenses with several major semiconductor companies enabling us to design, manufacture and sell semiconductor products without fear of infringing patents held by such companies, and intend to continue to use our patent portfolio to enter into such patent cross-licensing agreements with industry participants on favorable terms and conditions.

3.1.2.7. Competition

Markets for our products are intensely competitive. While only a few companies compete with us in all of our product lines, we face significant competition in each of our product lines. We compete with major international semiconductor companies. Smaller niche companies are also increasing their participation in the semiconductor market, and semiconductor foundry companies have expanded significantly, particularly in Asia. Competitors include manufacturers of standard semiconductors, ASICs and fully customized ICs, including both chip and board-level products, as well as customers who develop their own IC products and foundry operations. Some of our competitors are also our customers.

The primary international semiconductor companies that compete with us include Analog Devices, Atmel, Avago, Broadcom, Fairchild Semiconductor, Freescale Semiconductor, Infineon, Intel, International Rectifier, Linear Technology, LSI Logic, Marvell, Maxim, MediaTek, Microchip Technology, Mstar, National Semiconductor, NXP Semiconductors, ON Semiconductor, Qualcomm, Renesas, ROHM Semiconductor, Samsung, Texas Instruments, Trident, Toshiba, TSMC and Vishay.

We compete in different product lines to various degrees on the basis of price, technical performance, product features, product system compatibility, customized design, availability, quality and sales and technical support. In particular, standard products may involve greater risk of competitive pricing, inventory imbalances and severe market fluctuations than differentiated products. Our ability to compete successfully depends on elements both within and outside of our control, including successful and timely development of new products and manufacturing processes, product performance and quality, manufacturing yields and product availability, customer service, pricing, industry trends and general economic trends.

3.1.2.8. Public Funding

We participate in certain programs established by the EU, individual countries and local authorities in Europe (principally France and Italy). Such funding is generally provided to encourage R&D activities and capital investment, industrialization and the economic development of underdeveloped regions. These programs are partially supported by direct funding, tax credits and specific loans (low-interest financing).

Some of our R&D government funding contracts involve advance payments that require us to justify our expenses after receipt of funds. Certain specific contracts (Crolles, Grenoble, Rousset, France and Catania, Italy) contain obligations to maintain a minimum level of employment and investment during a certain amount of time. There could be penalties (i.e., a partial refund due to the government) if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations. The main programs for R&D in which we are involved include: (i) the Eureka-CATRENE cooperative R&D program (Cluster for Application and Technology Research in Europe on NanoElectronics), which is the successor of MEDEA+ (which ended in 2008); (ii) EU R&D projects with FP6 and FP7 (Sixth and Seventh Frame Program) for Information Technology; (iii) European industry initiatives such as ENIAC (European Nanoelectronics Initiative) and ARTEMIS (Embedded Computing Systems Initiative); and (iv) national or regional programs for R&D and for industrialization in the electronics industries involving many companies and laboratories. The pan-European programs cover a period of several years, while national or regional programs in France and Italy are subject mostly to annual budget appropriation.

Due to changes in legislation and/or review by the competent administrative or judicial bodies, there can be no assurance that government funding granted to us may not be revoked or challenged or discontinued in whole or in part, by any competent state or European authority, until the legal time period for challenging or revoking such funding has fully lapsed.

3.1.2.9. Suppliers

We use three main critical types of suppliers in our business: equipment suppliers, raw material suppliers and external subcontractors.

In the front-end process, we use steppers, scanners, tracking equipment, strippers, chemo-mechanical polishing equipment, cleaners, inspection equipment, etchers, physical and chemical vapor-deposition equipment, implanters, furnaces, testers, probers and other specialized equipment. The manufacturing tools that we use in the back-end process include bonders, burn-in ovens, testers and other specialized equipment. The quality and technology of equipment used in the IC manufacturing process defines the limits of our technology. Demand for increasingly smaller chip structures means that semiconductor producers must quickly incorporate the latest advances in process technology to remain competitive. Advances in process technology cannot be brought about without commensurate advances in equipment technology, and equipment costs tend to increase as the equipment becomes more sophisticated.

Our manufacturing processes use many raw materials, including silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases. The prices of many of these raw materials are volatile. We obtain our raw materials and supplies from diverse sources on a just-in-time basis.

Finally, we also use external subcontractors to outsource wafer manufacturing and assembly and testing of finished products.

3.1.2.10. Environmental Matters

Our manufacturing operations use many chemicals, gases and other hazardous substances, and we are subject to a variety of evolving environmental and health and safety regulations related, among other things, to the use, storage, discharge and disposal of such chemicals and gases and other hazardous substances, emissions and wastes, as well as the investigation and remediation of soil and ground water contamination. In most jurisdictions in which we operate, we must obtain permits, licenses and other forms of authorization, or give prior notification, in order to operate. Because a large portion of our manufacturing activities are located in the EU, we are subject to European Commission regulation on environmental protection, as well as regulations of the other jurisdictions where we have operations.

Consistent with our PSE, we have established proactive environmental policies with respect to the handling of chemicals, gases, emissions and waste disposals from our manufacturing operations, and we have not suffered material environmental claims in the past. We believe that our activities comply with presently applicable environmental regulations in all material respects. We have engaged outside consultants to audit all of our environmental activities and created environmental management teams, information systems and training. We have also instituted environmental control procedures for processes used by us as well as our suppliers. As a company, we have been certified to be in compliance with the quality standard ISO9001:2008 and with the technical specification ISO/TS16949:2009, and with the environmental standards ISO14001 and the European EMAS (Eco-Management and Audit Scheme).

3.1.3. 2010 Key announcements

3Sun S.r.l. ("3Sun")

On January 4, 2010, we signed a joint agreement with Enel and Sharp for the manufacture of triple-junction thin-film photovoltaic panels in Italy. On August 2, 2010, we announced, together with Enel and Sharp, the signature of a binding commitment letter for a project financing of around €150 million by a group of banks and our equal share joint venture, named 3Sun, began operations at the Catania, Italy factory. The Catania factory's initial photovoltaic panel production capacity, equivalent to 160 MW per year, is to be financed through a combination of equity from sponsors, grants from the Italian Joint Ministerial Committee for Economic planning, which recently committed €49 million in funding to this project, and project financing provided by leading banks. In December 2010, 3Sun signed the project finance agreement. We, Enel and Sharp have underwritten one third of the joint venture's equity, equal to €60 million each. Our equity commitment was mainly satisfied by the contribution of the M6 facility in Catania (see below) for a value of €60 million. We, Enel and Sharp are committed to further equity contributions up to €30 million should certain conditions be met. Panel production at the Catania plant is scheduled to begin in the second half of 2011.

Numonyx

On February 10, 2010, we, together with our partners Intel Corporation and Francisco Partners, entered into a definitive agreement with Micron Technology Inc., in which Micron acquired Numonyx Holdings B.V. in an all-stock transaction, closed on May 7, 2010. In exchange for our 48.6% stake in Numonyx, we received approximately 66.88 million shares of Micron common stock, recorded as a financial investment. At the May 6, 2010 Micron closing share price of $8.75 per share, the value of the shares was $585.2 million. Due to the high volatility in the share price, the value of these shares could be subject to material variations and, therefore, in order to partially protect the value of the transaction, we had hedged, with certain derivative instruments, a significant portion of the 66.88 million shares. Through December 31, 2010, we sold 46.8 million shares at an average price of $8.48 per share, including the unwinding of the applicable hedging contracts. For the details of these hedging operations, see Note 7.6.14.4 to our Consolidated Financial Statements. Furthermore, we had a payable of $78 million due to Francisco Partners at the end of the shares' six month lock-up period which was paid during the fourth quarter 2010. Also, at the closing of this transaction, the senior credit facility that was supported by our guarantee of $225 million was repaid in full by Numonyx. The overall transaction resulted in a reversal of impairment previously booked on our investment in Numonyx of $162 million and a gain on sale of $18 million. In connection with the divestiture of Numonyx we also received full ownership of the Numonyx M6 facility in Catania, Italy, which, as noted above, we have contributed to 3Sun, the new photovoltaic joint venture among Enel, Sharp and us. Subsequently, in January 2011, we sold all the remaining Micron shares together with their relevant collar option for the total proceeds of $196 million.

Under the terms of the agreement to sell Numonyx to Micron, we retained the $250 million deposit with DBS Bank Ltd. in Singapore, which was intended to guarantee the Hynix-Numonyx Joint Venture's debt financing for such amount. Concurrent with our divestiture of Numonyx, we entered into an agreement with Micron and Numonyx that provided that, in the event Hynix exercised its right to purchase Numonyx's interest in the Hynix joint venture following the closing of the Numonyx transaction, Numonyx would take over all or part of our obligations under the guarantee. On May 31, 2010, Numonyx notified us that on May 28, 2010, Hynix had delivered a call option exercise notice to them. Following these events, our $250 million deposit in favor of the Numonyx-Hynix joint venture was released to us on August 31, 2010, upon the completion of Hynix's purchase of Numonyx's equity interest in the Hynix-Numonyx Joint Venture. See Note 7.6.14.1 to our Consolidated Financial Statements.

Credit Suisse

On March 19, 2010, in connection with our legal action to recover from Credit Suisse the amount invested in unauthorized auction rate securities against our instructions, the federal district court in New York issued a ruling affirming the unanimous arbitration award in our favor for more than $432 million, including collected interest, entered in February 2009 by FINRA. The ruling of the federal district court in New York denied Credit Suisse's motion to vacate the award, also granting our petition to affirm the award and directing Credit Suisse to pay us the unpaid balance. Based on the ruling we should receive approximately $357 million, which includes approximately $27 million of interest to date, in addition to the approximately $75 million previously received in December upon selling a portion of these securities. On March 31, 2010, the New York Court for the Southern District issued a judgment confirming the March 19, 2010 order and closing the case. On August 24, 2010, the New York Court for the Southern District issued a judgment confirming the ruling of March 2010, which was subsequently appealed by Credit Suisse. After filing the required supersedeas bond, Credit Suisse filed on September 21, 2010 a motion of appeal to the US Court of Appeal of the Second Circuit, and three days later we filed a motion for an expedited appeal. On February 24, 2011, we received notice that the US Court of Appeals for the Second Circuit has fixed March 28, 2011 as the trial date.

Shareholders' Meeting

At our annual general meeting of shareholders held on May 25, 2010, the following proposals, inter alia, were approved by our shareholders:

- Approval of our 2009 accounts reported in accordance with International Financial Reporting Standards (IFRS);
- The reappointment for a three-year term, expiring at the 2013 Annual General Meeting, of the following members of the Supervisory Board: Mr. Raymond Bingham and Mr. Alessandro Ovi; and
- The distribution of an annual cash dividend of $0.28 per share, to be paid in four equal quarterly installments.

Organizational changes

On February 3, 2010, we announced that Tjerk Hooghiemstra joined us as Executive Vice President, Chief Administrative Officer ("CAO"), reporting to our President and CEO, Carlo Bozotti. This new position was created with the aim of generating synergies among several staff organizations by optimizing the functions of Human Resources, Health & Safety, Education, Legal, Internal Communication, Security and Corporate Responsibility.

As of October 8, 2010, our Chief Compliance Officer reports to our CAO; and our Internal Audit organization reports functionally to the Chairman of our Audit Committee and administratively to our CEO.

Our Supervisory Board met on October 26, 2010, and announced its decision to propose for shareholder approval at our next Annual General Meeting in 2011, the reappointment for a three-year term of Carlo Bozotti as the sole member of the Managing Board and our President and Chief Executive Officer. In addition, Didier Lamouche resigned as a member of our Supervisory Board effective October 26, 2010, in view of his joining us on November 1, 2010. Alain Dutheil has announced his decision to retire in 2011 after 27 years with us. Following a transition period, Didier Lamouche succeeded Alain Dutheil as Chief Operating Officer on January 26, 2011. Alessandro Ovi was appointed to replace Didier Lamouche on our Audit Committee.

We have decided to start some venture capital investments in areas of strategic interest for our company. With this initiative, managed by a dedicated organization, we will invest in startup companies that develop emergent technologies, products and services connected to our business, allowing us to assess new markets and to position ourselves early. As a consequence, Loïc Lietar, formerly Chief Strategic Officer, will manage this new activity and Philippe Lambinet, on top of his current assignment, will take on the responsibility of the strategic functions currently managed by Loïc Lietar.

Moreover, the Corporate Communication Group has become part of our CFO's organization, with the purpose of driving a comprehensive and thorough business, market, product and financial integrated communication platform, aimed at a broader audience of stakeholders and shareholders.

3.1.4. Business and financial outlook for 2011

As we enter 2011, key new products continuing to ramp will include gyroscopes, accelerometers, 32-bit microcontrollers and automotive products among others. New products that will contribute to our growth in the coming quarters include System-on-Chips for 3-D and connected TVs, MEMS microphones and pressure sensors and advanced analog products for medical and smart grid applications. Also, ST-Ericsson will ramp new products, such as their thin modem and, in the second half of the year, U8500 smartphone platforms.

While the semi-conductor industry is expected to grow in 2011, although at a much more moderate rate compared to the strong growth in 2010, based on current market conditions, we believe we are positioned to deliver above market revenue growth accompanied by further year-over-year improvements in quarterly operating profitability. We are well-positioned for success in our traditional and new growth markets including energy savings, data security, healthcare and wellness, as well as smart consumer devices.

The increase in demand that we have been broadly facing across all end markets requires the acceleration of some of our capex spending in order to adapt our supply capability to this increasing level of demand. In order to support our innovative product portfolio and to fuel revenue growth faster than the served market dynamic, we expect to invest approximately $1.1 billion to $1.5 billion in 2011 based on anticipated revenue growth. The most significant of our 2011 capital expenditure projects are expected to be: (a) for the front-end facilities: (i) in our 300-mm fab in Crolles, mix evolution to support the production ramp-up of the newest technologies and capacity growth, and activities to prepare the next step to 4,500 wafers per week, planned by end 2012 within the framework of our Crolles Nano 2012 program; (ii) the completion of the 32nm/28nm R&D capability investment in Crolles; (iii) the upgrade and partial conversion to 150-mm of our 125-mm fab in Ang-Mo-Kio (Singapore); (iv) selective programs of mix evolution in our 200-mm fabs, mainly in the fabs of Crolles and Rousset; (v) capacity increase in selected proprietary technologies in our 200 -mm fabs in Italy (MEMS, Advanced BCDs and PMOS) and (vi) quality, safety, security and maintenance in both 150-mm and 200-mm front end fabs; (b) for the back-end facilities, capital expenditures will mainly be dedicated to: (i) capacity growth on strategic package families, mainly in the areas of Automotive, MEMS and Wireless, to sustain marked demand; (ii) further consolidation of our presence in China (Longgang and Shenzhen), in Muar and in Calamba; (iii) modernization of package lines (copper bonding); and (iv) specific investments in the areas of quality, environment and energy saving; and (c) an overall capacity increase in final testing and wafers probing (EWS) for all product lines.

We will continue to monitor our level of capital spending by taking into consideration factors such as trends in the semiconductor industry, capacity utilization and announced additions. We expect to have significant capital requirements in the coming years and in addition we intend to continue to devote a substantial portion of our net revenues to R&D and to continue to support ST-Ericsson towards its expected recovery. We plan to fund our capital requirements from cash provided by operating activities, available funds and available support from third parties, and may have recourse to borrowings under available credit lines and, to the extent necessary or attractive based on market conditions prevailing at the time, the issuing of debt, convertible bonds or additional equity securities.

A substantial deterioration of our economic results and consequently of our profitability could generate a deterioration of the cash generated by our operating activities. Therefore, there can be no assurance that, in future periods, we will generate the same level of cash as in the previous years to fund our capital expenditures plans for expending/upgrading our production facilities, our working capital requirements, our R&D and industrialization costs.

On February 23, 2011, holders were able to call for the redemption of our outstanding 2016 Convertible Bonds, which occurred for 41,123 bonds, for an amount of $44 million. The residual amount outstanding after the exercise was $449 million, on which holders have a put option to be exercised on February 23, 2012 for an amount of $491 million. Furthermore, there could be possible financial needs for temporary bridge short-term financing by the parent companies of the ST-Ericsson joint venture.

We believe that we have the financial resources needed to meet our business requirements for the next twelve months, including capital expenditures for our manufacturing activities, working capital requirements, dividend payments and the repayment of our debts in line with their maturity dates. We may use some of our available cash to repurchase a portion of our outstanding debt securities, including possibly our 2016 Convertible Bonds and 2013 Senior Bonds, should market conditions permit.

3.1.5. Liquidity and financial position

We maintain a solid financial structure, with a significant cash position and a low debt to equity ratio, which provide us with adequate financial flexibility. As in the past, our cash generated by operations is our primary source of liquidity. Our cash management policy is to finance our investment needs mainly with net cash generated from operating activities.

During 2010, we used available cash and cash generated from operations to redeem debt in anticipation of its maturity and to pay dividends. We also received cash upon sales of Micron shares. Therefore, the evolution of our cash flow resulted in a $304 million increase in our cash and cash equivalents.

The evolution of our cash flow for each period is as follows:

In millions of USD	2010	2009
Net cash from (used in) operating activities	2,322	1,209
Net cash from (used in) investing activities	(1,029)	(103)
Net cash from (used in) financing activities	(901)	(493)
Effect of change in exchange rates	(88)	(14)
Net cash increase (decrease)	**304**	**599**

Net cash from (used in) operating activities.

Net cash from operating activities is (i) the net result adjusted for certain non-cash items and (ii) changes in assets and liabilities. The net cash from operating activities in 2010 largely improved compared to the prior year period due to the overall improvement in our operating performance.

Net result adjusted for non cash items generated $2,117 million of cash in 2010 compared to $701 million in the prior year period.

Changes in assets and liabilities totaled $241 million in 2010, compared to $400 million in the prior year, with the main 2010 item being represented by a favorable change in trade payables, partially balanced by a negative trend in inventory, while in 2009 the favorable change was mainly related to the reduction in inventories. Furthermore, 2010 also included the net cash impact of $166 million, originated by the sales, with no recourse, of receivables done by ST-Ericsson.

Net cash from (used in) investing activities.

Investing activities generated a net cash outflow of $1,029 million in 2010, associated with payments of $1,034 million for tangible assets, a $62 million investment in short-term deposits and $634 million of investment in intangible and financial assets of which the largest part is due to capitalization of development costs Payments for the purchase of tangible assets registered a significant increase from the $451 million registered in the prior year as upgraded our production capacity in line with the strong increase in demand for our products.

Moreover, the net cash from investing activities included $319 million as net proceeds from the sale of Micron shares received on our Numonyx investment divestiture, $119 million of net proceeds for the purchase of marketable securities less proceeds from sales and the release of the $250 million of restricted cash associated with the Hynix-Numonyx JV, following the disposal of our shares in Numonyx.

Investing activity in 2009 generated a net cash outflow of $103 million, this benefited from the $1,137 million received from Ericsson as part of a business combination in Wireless.

Net cash from (used in) financing activities.

Net cash used in financing activities was $901 million in 2010 compared to the $493 million used in 2009, mainly due to the partial repurchase of our 2016 Convertible Bonds which occurred throughout 2010 for a total cash consideration of $410 million and our 2013 Senior Bonds for the amount of EUR 74 million. Moreover, the 2010 amount included $218 million as a repayment of long term debt at maturity and $212 million as dividends paid to shareholders.

Financial position

As at December 31, 2010, our total financial resources amounted to $2,922 million and were comprised mainly of:

- $1,892 million of cash and cash equivalents
- $67 million of short-term deposits corresponding to a 12-month certificate of deposit, which is readily convertible in cash.
- $563 million invested in Aaa treasury bills from the French, German and U.S. governments
- $328 million invested in senior debt floating rate notes issued by primary financial institutions with a minimum Moody's rating of A2 (with the only exception of the Lehman Brothers senior unsecured bonds). Both the treasury bills and the Floating Rate Notes are reported at fair value.
- $72 million of Auction Rate Securities purchased by Credit Suisse contrary to our instructions, representing interests in collateralized debt obligations with a par value of $261 million. The investments made in the aforementioned Auction Rate Securities were made without our authorization and, in 2008, we launched a legal action against Credit Suisse, which resulted into an arbitration award in our favor issued by FINRA in February 2009 and a ruling by the Federal District Court of New York who reaffirmed the arbitration award in our favor and denied Credit Suisse motion to vacate it. This ruling can be appealed by Credit Suisse. For the details of the legal proceedings against Credit Suisse, see Note 7.6.14.1 to our Consolidated Financial Statements.

At December 31, 2010, the aggregate amount of our interest bearing loans and borrowings, including the current portion, was $1,746 million, which included:

- $443 million of our 2016 Convertible Bonds
- $569 million of our 2013 Senior Bonds (corresponding to €500 million at issuance),
- $568 million in European Investment Bank loans (the "EIB Loans"),
- $12 million in loans from other funding programs, and
- $78 million of capital leases.
- $75 million of short-term borrowings related to ST-Ericsson

The EIB Loans represent two committed credit facilities as part of R&D funding programs; the first, related to R&D in France, was fully drawn in U.S. dollars, between December 2006 and February 2008, for a total amount of $341 million, of which $98 million had been paid back as at December 31, 2010; the second, related to R&D projects in Italy, was fully drawn in U.S. dollars, between August and October 2008, for a total amount of $380 million, out of which $54 million had been paid back as of December 31, 2010.

Additionally, we had unutilized committed medium term credit facilities with core relationship banks totaling $492 million. Furthermore, the aggregate amount of our total available short-term credit facilities, excluding foreign exchange credit facilities, was approximately $664 million. At December 31, 2010, the amounts available under the short-term lines of credit were not reduced by any borrowing. On September 27, 2010 we signed with the European Investment Bank a new €350 million loan to support our industrial and R&D programs, which is currently undrawn.

In 2010 we granted, together with Ericsson, a $200 million committed facility to ST-Ericsson, of which $150 million ($75 million for each parent) was withdrawn as of December 31, 2010. The withdrawal of that line is subject to approval of the parent companies at ST-Ericsson's Board of Directors. In January 2011, we and Ericsson extended the overall amount of the credit facility to $300 million.

Our long-term capital market financing instruments contain standard covenants, but do not impose minimum financial ratios or similar obligations on us. Upon a change of control, the holders of our 2016 Convertible Bonds and 2013 Senior Bonds may require us to repurchase all or a portion of such holder's bonds.

3.1.6. Financial risk management

The Group is exposed to changes in financial market conditions in the normal course of business due to its operations in different foreign currencies and its ongoing investing and financing activities. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. See note 7.6.36 of the Consolidated Financial Statements for further information

Risk management is carried out by a central treasury department (Corporate Treasury) reporting to the Chief Financial Officer. Simultaneously, a Treasury Committee, chaired by the CFO, steers treasury activities and ensures compliance with corporate policies approved by the Supervisory Board. Treasury activities are thus regulated by the Group's policies, which define procedures, objectives and controls. The policies focus on the management of financial risk in terms of exposure to market risk, credit risk and liquidity risk. Treasury controls are subject to internal audits. Most treasury activities are centralized, with any local treasury activities subject to oversight from head treasury office. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. It provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The majority of cash and cash equivalent is held in U.S. dollars and Euro and is placed with financial institutions rated at least a single "A" long term rating from two of the major rating agencies, meaning at least A3 from Moody's Investor Service and A- from Standard & Poor's and Fitch Ratings. Marginal amounts are held in other currencies. Foreign currency operations and hedging transactions are performed only to hedge exposures deriving from industrial and commercial activities.

Foreign exchange risk

The Group conducts its business on a global basis in various major international currencies. As a result, the Group is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro and the Swedish-Krona. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities at the Group's subsidiaries.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and loan notes) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, short-term deposits and marketable securities, the availability of funding from committed credit facilities and the ability to close out market positions. The Group's objective is to maintain a significant cash position and a low debt to equity ratio, which ensure adequate financial flexibility. Liquidity management policy is to finance the Group's investments with net cash provided from operating activities.

3.2. Risk management and Internal control

Below is a list of the main risks factors related to the semiconductor industry and specifically related to our operations, which may affect the result and performance of STMicroelectronics and the ability of management to predict the future:

- changes in demand in the key application markets and from key customers served by our products, which make it extremely difficult to accurately forecast and plan our future business activities. In particular, following a period of significant order cancellations in 2009, we have in 2010 experienced a strong increase in customer demand, which has led to capacity constraints in certain applications, and we may in the future, in case of excessive inventory at customers or distribution channels, experience order cancellations;
- our ability to utilize and operate our manufacturing facilities at sufficient levels to cover fixed operating costs during periods of reduced customer demand, as well as our ability to ramp up production efficiently and rapidly to respond to increased customer demand, in an intensely cyclical and competitive industry, and the financial impact of obsolete or excess inventories if actual demand differs from our expectations;
- the operations of the ST-Ericsson Wireless joint venture, which represents a significant investment and risk for our business, and which may lead to significant impairment and additional restructuring charges, in the event ST-Ericsson is unable to successfully compete in a rapidly changing and increasingly competitive market;
- our ability to compete in the semiconductor industry since a high percentage of our costs are fixed and are incurred in Euros and currencies other than U.S. dollars, especially in light of the increasing volatility in the foreign exchange markets and, more particularly, in the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;
- the outcome of ongoing litigation as well as any new litigation to which we may become a defendant;
- changes in our overall tax position as a result of changes in tax laws or the outcome of tax audits, and our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;
- the impact of intellectual property claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;
- product warranty or liability claims based on epidemic failures or recalls by our customers for a product containing one of our parts;
- our ability in an intensively competitive environment to secure customer acceptance and to achieve our pricing expectations for high-volume supplies of new products in whose development we have been, or are currently, investing;
- availability and costs of raw materials, utilities, third-party manufacturing services, or other supplies required by our operations; and
- changes in the political, social or economic environment, including as a result of military conflict, social unrest and/or terrorist activities, economic turmoil, as well as natural events such as severe weather, health risks, epidemics, earthquakes, volcano eruptions or other acts of nature in, or affecting, the countries in which we, our key customers or our suppliers, operate.

Internal control

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

The effectiveness of our internal controls and procedures is evaluated regularly, and changes to such internal controls and procedures, as well as any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to affect our ability to record, process or summarize and report financial information are disclosed to our auditors and to the Audit Committee of our Supervisory Board. Likewise any fraud, whether or not material, that involves management or other employees who have a significant role in our internal control over financial reporting are disclosed to our auditors, and to the Audit Committee of our Supervisory Board.

In the various areas of business risk management we have established corporate policies and procedures which set forth principles, business rules of behavior and conduct which are considered to be consistent with proper business management, in line with our mission and strategic objectives.

We have adopted 'Corporate Standard Operating Procedures' to describe the operational flow of actions to perform a task or activity, or to implement a policy within a given functional field. We have over one hundred standard operating procedures which cover a wide range of activities such as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets and segregation of duties, which are deployed throughout our organization, and which may be completed as and when required by local operating procedures.

We have an internal audit organization, which performs general scope internal audits covering various areas, such as information technology, logistics and inventory management, human resources and payroll, internal control systems, security, purchasing, treasury, etc. The audit plans for our internal audit organization are reviewed at least once a year by the Audit Committee of our Supervisory Board.

We rely on ST-Ericsson's CEO and CFO certification of internal control at ST-Ericsson and their affiliates that are an integral part of our Consolidated Financial Statements but act as an independent company under the governance structure of their two parents.

In short, our internal risk management and control system cannot provide absolute assurance, but aims at a reasonable level of assurance, that realization of strategic and operational objectives is monitored, the financial reporting is reliable and where relevant applicable laws and regulations are complied with.

Based on the outcome of the aforementioned measures, the Managing Board states that to the best of its knowledge and belief: (i) the internal risk management and control systems in place provide a reasonable level of assurance that STMicroelectronics' financial reporting does not include material misstatements as of and for the 2010 financial year and (ii) in relation to STMicroelectronics' financial reporting these systems operated effectively during 2010 and (iii) there are no indications that, in relation to STMicroelectronics' financial reporting, these systems will not operate effectively in 2011.

Our internal risk management and control systems, including the structure and operation thereof, were discussed and evaluated on several occasions with the Audit Committee and the Supervisory Board during 2010 (in accordance with best practice provisions II.1.4 and III.1.8 of the Dutch Corporate Governance Code).

4. Report of the Supervisory Board

The supervision of the policies and actions of the Managing Board is entrusted to the Supervisory Board, which, in the two-tier corporate structure under Dutch law, is a separate body and fully independent of the Managing Board. In fulfilling their duties under Dutch law, the Supervisory Board members serve the best interests of all of STMicroelectronics's shareholders and other stakeholders, as well as those of STMicroelectronics's business.

The Supervisory Board supervises and advises the Managing Board in performing its management tasks and setting the direction of STMicroelectronics's affairs and business. The members of the Supervisory Board are carefully selected based on their combined expertise, their knowledge of STMicroelectronics and its affairs, and of the business in which STMicroelectronics operates. The Supervisory Board is empowered to recommend to the general meeting of shareholders persons to be appointed as members of the Supervisory Board or of the Managing Board.

The Supervisory Board, advised and assisted by its various committees, including the Strategic Committee, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee which all report to it, supervises the structure and management of systems of internal business controls, risk management, strategy and the financial reporting process. In addition, it determines the remuneration of the sole member of the Managing Board within the remuneration policy adopted by the general meeting of shareholders.

The Supervisory Board has established the following independence criteria for its members: Supervisory Board members must have no material relationship with STMicroelectronics or any of STMicroelectronics's consolidated subsidiaries, or STMicroelectronics's management. A "material relationship" can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others, but does not include a relationship with direct or indirect shareholders.

The Supervisory Board also adopted specific bars to independence. On that basis, the Supervisory Board concluded, in its business judgment that all members qualify as independent based on the criteria set forth above.

The Supervisory Board is pleased to report to STMicroelectronics's shareholders the various activities of the Supervisory Board and the Supervisory Board Committees in 2010.

4.1. Composition of the Supervisory Board

Our Supervisory Board consists of such number of members as is resolved by our annual shareholders' meeting upon a non-binding proposal of our Supervisory Board, with a minimum of six members. Decisions by our annual shareholders' meeting concerning the number and the identity of our Supervisory Board members are taken by a simple majority of the votes cast at a meeting, provided quorum conditions are met (15% of our issued and outstanding share capital present or represented). If a quorum is not present, a further meeting can be convened which shall be entitled, irrespective of the share capital represented, to pass a resolution.

Our Supervisory Board currently has the following eight members:

Name(1)	Position	Year Appointed(2)	Term Expires	Age
Antonino Turicchi	Chairman	2008(3)	2011	45
Gérald Arbola	Vice- Chairman	2004	2011	62
Raymond Bingham	Member	2007	2013	65
Douglas Dunn	Member	2001	2012	66
Didier Lombard	Member	2004	2011	69
Alessandro Ovi	Member	2007(4)	2013	67
Bruno Steve	Member	1989	2011	69
Tom de Waard	Member	1998	2011	64

(1) Mr. Didier Lamouche was a member of the Supervisory Board until October 26, 2010.
(2) As a member of the Supervisory Board.
(3) Mr. Turicchi was also a Supervisory Board member from 2005-2007.
(4) Mr. Ovi was also a Supervisory Board member from 1994-2005.

Resolutions of our Supervisory Board require the approval of at least three-quarters of its members in office. Our Supervisory Board must meet upon request by two or more of its members or by our Managing Board. Our Supervisory Board has established procedures for the preparation of Supervisory Board resolutions and the calendar for Supervisory Board meetings. Our Supervisory Board meets at least five times a year, including once per quarter to approve our quarterly and annual accounts and their release. Our Supervisory Board has adopted a Supervisory Board Charter setting forth its duties, responsibilities and operations, as mentioned below. This charter is available on our website at http://www.st.com/stonline/company/governance/index.htm.

Pursuant to Dutch law, there is no mandatory retirement age for members of our Supervisory Board. Members of the Supervisory Board may be suspended or dismissed by our annual shareholders' meeting. Our Supervisory Board may make a proposal to our annual shareholders' meeting for the suspension or dismissal of one or more of its members. The members of our Supervisory Board receive compensation as authorized by our annual shareholders' meeting. Each member of our Supervisory Board must resign no later than three years after appointment, as described in our Articles of Association, but may be reappointed following the expiration of his term of office.

Biographies of members of the Supervisory Board

Antonino Turicchi was re-appointed as a member of our Supervisory Board at our 2008 annual shareholders' meeting on May 14, 2008. He was also appointed Chairman of our Supervisory Board at that time. Mr. Turicchi is the Chairman of our Supervisory Board's Strategic Committee, as well as its Compensation Committee, and also serves on the Nomination and Corporate Governance Committee. Mr. Turicchi was the General Manager of Cassa Depositi e Prestiti from June 2002 until January 2009, and was a member of the Supervisory Board of Numonyx from March 30, 2008 until May 7, 2010. Since 1994, Mr. Turicchi has held positions with the Italian Ministry of the Treasury (now known as the Ministry of the Economy and Finance). In 1999, he was promoted as the director responsible for conducting securitization operations and managing financial operations as part of the treasury's debt management functions. Between 1999 and June 2002, Mr. Turicchi was also a member of the board of Mediocredito del Friuli; from 1998 until 2000, he served on the board of Mediocredito di Roma; and from 2000 until 2003, he served on the board of EUR S.p.A. He also served as deputy chairman of Infrastrutture S.p.A. from December 2002 to January 2006 and he was previously a member of our Supervisory Board from March 2005 to April 2007. Mr Turicchi has Italian nationality.

Gérald Arbola was appointed to our Supervisory Board at our 2004 annual shareholders' meeting and was reelected at our 2005 annual shareholders' meeting. Mr. Arbola was appointed the Vice-Chairman of our Supervisory Board on May 14, 2008. Mr. Arbola previously served as Chairman of our Supervisory Board from March 18, 2005 through May 13, 2008. Mr. Arbola serves on the Supervisory Board's Compensation Committee, Strategic Committee and Nomination and Corporate Governance Committee. Mr. Arbola is now Managing Director of Areva S.A., where he had also served as Chief Financial Officer, and has been a member of the Executive Board of Areva since his appointment on July 3, 2001, which was renewed on June 29, 2006. Mr. Arbola joined the AREVA NC group (ex Cogema) in 1982 as Director of Planning and Strategy for SGN, then served as Chief Financial Officer at SGN from 1985 to 1989, becoming Executive Vice President of SGN in 1988 and Chief Financial Officer of AREVA NC in 1992. He was appointed as a member of the executive committee in 1999, and also served as Chairman of the Board of SGN in 1997 and 1998. Mr. Arbola is currently a member of the board of directors of AREVA NC, AREVA NP, CEA and a member of the Supervisory Board of Eurodif since May 2010. On July 22, 2008, he was nominated the director of the Suez Environment Company, and he has been co-President of the Areva Foundation since September 2006. Mr. Arbola is a graduate of the Institut d'Etudes Politiques de Paris and holds an advanced degree in economics. He is the Chairman of the Board of Directors of FT1CI and was the Chairman, until his resignation on November 15, 2006, of the Supervisory Board of ST Holding, our largest shareholder. In addition, he has been Director of the CEA since July 24, 2009. Mr Arbola has French nationality.

Raymond Bingham was appointed to our Supervisory Board at our 2007 annual shareholders' meeting. He serves on the Audit Committee and the Strategic Committee. Since January 2010, Mr. Bingham has been an Advisory Director of General Atlantic LLC, a global private equity firm, and a Managing Director from September 2006 to December 2009. From August 2005 to August 2006, Mr. Bingham was a private investor. Mr. Bingham was Executive Chairman of the Board of Directors of Cadence Design Systems Inc., a supplier of electronic design automation software and services, from May 2004 to July 2005, and served as a director of Cadence from November 1997 to July 2005. Prior to being Executive Chairman, he served as President and Chief Executive Officer of Cadence from April 1999 to May 2004, and as Executive Vice President and Chief Financial Officer from April 1993 to April 1999. Mr. Bingham also serves as a Director of Spansion Inc., Dice Holdings, Oracle Corporation and Flextronics International, Ltd. Mr Bingham has US nationality.

Tom de Waard has been a member of our Supervisory Board since 1998. Mr. de Waard has been Chairman of the Audit Committee since 1999 and is also Chairman of the Nomination and Corporate Governance Committee. In addition, he serves on our Supervisory Board's Compensation Committee. Mr. de Waard has been a partner of Clifford Chance, a leading international law firm, since March 2000 and was the Managing Partner of Clifford Chance Amsterdam office from May 1, 2002 until May 1, 2005. From January 1, 2005 to January 1, 2007 he was a member of the Management Committee of Clifford Chance. Prior to joining Clifford Chance, he was a partner at Stibbe, where he held several positions since 1971 and gained extensive experience working with major international companies, particularly with respect to corporate finance. He is a member of the Amsterdam bar and was President of the Netherlands Bar Association from 1993 through 1995. He received his law degree from Leiden University in 1971. Mr. de Waard is the chairman of the Supervisory Board of BE Semiconductor Industries N.V. ("BESI") and a member of its audit compensation and nominating committees. Mr. de Waard is a member of the Supervisory Board of N.V. Nuon Energy and Chairman of its Compensation Committee. Mr De Waard has Dutch nationality.

Douglas Dunn has been a member of our Supervisory Board since 2001 and has served on the Audit Committee since such time. He also serves on the Strategic Committee. He was formerly President and Chief Executive Officer of ASML Holding N.V. ("ASML"), an equipment supplier in the semiconductor industry, a position from which he retired in 2004. Mr. Dunn was appointed Chairman of the Board of Directors of ARM Holdings plc (United Kingdom) in October 2006. In 2005, Mr. Dunn was appointed to the board of Philips-LG LCD (Korea) (of which he is no longer a board member as of February 29, 2008), TomTom N.V. (Netherlands) and OMI, a privately-held company (Ireland) (which was sold in November 2007 and of which he is no longer a board member), and also serves as a non-executive director on the board of SOITEC (France). He is also a member of the audit committees of SOITEC and TomTom N.V., and a member of the Compensation Committee and Strategic Committee of SOITEC. He was appointed as a Supervisory Board member of BESI at their AGM on May 12, 2009 and serves on their Audit and Remuneration/Nomination Committees. Mr. Dunn was a member of the Managing Board of Royal Philips Electronics in 1998. From 1996 to 1998 he was Chairman and Chief Executive Officer of Philips Consumer Electronics and from 1993 to 1996 Chairman and Chief Executive Officer of Philips Semiconductors (now NXP Semiconductors). From 1980 to 1993 he was CEO of Plessey Semiconductors. Prior to this, he held several positions with Motorola Semiconductors (now Freescale). Mr Dunn has UK nationality.

Didier Lombard was first appointed to our Supervisory Board at our 2004 annual shareholders' meeting and was reelected at our 2005 annual shareholders' meeting. He serves on the Compensation, Strategic and Nomination and Corporate Governance Committees of our Supervisory Board. Mr. Lombard was appointed Chairman and Chief Executive Officer of France Telecom in March 2005, and served as Chief Executive Officer until February 2010 and Chairman until March 2011. Mr. Lombard began his career in the Research and Development division of France Telecom in 1967. From 1989 to 1990, he served as scientific and technological director at the Ministry of Research and Technology. From 1991 to 1998, he served as General Director for industrial strategies at the French Ministry of Economy, Finances and Industry, and from 1999 to 2003 he served as an Ambassador at large for foreign investments in France and as President of the French Agency for International Investments. From 2003 through February 2005, he served as France Telecom's Senior Executive Vice President in charge of technologies, strategic partnerships and new usages and as a member of France Telecom's Executive Committee. Mr. Lombard also spent several years as Ambassador in charge of foreign investment in France. Mr. Lombard is also a member of the Board of Directors of Thales and Technicolor (previously Thomson), one of our customers, as well as a member of the Supervisory Board of Radiall. Mr. Lombard was also a member until his resignation on November 15, 2006 of the Supervisory Board of ST Holding, our largest shareholder. Mr. Lombard is a graduate of the Ecole Polytechnique and the Ecole Nationale Supérieure des Télécommunications. Mr Lombard has French nationality.

Alessandro Ovi was a member of our Supervisory Board from 1994 until his term expired at our annual general shareholders' meeting on March 18, 2005. He was reappointed to our Supervisory Board at the 2007 annual shareholders' meeting and serves on the Strategic Committee. He was appointed to our Audit Committee in 2010. Mr. Ovi received a doctoral degree in Nuclear Engineering from the Politecnico in Milan and a Master's Degree in Operations Research from the Massachusetts Institute of Technology. He has been Special Advisor to the President of the European Community for five years and has served on the boards of Telecom Italia S.p.A, Finmeccanica S.p.A. and Alitalia S.p.A. Currently, he is also a director of Telecom Italia Media S.p.A. and LandiRenzo Spa. Mr. Ovi is a Life Trustee in Carnegie Mellon University and a Member of the Board in the Italian Institute of Technology. Until April 2000, he was the Chief Executive Officer of Tecnitel S.p.A., a subsidiary of Telecom Italia Group. Prior to joining Tecnitel S.p.A., Mr. Ovi was the Senior Vice President of International Affairs and Communications at I.R.I. Mr Ovi has Italian nationality.

Bruno Steve has been a member of our Supervisory Board since 1989 and has previously served as both its Chairman and Vice-Chairman. Mr. Steve currently serves on our Supervisory Board's Audit Committee, Compensation Committee and Nomination and Corporate Governance Committee. He was with Istituto per la Ricostruzione Industriale-IRI S.p.A. ("I.R.I"), a former shareholder of Finmeccanica, Finmeccanica and other affiliates of I.R.I. in various senior positions for over 17 years. Mr. Steve is currently Chairman of the Statutory Auditors of Selex Galileo S.p.A. He previously served as member of the Statutory Auditors of Pirelli Tyres S.p.A. Until December 1999, he served as Chairman of MEI. He served as the Chief Operating Officer of Finmeccanica from 1988 to July 1997 and Chief Executive Officer from May 1995 to July 1997. He was Senior Vice President of Planning, Finance and Control of I.R.I. from 1984 to 1988. Prior to 1984, Mr. Steve served in several key executive positions at Telecom Italia. He is also a professor at LUISS Guido Carli University in Rome. Mr. Steve was Vice Chairman from May 1999 to March 2002, Chairman from March 2002 to May 2003 and member until his resignation on April 21, 2004 of the Supervisory Board of ST Holding, our largest shareholder. Mr Steve has Italian nationality.

4.2. Meetings and activities of the Supervisory Board

Activities of the Supervisory Board.

The Supervisory Board held eleven meetings in 2010, including meetings by telephone conference, of which all were held in the presence of the sole member of the Managing Board, the Chief Financial Officer and the Chief Operating Officer.

The items discussed in the meetings included recurring subjects such as the Annual Budget, STMicroelectronics's financial performance, STMicroelectronics's Annual Report on Form 20-F as well as its statutory IFRS Annual Report, objectives and results, strategy and operations review, reports of the various Committees of the Supervisory Board, the convocation of the annual shareholders' meeting, the risks of STMicroelectronics's business and the assessment by the Managing Board of the structure of the internal risk management and control systems, as well as any significant changes thereto, corporate governance requirements and developments, compensation of the sole member of the Managing Board and the Chief Operating Officer and the performance of the Supervisory Board, its members and its Committees and of the sole member of the Managing Board. Certain Supervisory Board meetings also included presentations by senior executive management.

Outside the Supervisory Board meetings, the Chairman and other members of the Supervisory Board had regular contact with the sole member of the Managing Board, the Chief Financial Officer, the Chief Operating Officer and the Chief Administrative Officer.

At one of the Supervisory Board meetings and in accordance with best practice provision III.1.7 of the Dutch corporate governance code, the Supervisory Board evaluated outside the presence of the sole member of the Managing Board and other executive officers, the performance of the sole member of the Managing Board as well as of its own functioning, its members and its Committees. In doing so, the Chairman of the Supervisory Board had invited each member of the Supervisory Board to provide his comments on these topics to the Chairman. The Chairman then shared the main conclusions drawn from such comments with the other Supervisory Board members in the aforementioned Supervisory Board meeting. At that meeting the Supervisory Board unanimously concluded that the sole member of the Managing Board, the full Supervisory Board, its members and its Committees are functioning adequately.

Membership and Attendance.

As of December 31, 2010, the composition of our Supervisory Board's committees was as follows: i) Mr. Tom de Waard is the Chairman of the Audit Committee, and Messrs. Raymond Bingham, Douglas Dunn and Bruno Steve are all voting members; ii) Mr. Antonino Turicchi is the Chairman of the Compensation Committee, and Messrs. Gérald Arbola, Tom de Waard and Bruno Steve are members; iii) Mr. Tom de Waard is the Chairman of the Nomination and Corporate Governance Committee, and Messrs. Gérald Arbola, Didier Lombard, Bruno Steve and Antonino Turicchi are members; and, iv) Mr. Antonino Turicchi is the Chairman of the Strategic Committee, and Messrs. Gérald Arbola, Raymond Bingham, Douglas Dunn, Didier Lombard and Alessandro Ovi are members.

Detailed information on attendance at full Supervisory Board and Supervisory Board Committee meetings during 2010 is as follows:

Number of Meetings Attended in 2010[1]	Full Board	Audit Committee	Compensation Committee	Strategic Committee	Nominating and Corporate Governance Committee
Antonino Turicchi	11	-	4	1	3
Gérald Arbola	11	-	4	1	3
Raymond Bingham	9	8	-	1	-
Douglas Dunn	11	10	-	1	-
Didier Lamouche[2]	10	8	-	-	-
Didier Lombard	11	-	4	1	3
Alessandro Ovi	11	1	-	1	-
Bruno Steve	11	9	4	-	3
Tom de Waard	11	10	4	-	3

(1) Mr. Didier Lamouche was member of the Supervisory Board until October 26, 2010.

(2) As a member of the Supervisory Board.

Audit Committee

The Audit Committee was established in 1996 to assist the Supervisory Board in fulfilling its oversight responsibilities relating to corporate accounting, reporting practices, and the quality and integrity of our financial reports as well as our auditing practices, legal and regulatory related risks, execution of our auditors' recommendations regarding corporate auditing rules and the independence of our external auditors.

The Audit Committee met 10 times during 2010 and, in addition, held several conference calls related to subjects that arose during the year. At many of the Audit Committee's meetings, the committee received presentations on current financial and accounting issues and had the opportunity to interview our CEO, CFO, General Counsel, external and internal auditors. The Audit Committee also met with outside U.S. legal counsel to discuss corporate requirements pursuant to NYSE's corporate governance rules and the Sarbanes-Oxley Act. The Audit Committee also proceeded with its annual review of our internal audit function. The Audit Committee reviewed our annual Consolidated Financial Statements in U.S. GAAP for the year ended December 31, 2010, and the results press release was published on January 24, 2011.

The Audit Committee approved the compensation of our external auditors for 2010 and provisionally approved the scope of their audit, audit-related and non-audit-related services for 2011.

At the end of each quarter, prior to each Supervisory Board meeting to approve our quarterly results and earnings press release, the Audit Committee reviewed our interim financial information and the proposed press release and had the opportunity to raise questions to management and the independent registered public accounting firm. In addition, the Audit Committee reviewed our quarterly "Operating and Financial Review and Prospects" and Consolidated Financial Statements (and notes thereto) before they were filed with the SEC and voluntarily certified by the CEO and the CFO (pursuant to sections 302 and 906 of the Sarbanes-Oxley Act). The Audit Committee also reviewed Operating and Financial Review and Prospects and our Consolidated Financial Statements contained in our 2010 Form 20-F, prior to the Supervisory Board's meeting to approve the full year results. Furthermore, the Audit Committee monitored our compliance with the European Directive and applicable provisions of Dutch law that require us to prepare a set of accounts pursuant to IFRS in advance of our annual shareholders' meetings, which was held on May 25, 2010.

Also in 2010, our Audit Committee reviewed with our external auditors our compliance with Section 404 of the Sarbanes-Oxley Act. In addition, the Audit Committee regularly discussed the progress of the implementation of internal control over financial reporting and reviewed management's conclusions as to the effectiveness of internal control.

As part of each of its quarterly meetings our Audit Committee reviewed our financial results as presented by Management and whistleblowing reports, including independent investigative reports provided by internal audit or outside consultants on such matters.

4.3. Compensation Committee

Our Compensation Committee proposes to our Supervisory Board the compensation for our President and Chief Executive Officer and sole member of our Managing Board as well as for our Chief Operating Officer, including the variable portion of such compensation based on performance criteria recommended by our Compensation Committee. It also approves any increase in the incentive component of compensation for our executive officers. The Compensation Committee is also informed of the compensation plans for our executive officers and specifically approves stock-based compensation plans for our executive officers and key employees. The Compensation Committee met four times in 2010.

In accordance with best practice provision II.2.13(b) of the Dutch Corporate Governance Code, the Compensation Committee and the Supervisory Board analyzed the possible outcomes of the variable compensation components and how they may affect the compensation of the sole member of the Managing Board.

Among its main activities, the Compensation Committee: (i) agreed to propose a bonus for the CEO related to fiscal year 2009 equal to 65% of his base salary and for the COO related to fiscal year 2009 equal to 50% of his base salary, given the difficult market conditions and the objectives that had been met; (ii) recommended the performance criteria which must be met by the CEO and COO in order to benefit from the bonus that was approved by our 2010 Annual General Meeting of Shareholders as part of the Managing Board compensation policy; and (iii) proposed performance criteria, which must be met by the CEO as well as all other employees participating in the employees stock award plans to benefit from such awards. In particular, the Compensation Committee recommended the performance targets for the base bonus of our CEO and COO be based on, among other factors, market share, introduction of new products for ACCI and IMS, the budget for 2010, the Company's share price versus SOX from July 27, 2010 through January 25, 2011, corporate governance and special programs, including restructuring and 5-year plan. The Compensation Committee, on behalf of, and with the approval of, the entire Supervisory Board, also set the criteria for a special incentive bonus.

For the 2010 nonvested stock award plan, the Compensation Committee, on behalf, and with the approval, of the entire Supervisory Board, established the applicable performance criteria, which are based on sales and operating income as compared against a panel of semiconductor companies and cash flow before acquisitions as well as cash restructuring costs, with the target to have it positive for the second half of 2010.

In addition, the Compensation Committee received presentations and discussed our succession planning for key employees.

4.4. Strategic Committee

Our Strategic Committee was created to monitor key developments within the semiconductor industry and our overall strategy, and is, in particular, involved in supervising the execution of strategic transactions. The Strategic Committee met only once in 2010, as several of the strategic discussions were extended to involve all Supervisory Board members and occurred at extended Supervisory Board meetings. Among its main activities, the Strategic Committee reviewed prospects and various possible scenarios and opportunities to meet the challenges of the semiconductor market, including the evaluation of possible divestitures and partnerships to invest in new markets.

4.5. Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee was created to establish the selection criteria and appointment procedures for the appointment of members to our Supervisory Board and Managing Board, and to resolve issues relating to corporate governance. The Nominating and Corporate Governance Committee met three times during 2010 to discuss changes to the Dutch Corporate Governance Code, recent developments in U.S. law regarding corporate governance and preparations for the Annual General Meeting.

4.6. Secretariat and Controllers

Our Supervisory Board appoints a Secretary and Vice Secretary as proposed by our Supervisory Board. Furthermore, the Managing Board makes an Executive Secretary available to our Supervisory Board, who is appointed by the Supervisory Board. The Secretary, Vice Secretary and Executive Secretary constitute the Secretariat of the Board. The mission of the Secretariat is primarily to organize meetings, ensure the continuing education and training of our Supervisory Board members and to maintain record-keeping. Messrs. Bertrand Loubert and Luigi Chessa serve as Secretary and Vice Secretary, respectively, for our Supervisory Board, and for each of the Compensation, Nominating and Corporate Governance and Strategic Committees of our Supervisory Board. Our Chief Compliance Officer, Ms. Alisia Grenville, serves as the Executive Secretary of our Supervisory Board. In addition, Mr. Willem Toussaint serves as the Secretary of the Audit Committee.

Our Supervisory Board appoints and dismisses two financial experts ("Controllers"). The mission of the Controllers is primarily to assist our Supervisory Board in evaluating our operational and financial performance, business plan, strategic initiatives and the implementation of Supervisory Board decisions, as well as to review the operational reports provided under the responsibility of the Managing Board. The Controllers generally meet once a month with the management of the Company and report to our Supervisory Board. The current Controllers are Messrs. Christophe Duval and Andrea Novelli, who have served as controllers since our 2005 annual shareholders' meeting.

The STH Shareholders' Agreement between our principal indirect shareholders contains provisions with respect to the appointment of the Secretary, Vice Secretary and Controllers.

4.7. Remuneration report

Pursuant to the decisions adopted by our shareholders at the annual shareholders' meeting held on May 25, 2010, the aggregate compensation for the members and former members of our Supervisory Board in respect of service in 2010 was €942,875.00 before any withholding taxes and applicable mandatory social contributions, as set forth in the following table.

In Euros	2010	2009
Bruno Steve	€95,125	€97,375
Didier Lamouche	€79,125	€86,250
Alessandro Ovi	€73,250	€75,875
Tom de Waard	€148,250	€157,250
Gerald Arbola	€146,125	€146,875
Didier Lombard	€84,750	€88,125
Douglas Dunn	€86,375	€96,875
Raymond Bingham	€83,750	€98,375
Antonio Turicchi	€146,125	€146,875
Total	**€942,875**	**€993,875**

(1) Compensation, including attendance fees of $1,500 per meeting of our Supervisory Board or committee thereof, was paid to Clifford Chance LLP.

We do not have any service agreements with members of our Supervisory Board.

The total amount paid as compensation in 2010 to our executive officers, including Mr. Carlo Bozotti, the sole member of our Managing Board and our President and CEO as well as executive officers employed by us during 2010, was approximately $15.7 million before any withholding taxes. Such amount also includes the amounts of EIP paid to the executive officers pursuant to a Corporate Executive Incentive Program (the "EIP") that entitles selected executives to a yearly bonus based upon the individual performance of such executives. The maximum bonus awarded under the EIP is based upon a percentage of the executive's salary and is adjusted to reflect our overall performance. The participants in the EIP must satisfy certain personal objectives that are focused, *inter alia,* on return on net assets, customer service, profit, cash flow and market share. The relative charges and non-cash benefits were approximately $12.5 million. Within such amount, the remuneration of our current sole member of our Managing Board and President and CEO in 2010 was:

Sole Member of our Managing Board and President and CEO	Salary	Bonus[1]	Non-cash Benefits[2]	Total
Carlo Bozotti	$804,824	$510,906	$957,323	$2,273,053

(1) The bonus paid to the sole member of our Managing Board and President and CEO during the 2010 financial year was approved by the Compensation Committee, and approved by the Supervisory Board in respect of the 2009 financial year, based on fulfillment of a number of pre-defined objectives for 2009.

(2) Including stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances.

Mr. Bozotti was re-appointed as sole member of our Managing Board and President and Chief Executive Officer of our company by our annual shareholders' meeting on May 14, 2008 for a three-year period. At our annual shareholders' meeting in 2011, the mandate of Mr. Bozotti will expire; however, the Supervisory Board will propose for shareholder adoption the reappointment of Mr. Bozotti for a new three-year term at our annual shareholders' meeting in 2011 to expire at our annual shareholders' meeting in 2014. In each of the years 2007, 2008 and 2009, Mr. Bozotti was granted, in accordance with the compensation policy adopted by the shareholders' meeting in 2005, up to 100,000 nonvested Stock Awards. The vesting of such stock awards is conditional upon certain performance criteria, fixed by our Supervisory Board, being achieved as well as Mr. Bozotti's continued service with us.

In 2009, our Supervisory Board approved the terms of Mr. Bozotti's employment by us, which are consistent with the compensation policy adopted by our 2005 annual shareholders' meeting. Mr. Bozotti has two employment agreements with us, the first with our Dutch parent company, which relates to his activities as sole member of our Managing Board and representative of the Dutch legal entity, and the second in Switzerland, which relates to his activities as President and CEO, EIP, Pension and other items covered by the compensation policy adopted by our shareholders.

Consistent with this compensation policy, the Supervisory Board, upon the recommendation of its compensation committee, set the criteria to be met for Mr. Bozotti for attribution of his 2010 bonus (based on new product introductions, market share and budget targets, as well as corporate governance initiatives). The Supervisory Board, however, has not yet determined the amount of the CEO bonus for 2011.

With regard to Mr. Bozotti's 2008 nonvested stock awards, the Supervisory Board, upon the recommendation of its Compensation Committee, noted that only one out of the three performance criteria linked to sales, operating income and return on net assets had been met under the Employee stock award Plan and concluded that Mr. Bozotti was entitled to 33,331 stock awards, which vest as defined by the Plan one year, two years and three years, respectively, after the date of the grant, provided Mr. Bozotti is still an employee at such time (subject to the acceleration provisions in the event of a change in control).

With regard to Mr. Bozotti's 2009 stock awards, the Supervisory Board, upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. The Supervisory Board noted that only two out of the three performance criteria linked to sales, operating income and cash flow had been met under the Employee stock award Plan and concluded that Mr. Bozotti was entitled to 66,672 stock awards, which vest as defined by the Plan one year, two years and three years, respectively, after the date of the grant provided Mr. Bozotti is still an employee at such time (subject to the acceleration provisions in the event of a change in control).

As allowed by best practice provision II.2.13(f) of the Dutch Corporate Governance Code, we do not disclose the performance criteria on which the performance related component of the variable compensation of the sole member of our Managing Board is dependent, as this is deemed competitive sensitive information.

With regard to Mr. Bozotti's 2010 stock awards, the Supervisory Board, upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. The Supervisory Board, however, has not yet determined whether the performance criteria which condition the vesting (and which, like for all employees benefiting from nonvested share awards, are linked to sales, operating income and cash flow) have been met.

During 2010, Mr. Bozotti did not exercise any stock options granted to him, and did not sell any vested stock awards or purchase or sell any of our shares.

Our Supervisory Board has approved the establishment of a complementary pension plan for our top executive management, comprising the CEO, COO and other key executives to be selected by the CEO according to the general criteria of eligibility and service set up by the Supervisory Board upon the proposal of its Compensation Committee. In respect to such plan, we have set up an independent foundation under Swiss law which manages the plan and to which we make contributions. Pursuant to this plan, in 2010 we made a contribution of $0.3 million to the plan of our current President and Chief Executive Officer, $0.4 million to the plan of our Chief Operating Officer, and $0.4 million to the plan for all other beneficiaries. The amount of pension plan payments made for other beneficiaries, such as former employees retired in 2010 and no longer salaried in 2010 were $0.5 million.

Except as provided below, we did not extend any loans or overdrafts to our Supervisory Board members or to the sole member of our Managing Board and President and CEO. Furthermore, we have not guaranteed any debts or concluded any leases with our Supervisory Board members or their families, or the sole member of the Managing Board or his family. We did advance certain funds relating to withholding taxes on behalf of one of our Supervisory Board members in connection with his sale of restricted stock awards. Such advances were not material and have been fully repaid to the Company.

For information regarding stock options and other stock-based compensation granted to members of our Supervisory Board, the Managing Board and our executive officers, please refer to "— Stock Awards and Options" below.

The current members of our Executive Committee and the Managing Board were covered in 2010 under certain group life and medical insurance programs provided by us. The aggregate additional amount set aside by us in 2010 to provide pension, retirement or similar benefits for our Executive Committee and our Managing Board as a group is in addition to the amounts allocated to the complementary pension plan described above and is estimated to have been approximately $3.6 million, which includes statutory employer contributions for state-run retirement, similar benefit programs and other miscellaneous allowances.

4.7.1. Share Ownership

None of the members of our Supervisory Board and Managing Board or our executive officers holds shares or options to acquire shares representing more than 1% of our issued share capital.

4.7.2. Stock Awards and Options

Our stock options and stock award plans are designed to incentivize, attract and retain our executives and key employees by aligning compensation with our performance and the evolution of our share price. We have adopted stock-based compensation plans comprising either stock options or nonvested stock awards that benefit our President and CEO as well as key employees (employee stock options and/or employee nonvested stock award plans) and stock options or vested stock awards that benefit our Supervisory Board members and professionals (Supervisory Board stock options and/or stock award plans).

Pursuant to the shareholders' resolutions adopted by our 2008 and 2009 annual shareholders' meeting, our Supervisory Board, upon the proposal of the Managing Board and the recommendation of the Compensation Committee, took the following actions:

- approved, for a five year period, our 2008 nonvested Stock Award Plan for Executives and Key Employees, under which directors, managers and selected employees may be granted stock awards upon the fulfillment of restricted criteria, such as those linked to our performance and continued service with us;
- approved conditions relating to our 2008 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance; and

- approved conditions relating to our 2009 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance; and
- approved conditions relating to our 2010 nonvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance.

We use our treasury shares to cover the stock awards granted under the Employee USA Plans. As of December 31, 2010, 3,251,737 stock awards granted in relation to the 2007, 2008 and 2009 plans had vested, leaving 28,734,002 treasury shares outstanding. The 2010 Employee nonvested stock award plan generated an additional charge of $12 million in the consolidated statements of income for 2010, which corresponds to the cost per service in the year for all granted shares that are (or are expected to be) vested pursuant to the financial performance criteria being met.

The exercise of stock options and the sale or purchase of shares of our stock by the members of our Supervisory Board, the sole member of our Managing Board and President and CEO, and all our employees are subject to an internal policy which involves, inter alia, certain blackout periods.

4.7.3. Employee and Managing Board Stock-Based Compensation Plans

4.7.3.1. 2001 Stock Option Plan.

At the annual shareholders' meeting on April 25, 2001, our shareholders approved resolutions authorizing the Supervisory Board, for a period of five years, to adopt and administer a stock option plan (in the form of five annual tranches) that provided for the granting to our managers and professionals of options to purchase up to a maximum of 60 million common shares (the "2001 Stock Option Plan"). The amount of options granted to the sole member of our Managing Board and President and CEO is determined by our Compensation Committee, upon delegation from our Supervisory Board and, since 2005, has been submitted for approval by our annual shareholders' meeting. The amount of stock options granted to other employees was made by our Compensation Committee on delegation by our Supervisory Board and following the recommendation of the sole member of our Managing Board and President and CEO. In addition, the Supervisory Board delegated to the sole member of our Managing Board and President and CEO the flexibility to grant, each year, up to a determined number of share awards to our employees pursuant to the 2001 Stock Option Plan in special cases or in connection with an acquisition.

In 2005, our shareholders at our annual shareholders' meeting approved a modification to our 2001 Stock Option Plan so as to provide the grant of up to four million nonvested stock awards instead of stock options to our senior executives and certain of our key employees, as well as the grant of up to 100,000 nonvested Stock Awards instead of stock options to our President and CEO. A total of 4,159,915 shares have been awarded pursuant to the modification of such Plan, which include shares that were awarded to employees who subsequently left our Group thereby forfeiting their awards. Certain forfeited share awards were subsequently awarded to other employees.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board, approved the conditions that apply to the vesting of such awards. These conditions related to both our financial performance, pursuant to certain defined criteria in 2005 and during the first quarter of 2006, and the continued presence of the beneficiaries of the nonvested stock awards at the defined vesting dates in 2006, 2007 and 2008. Of the shares awarded, none remain outstanding and nonvested as of December 31, 2010.

2001 Plan (Employees)
April 25, 2001 (outstanding grants)

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7
Date of the grant	27-Apr-01	4-Sep-01	1-Nov-01	2-Jan-02	25-Jan-02	25-Apr-02	26-Jun-02
Total Number of Shares which may be purchased	9,521,100	16,000	61,900	29,400	3,656,103	9,708,390	318,600
Vesting Date	27-Apr-03	4-Sep-03	1-Nov-03	2-Jan-04	25-Jan-03	25-Apr-04	26-Jun-04
Expiration Date	27-Apr-11	4-Sep-11	1-Nov-11	2-Jan-12	25-Jan-12	25-Apr-12	26-Jun-12
Exercise Price	$39.00	$29.70	$29.61	$33.70	$31.09	$31.11	$22.30
Terms of Exercise	32% on	32% on	32% on	32% on	50% on	32% on	32% on
	27-Apr-03	4-Sep-03	1-Nov-03	2-Jan-04	25-Jan-03	25-Apr-04	26-Jun-04
	32% on	32% on	32% on	32% on	50% on	32% on	32% on
	27-Apr-04	4-Sep-04	1-Nov-04	2-Jan-05	25-Jan-04	25-Apr-05	26-Jun-05
	36% on 27-Apr-05	36% on 4-Sep-05	36% on 1-Nov-05	36% on 2-Jan-06		36% on 25-Apr-06	36% on 26-Jun-06
Number of Shares to be acquired with Outstanding Options as of December 31, 2010	6,628,730	0	29,800	18,100	2,443,311	6,914,869	91,206
Held by Managing Board/Executive Officers	313,500	0	0	0	122,300	324,530	0

2001 Plan (Employees) (continued)
April 25, 2001 (outstanding grants)

	Tranche 8	Tranche 9	Tranche 10	Tranche 11	Tranche 12	Tranche 13	Tranche 14	Tranche 15	Tranche 16	Tranche 17
Date of the grant	1-Aug-02	17-Dec-02	14-Mar-03	3-Jun-03	24-Oct-03	2-Jan-04	26-Apr-04	1-Sep-04	31-Jan-05	17-Mar-05
Total Number of Shares which may be purchased	24,500	14,400	11,533,960	306,850	135,500	86,400	12,103,490	175,390	29,200	13,000
Vesting Date	1-Aug-04	17-Dec-04	14-Mar-05	3-Jun-05	24-Oct-05	2-Jan-06	26-Apr-06	1-Sep-06	31-Jan-07	17-Mar-07
Expiration Date	1-Aug-12	17-Dec-12	14-Mar-13	3-Jun-13	24-Oct-13	2-Jan-14	26-Apr-14	1-Sep-14	31-Jan-15	17-Mar-15
Exercise Price	$20.02	$21.59	$19.18	$22.83	$25.90	$27.21	$22.71	$17.08	$16.73	$17.31
Terms of Exercise	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on
	1-Aug-04	17-Dec-04	14-Mar-05	3-Jun-05	24-Oct-05	2-Jan-06	26-Apr-06	1-Sep-06	31-Jan-07	17-Mar-07
	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on	32% on
	1-Aug-05	17-Dec-05	14-Mar-06	3-Jun-06	24-Oct-06	2-Jan-07	26-Apr-07	1-Sep-07	31-Jan-08	17-Mar-08
	36% on	36% on	36% on	36% on	36% on	36% on	36% on	36% on	36% on	36% on
	1-Aug-06	17-Dec-06	14-Mar-07	3-Jun-07	24-Oct-07	2-Jan-08	14-Mar-08	1-Sep-08	31-Jan-09	17-Mar-09
Number of Shares to be acquired with Outstanding Options as of December 31, 2010	1,300	12,900	8,868,063	163,950	112,150	11,700	9,432,285	107,231	17,300	6,000
Held by Managing Board/ Executive Officers	0	0	392,200	0	31,000	0	475,400	0	0	0

4.7.3.2. 2007 nonvested Stock Award Plan

In 2007, in accordance with the Stock-Based Compensation Plan for Employees as approved by our shareholders at our annual shareholders' meeting in 2006, up to six million nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders' meeting in 2007 approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,911,840 shares have been awarded under such plan as of December 31, 2010, out of which none remain outstanding and nonvested as of December 31, 2010.

4.7.3.3. 2008 nonvested Stock Award Plan — 2008 Allocation

In 2008, in accordance with the Employee Unvested Share Award Plan as approved by our shareholders at our annual shareholders' meeting in 2008, up to six million nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders' meeting in 2008 also approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,773,705 shares have been awarded under such allocation as of December 31, 2010, out of which up to 628,510 remain outstanding but nonvested as of December 31, 2010.

4.7.3.4. 2008 nonvested Stock Award Plan — 2009 Allocation

In 2009, in accordance with the Employee Unvested Share Award Plan as approved by our shareholders at our annual shareholders' meeting in 2008 and further approved by our shareholders at our annual shareholders' meeting in 2009, up to six million nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders' meeting in 2009 also approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 5,583,540 shares have been awarded under such allocation as of December 31, 2010, out of which up to 2,774,056 remain outstanding but nonvested as of December 31, 2010.

4.7.3.5. 2008 nonvested Stock Award Plan — 2010 Allocation

In 2010, in accordance with the Employee Unvested Share Award Plan as approved by our shareholders at our annual shareholders' meeting in 2008 and further approved by our shareholders at our annual shareholders' meeting in 2009, up to 6,516,460 nonvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our annual shareholders' meeting in 2010 approved the grant of up to 100,000 nonvested Stock Awards to our President and CEO. 6,566,375 shares have been awarded under such allocation as of December 31, 2010, out of which up to 6,506,820 remain outstanding but nonvested as of December 31, 2010.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board has approved the conditions which shall apply to the vesting of such awards. These conditions relate both to our financial performance meeting certain defined criteria in 2010, and to the continued presence at the defined vesting dates in 2011, 2012 and 2013 of the beneficiaries of the nonvested stock awards.

Furthermore, the Compensation Committee, on behalf of the entire Supervisory Board and with the approval of the entire Supervisory Board, approved the list of beneficiaries of the unvested stock awards and delegated to our President and Chief Executive Officer the right to grant certain additional unvested stock awards to key employees, in exceptional cases, provided that the total number of unvested stock awards granted to executives and key employees shall not exceed 6,516,460 for 2010 shares.

The implementation of our Stock-Based Compensation Plan for Employees is subject to periodic proposals from our Managing Board to our Supervisory Board, and recommendations by the Compensation Committee of our Supervisory Board.

4.7.4. Supervisory Board Stock Option Plans

4.7.4.1. 1999 Stock Option Plan for members and professionals of our Supervisory Board.

A plan was adopted in 1999 for a three-year period expiring on December 31, 2001 (the "1999 Stock Option Plan"), providing for the grant of at least the same number of options as were granted during the period from 1996 to 1999.

4.7.4.2. 2002 Stock Option Plan for members and professionals of our Supervisory Board.

A 2002 plan was adopted on March 27, 2002 (the "2002 Stock Option Plan"). Pursuant to this 2002 Plan, the annual shareholders' meeting authorized the grant of 12,000 options per year to each member of our Supervisory Board during the course of his three-year tenure (during the three-year period from 2002-2005), and 6,000 options per year to all of the professionals. Pursuant to the 1999 and 2002 Plans, stock options for the subscription of 819,000 shares were granted to the members of the Supervisory Board and professionals. Options were granted to members and professionals of our Supervisory Board under the 1999, and 2002 Stock Option Plans as shown in the table below:

1999 and 2002 Plans (for Supervisory Board Members and Professionals) (outstanding grants)

Date of Annual	May 31, 1999		March 27, 2002		
Shareholders' Meeting	Tranche 2	Tranche 3	Tranche 1	Tranche 2	Tranche 3
Date of the grant	16-Jun-00	27-Apr-01	25-Apr-02	14-Mar-03	26-Apr-04
Total Number of Shares which may be purchased	103,500	112,500	132,000	132,000	132,000
Vesting Date	16-Jun-01	27-Apr-02	25-May-02	14-Apr-03	26-May-04
Expiration Date	16-Jun-08	27-Apr-11	25-Apr-12	14-Mar-13	26-Apr-14
Exercise Price	$62.01	$39.00	$31.11	$19.18	$22.71
Terms of Exercise	All exercisable after 1 year	All exercisable after 1 year	All exercisable after 1 year	All exercisable after 1 year	All exercisable after 1 year
Number of Shares to be acquired with Outstanding Options as of December 31, 2010	0	90,000	108,000	108,000	132,000

At December 31, 2010, options to purchase a total of 90,000 common shares were outstanding under the 1999 Stock Option Plan and options to purchase 348,000 common shares were outstanding under the 2002 Supervisory Board Stock Option Plan.

4.7.4.3. 2005, 2006 and 2007 Stock-based Compensation for members and professionals of the Supervisory Board.

Our 2005 Annual Shareholders' meeting approved the adoption of a three year stock based compensation plan for Supervisory Board members and Professionals. The plan provided for the grant of a maximum number of 6,000 newly issued shares per year for each member of the Supervisory Board and 3,000 newly issued shares for each of the Professionals of the Supervisory Board at a price of €1.04 per share, corresponding to the nominal value of our share. Pursuant to our 2007 annual shareholders' meeting, the 2005 plan was modified as the maximum number was increased to 15,000 newly issued shares per year for each member of the Supervisory Board and 7,500 newly issued shares per year for each professional of the Supervisory Board for the remaining year of the plan.

In 2005, 66,000 shares were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2008. In 2006, 66,000 shares were granted to the beneficiaries under such plan, which had completely vested as of December 31, 2009. In 2007, 165,000 shares were granted to the beneficiaries under such plan, out of which 0 were outstanding as of December 31, 2010.

The table below reflects the grants to the Supervisory Board members and professionals under the 2005 Stock-Based Compensation Plan as of December 31, 2010. See Note 17 to our Consolidated Financial Statements.

	2005	**2006**	**2007**
Total number of Shares outstanding	0	0	0
Expiration date	25-Oct-15	29-Apr-16	28-Apr-17

4.7.4.4. 2008, 2009 and 2010 Stock-based Compensation for members and professionals of the Supervisory Board.

Our 2008 annual shareholders' meeting approved the adoption of a new three-year stock-based compensation plan for Supervisory Board members and professionals. This plan provides for the grant of a maximum number of 15,000 newly issued shares per year for each member of the Supervisory Board and 7,500 newly issued shares for each of the professionals of the Supervisory Board at a price of €1.04 per share, corresponding to the nominal value of our share. In 2008, 165,000 shares were granted to the beneficiaries under such plan, out of which 42,500 were outstanding as of December 31, 2010. In 2009, 165,000 shares were granted to the beneficiaries under such plan, out of which 95,000 were outstanding as of December 31, 2010. In 2010, 172,500 shares were granted to the beneficiaries under such plan, out of which 150,000 were outstanding as of December 31, 2010.

The table below reflects the grants to the Supervisory Board members and professionals under the 2008 Stock-Based Compensation Plan as of December 31, 2010. See Note 17 to our Consolidated Financial Statements.

	Plan 2008	Plan 2009	Plan 2010
Total number of Shares outstanding	95,000	157,500	150,000
Expiration date	14-May-18	20-May-19	27-May-20

5. Corporate Governance

This corporate governance chapter includes the information referred to in the Decree of December 23, 2004 adopting further rules regarding the contents of the annual report, as amended and extended by the Decree of March 20, 2009 (the "Decree"). This corporate governance chapter serves as the declaration as referred to in Section 2a of the Decree.

5.1. Commitment to the principles of good corporate governance

Our consistent commitment to the principles of good corporate governance is evidenced by:

- Our corporate organization under Dutch law that entrusts our management to a Managing Board acting under the supervision and control of a Supervisory Board totally independent from the Managing Board. Members of our Managing Board and of our Supervisory Board are appointed and dismissed by our shareholders.
- Our early adoption of policies on important issues such as "business ethics" and "conflicts of interest" and strict policies to comply with applicable regulatory requirements concerning financial reporting, insider trading and public disclosures.
- Our compliance with Dutch securities laws, because we are a company incorporated under the laws of the Netherlands, as well as our compliance with American, French and Italian securities laws, because our shares are listed in these jurisdictions, in addition to our compliance with the corporate, social and financial laws applicable to our subsidiaries in the countries in which we do business.
- Our broad-based activities in the field of corporate social responsibility, encompassing environmental, social, health, safety, educational and other related issues.
- Our implementation of a non-compliance reporting channel (managed by a third party) for issues regarding accounting, internal controls or auditing. A special ombudsperson has been appointed by our Supervisory Board, following the proposal of its Audit Committee, to collect all complaints, whatever their source, regarding accounting, internal accounting controls or auditing matters, as well as the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.
- Our PSE, which require us to integrate and execute all of our business activities, focusing on our employees, customers, shareholders and global business partners;
- Our Ethics Committee, whose mandate is to provide advice to management and employees about our PSE and other ethical issues;
- Our Chief Compliance Officer, who reports directly to the Chief Administrative Office as of October 2010, acts as Executive Secretary to our Supervisory Board and chairs our Ethics Committee; and
- Our Head of Internal Audit, who reports directly to our Audit Committee.

As a Dutch company, we are subject to the Dutch Corporate Governance Code as revised by the Dutch Corporate Governance Monitoring Committee on December 10, 2008. As we are listed on the NYSE, Euronext Paris, the Borsa Italiana in Milan, but not in the Netherlands, our policies and practices cannot be in every respect consistent with all Dutch "Best Practice" recommendations. We have summarized our policies and practices in the field of corporate governance in the ST Corporate Governance Charter, including our corporate organization, the remuneration principles which apply to our Managing and Supervisory Boards, our information policy and our corporate policies relating to business ethics and conflicts of interests, which was approved by our shareholders at our 2004 annual shareholders' meeting and is incorporated by reference in this annual report. We are committed to informing our shareholders of any significant changes in our corporate governance policies and practices at our annual shareholders' meeting. Along with our Supervisory Board Charter (which includes the charters of our Supervisory Board Committees) and our Code of Business Conduct and Ethics, the current version of our ST Corporate Governance Charter is posted on our website, at http:/www.st.com/stonline/company/governance/index.htm, and these documents are available in print to any shareholder who may request them. As recommended by the Dutch Corporate Governance Monitoring Committee, this Corporate Governance Chapter includes information on the broad outline of our corporate governance structure and our compliance with the Code.

Our Supervisory Board is carefully selected based upon the combined experience and expertise of its members. Certain of our Supervisory Board members, as disclosed in their biographies set forth above, have existing relationships or past relationships with Areva, CEA and the Italian Ministry of the Economy and Finance, who are currently parties to the STH Shareholders' Agreement as well as with ST Holding or ST Holding II, our major shareholder, or with other parties that are among our suppliers, customers or technology partners. However, in fulfilling their duties under Dutch law, Supervisory Board members serve the best interests of all of our stakeholders and of our business and must act independently in their supervision of our management. Our Supervisory Board has adopted criteria to assess the independence of its members in accordance with corporate governance listing standards of the NYSE.

Our Supervisory Board has on various occasions discussed Dutch corporate governance standards, the implementing rules and corporate governance standards of the SEC and of the NYSE, as well as other corporate governance standards.

The Supervisory Board has determined, based on the evaluations by an ad hoc committee, the following independence criteria for its members: Supervisory Board members must not have any material relationship with STMicroelectronics N.V., or any of our consolidated subsidiaries, or our management. A "material relationship" can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others, but does not include a relationship with direct or indirect shareholders.

We believe we are fully compliant with all material NYSE corporate governance standards, to the extent possible for a Dutch company listed on Euronext Paris, Borsa Italiana, as well as the NYSE. Because we are a Dutch company, the Audit Committee is an advisory committee to the Supervisory Board, which reports to the Supervisory Board, and our shareholders must approve the selection of our statutory auditors. Our Audit Committee has established a charter outlining its duties and responsibilities with respect to the monitoring of our accounting, auditing, financial reporting and the appointment, retention and oversight of our external auditors. In addition, our Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential anonymous submission by our employees regarding questionable accounting or auditing matters.

Pursuant to our Supervisory Board Charter, the Supervisory Board is responsible for handling and deciding on potential reported conflicts of interests between the Company on the one hand and members of the Supervisory Board and Managing Board on the other hand.

For example, one of the members of our Supervisory Board is managing director of Areva SA, which is a controlled subsidiary of CEA, one of the members of our Supervisory Board is a member of the Board of Directors of Technicolor (formerly known as Thomson), another is the non-executive Chairman of the Board of Directors of ARM Holdings PLC ("ARM"), two of our Supervisory Board members are non-executive directors of Soitec, two of the members of the Supervisory Board are also members of the Supervisory Board of BESI and one of the members of our Supervisory Board is a director of Oracle Corporation ("Oracle") and Flextronics International. France Telecom and its subsidiaries Equant and Orange, as well as Oracle's new subsidiary PeopleSoft supply certain services to our Company. We have a long-term joint R&D partnership agreement with LETI, a wholly-owned subsidiary of CEA. We have certain licensing agreements with ARM, and have conducted transactions with Soitec and BESI as well as with Technicolor and Flextronics. Each of the aforementioned arrangements and transactions are negotiated without the personal involvement of our Supervisory Board members and we believe that they are made on an arm's-length basis in line with market practices and conditions. Best practice provisions III.6.1. up to and including III.6.3 of the Dutch Corporate Governance Code have been complied with.

5.2. General Meeting of Shareholders

Our ordinary shareholders' meetings are held at least annually, within six months after the close of each financial year, in Amsterdam, Haarlemmermeer (Schiphol Airport), Rotterdam or The Hague, the Netherlands. Extraordinary shareholders' meetings may be held as often as our Supervisory Board deems necessary, and must be held upon the written request of registered shareholders or other persons entitled to attend shareholders' meetings of at least 10% of the total issued share capital to our Managing Board or our Supervisory Board specifying in detail the business to be dealt with. Such written requests may not be submitted electronically. In the event that the Managing Board or the Supervisory Board does not convene the shareholders' meeting within six weeks of such a request, the aforementioned shareholders or individuals may be authorized by a competent judicial authority.

Notice of shareholders' meetings shall be given by our Managing Board or by our Supervisory Board or by those who according to the law or our Articles of Association are entitled thereto. The notice shall be given in such manner as shall be authorized or required by law (including but not limited to a written notice, a legible and reproducible message sent by electronic means and an announcement published by electronic means), as well as in accordance with the regulations of a stock exchange where our shares are officially listed at our request. In addition, shareholders and other persons entitled to attend the shareholders' meetings that are registered in our share register shall be notified by letter that the meeting is being convened. The notice convening the shareholders' meeting shall be given with due observance of the statutory notice period, which currently is 42 days prior to the date of the shareholders' meeting.

The notice of the shareholders' meeting states the business to be transacted as well as other information prescribed by law and our Articles of Association. The agenda is fixed by the author of the notice of the meeting; however, one or more shareholders or other persons entitled to attend shareholders' meetings representing at least one-tenth of our issued share capital may, provided that the request was made at least five days prior to the date of convocation of the meeting, request that proposals be included on the agenda. Notwithstanding the previous sentence, proposals of persons who are entitled to attend shareholders' meetings will be included on the agenda, if such proposals are made in writing to our Managing Board within a period of sixty days before that meeting by persons who are entitled to attend our shareholders' meetings who, solely or jointly, represent at least 1% of our issued share capital or a market value of at least €50,000,000 unless we determine that such proposal would conflict with our substantial interests. The requests referred to in the previous two sentences may not be submitted electronically. The aforementioned requests must comply with conditions stipulated by our Managing Board, subject to the approval of our Supervisory Board, which shall be posted on our website.

Dutch law prescribes a fixed registration date of 20 days prior to the date of the shareholders' meeting, which means that shareholders and other persons entitled to attend shareholders' meetings are those persons who have such rights at such date and, as such, are registered in a register designated by our Managing Board, regardless of who is a shareholder or otherwise a person entitled to attend shareholders' meetings at the time of the meeting if a registration date as referred to in our Articles of Association had not been prescribed or applicable.

Unless otherwise required by our Articles of Association or Dutch law, resolutions of shareholders' meetings require the approval of a majority of the votes cast at a meeting at which at least 15% of the issued and outstanding share capital is present or represented. If a quorum is not present, a further meeting can be convened which shall be entitled, irrespective of the share capital represented, to pass a resolution. We may not vote our shares held in treasury. Blank and invalid votes shall not be counted.

The most important items of our shareholders' meeting are:

- the adoption of our annual accounts;
- the adoption of a dividend;
- the discharge of the members of our Managing Board and Supervisory Board;
- the adoption of the compensation policy of our Managing Board;
- the determination of the compensation of the members of our Supervisory Board;
- the appointment, suspension and dismissal of the sole member of our Managing Board;
- the appointment, suspension and dismissal of the members of our Supervisory Board;
- the appointment of our auditors;
- the authorization to our Managing Board to repurchase shares;
- the issuance of shares and the granting of rights to subscribe for shares (option rights) as well as the delegation of these authorities to our Supervisory Board;
- approving resolutions of our Managing Board as referred to below under "Managing Board";
- resolutions regarding the amendment of our Articles of Association, our liquidation, legal merger and legal demerger.

5.3. Supervisory Board

Our Supervisory Board advises our Managing Board in performing its management tasks and supervises the policies of our Managing Board and the general course of our affairs and business. In discharging its duties, our Supervisory Board shall be guided by our interests and our business; it shall take into account the relevant interests of all those involved in us (including our shareholders). Our Supervisory Board is responsible for the quality of its own performance.

Our Supervisory Board consists of at least six members, the number to be determined by our shareholders' meeting upon the proposal of our Supervisory Board. Members of our Supervisory Board are appointed by our shareholders' meeting for a three-year term, as defined in our Articles of Association, upon the proposal of our Supervisory Board, by a simple majority of the votes cast at a meeting where at least 15% of the issued and outstanding share capital is present or represented.

Members of our Supervisory Board may be suspended or dismissed by our shareholders' meeting by a simple majority of the votes cast at a meeting where at least 15% of the issued and outstanding share capital is present or represented. Our Supervisory Board may make a proposal to our shareholders' meeting for the suspension or dismissal of one or more of its members.

The responsibilities of our Supervisory Board include (but are not limited to):

- supervising, monitoring, and advising our Managing Board on: (i) our performance, (ii) our strategy and risks inherent to our business activities, (iii) the structure and management of the internal risk management and control systems, and (iv) compliance with legislation and regulations;
- disclosing, complying with and enforcing our corporate governance structure;
- selecting and recommending the appointment of the member(s) of the Managing Board;
- proposing the compensation policy for the member(s) of our Managing Board (such policy to be adopted by our shareholders' meeting), fixing the compensation annually and the contractual terms and conditions of employment of the member(s) of our Managing Board (in accordance with the said compensation policy);
- electing and recommending the appointment of the members of our Supervisory Board and proposing their remuneration;
- evaluating and assessing the functioning of our Managing Board, our Supervisory Board, and their individual members (including the evaluation of our Supervisory Board's profile and the induction, education and training program);
- handling, and deciding on, potential reported conflicts of interest between us on the one hand and members of our Supervisory Board, our Managing Board, our external auditor and our (major) shareholder(s) on the other hand;
- selecting and recommending the appointment of our external auditor upon proposal by the Audit Committee;
- reviewing and approving our whistleblower procedures upon approval by the Audit Committee;
- handling, and deciding on, potential reported conflicts of interest between us on the one hand and members of our Supervisory Board, our Managing Board, our external auditor and our (major) shareholder(s) on the other hand;
- selecting and recommending the appointment of our external auditor upon proposal by the Audit Committee;
- handling, and deciding on, reported alleged irregularities that relate to the functioning of our Managing Board;
- approving decisions by our Managing Board as referred above under "Managing Board";
- supervising the adoption and implementation by our Managing Board on a consolidated basis of strategic pluri-annual plans and annual budgets in line with the decisions of our Supervisory Board; and

- on an annual basis, the renewal of the authorization by our Managing Board to issue guarantees to companies whose accounts are consolidated by us, as well as guarantees granted to third parties including nonconsolidated subsidiaries of us.

The Supervisory Board Charter, as posted on our website, contains detailed provisions on the reporting and handling of (potential) conflicts of interest.

For information on the identity of our Supervisory Board, including its committees, as well as the compensation of the members of our Supervisory Board, see the report of our Supervisory Board.

For information on the role and identity of the committees of our Supervisory Board, see the report of our Supervisory Board.

5.4. Managing Board

In accordance with Dutch law, our management is entrusted to the Managing Board under the supervision of our Supervisory Board. Mr. Carlo Bozotti, re-appointed in 2008 for a three-year term to expire at the end of our annual shareholders' meeting in 2011, is currently the sole member of our Managing Board with the function of President and Chief Executive Officer. Mr. Alain Dutheil served as Chief Operating Officer, reporting to Mr. Bozotti until January 26, 2011. Didier Lamouche joined ST on November 1, 2010, and after a transition period formally took over from Alain Dutheil as COO and Vice-President of the Strategic Committee, on January 26, 2011. Since its creation in 1987, our managing board has always been comprised of a sole member. The member of our Managing Board is appointed for a three-year term, as described in our Articles of Association, which may be renewed one or more times in accordance with our Articles of Association upon a non-binding proposal by our Supervisory Board at our shareholders' meeting and adoption by a simple majority of the votes cast at the shareholders' meeting where at least 15% of the issued and outstanding share capital is present or represented. If our Managing Board were to consist of more than one member, our Supervisory Board would appoint one of the members of our Managing Board to be chairman of our Managing Board for a three-year term, as defined in our Articles of Association (upon approval of at least three-quarters of the members of our Supervisory Board). In such case, resolutions of our Managing Board would require the approval of a majority of its members.

Our shareholders' meeting may suspend or dismiss one or more members of our Managing Board at a meeting at which at least one-half of the outstanding share capital is present or represented. If a quorum is not present, a further meeting shall be convened, to be held within four weeks after the first meeting, which shall be entitled, irrespective of the share capital represented, to pass a resolution with regard to the suspension or dismissal of one or more members of our Managing Board. Such a quorum is not required if a suspension or dismissal is proposed by our Supervisory Board. In that case, a resolution to dismiss or to suspend a member of our Managing Board can be taken by a simple majority of the votes cast at a meeting where at least 15% of our issued and outstanding share capital is present or represented. Our Supervisory Board may suspend members of our Managing Board, but a shareholders' meeting must be convened within three months after such suspension to confirm or reject the suspension. Our Supervisory Board shall appoint one or more persons who shall, at any time, in the event of absence or inability to act of all the members of our Managing Board, be temporarily responsible for our management.

Under Dutch law, our Managing Board is entrusted with our general management and the representation of the Company. Our Managing Board must seek prior approval from our shareholders' meeting for decisions regarding a significant change in the identity or nature of the Company.

Under our Articles of Association, our Managing Board must obtain prior approval from our Supervisory Board for:

i. all proposals to be submitted to a vote at a shareholders' meeting;

ii. the formation of all companies, acquisition or sale of any participation, and conclusion of any cooperation and participation agreement;

iii. all of our multi-year plans and the budget for the coming year, covering investment policy, policy regarding R&D, as well as commercial policy and objectives, general financial policy, and policy regarding personnel; and

iv. all acts, decisions or operations covered by the foregoing and constituting a significant change with respect to decisions already taken by our Supervisory Board. In addition, under our Articles

of Association, our Supervisory Board and our shareholders' meeting may specify by resolution certain additional actions by our Managing Board that require its prior approval.

In accordance with our Corporate Governance Charter, the sole member of our Managing Board and our Executive Officers may not serve on the board of a public company without the prior approval of our Supervisory Board. We are not aware of any potential conflicts of interests between the private interest or other duties of our sole Management Board member and our Executive Officers and their duties to our Company.

Pursuant to the charter adopted by our Supervisory Board, the following decisions by our Managing Board with regards to the Company and any of our direct or indirect subsidiaries (an "ST Group Company") require prior approval from our Supervisory Board:

i. any modification of our or any ST Group Company's Articles of Association or other constitutional documents, other than those of wholly-owned subsidiaries;

ii. any change in our or any ST Group Company's authorized share capital or any issue, acquisition or disposal by us of our own shares, or any ST Group Company's shares, or change in share rights or issue of any instruments granting an interest in our or an ST Group Company's capital or profits other than those of our wholly-owned subsidiaries;

iii. any liquidation or dissolution of us or any ST Group Company or the disposal of all or a substantial and material part of our business or assets, or those of any ST Group Company, or of any shares in any such ST Group Company;

iv. any merger, acquisition or joint venture agreement (and, if substantial and material, any agreement relating to IP) or formation of a new company to which we or any ST Group Company is, or is proposed to be, a party, as well as the formation of new companies by us or any ST Group Company (with the understanding that only acquisitions above $25 million per transaction are subject to prior Supervisory Board approval);

v. approval of our draft consolidated balance sheets and financial statements, as well as our and our subsidiaries' profit distribution policies;

vi. entering into any agreement that may qualify as a related party transaction, including any agreement between us or any ST Group Company and ST Holding, ST Holding II, FT1CI, Areva, CDP or CEA;

vii. the key parameters of our 5-year plans and our consolidated annual budgets, as well as any significant modifications to said plans and budgets, or any one of the matters set forth in our Articles of Association and not included in the approved plans or budgets;

viii. approval of operations of exceptional importance which have to be submitted for Supervisory Board prior approval even if their financing was already provided for in the approved annual budget;

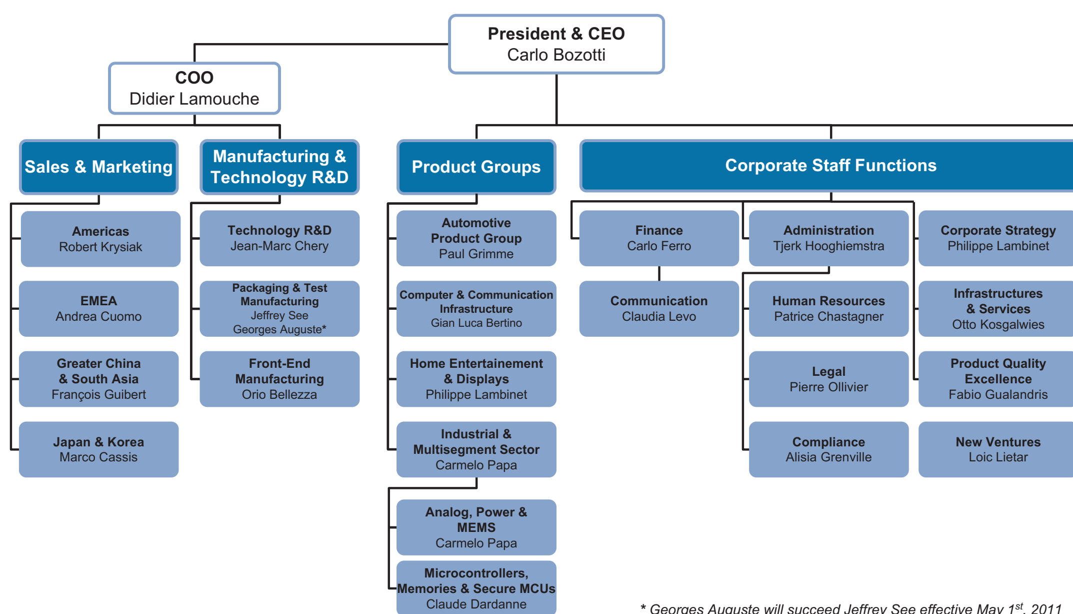
ix. approval of our quarterly, semiannual and annual Consolidated Financial Statements prepared in accordance with U.S. GAAP and semiannual and annual accounts using IFRS, prior to submission for shareholder adoption; and

x. the exercise of any shareholder right in an ST joint venture company ("ST Joint Venture Company"), which is a company (i) with respect to which we hold directly or indirectly either a minority equity position in excess of 25% or a majority position without the voting power to adopt extraordinary resolutions or (ii) in which we directly or indirectly participate and such participation has a value of at least one-third of our total assets according to the consolidated balance sheet and notes thereto in our most recently adopted (statutory) annual accounts.

5.5. Executive Officers

Our executive officers support our Managing Board in its management of the Company, without prejudice to our Managing Board's ultimate responsibility. New corporate officers during 2010 and the first quarter of 2011 include: Didier Lamouche who joined the Company on November 1, 2010 and following a transition period became the Chief Operating Officer on January 26, 2011; and Tjerk Hooghiemstra, who joined our company in February 2010 in the new position of Executive Vice President, Chief Administrative Officer. In this role, Mr. Hooghiemstra reports to the President and CEO, Carlo Bozotti. We created this new position with the aim of generating synergies among many staff organizations, by optimizing the functions of Human Resources, Health & Safety, Education, Legal, Internal Communication, Security, and Corporate Responsibility. Claudia Levo joined the Company in January 2011 as Corporate Vice President, Communication and Fabio Gualandris rejoined the Company in February 2011 as Corporate Vice President and Director of Product Quality Excellence.

As of March 2011, our organizational chart is as follows:



As a company committed to good governance, we hold several corporate meetings on a regular basis. Such meetings, which involve the participation of several of our executive officers, include:

- Corporate Operation Reviews (COR), which meets once per month to review monthly results and short term forecasts and involve the following executive officers/groups: CEO; COO; CFO; Infrastructures and Services; Product Quality Excellence; Manufacturing (Front-End and Back-End); TR&D; Regions; and Product Groups.
- Corporate Strategic Committee, which meets twice per quarter, sets corporate policy, coordinates strategies of our various functions representing our constituents and drives major cross-functional programs. The Corporate Strategic Committee meetings are attended by the CEO, the COO and the following senior executive officers: Orio Bellezza; Jean-Marc Chery; Andrea Cuomo; Carlo Ferro; Tjerk Hooghiemstra; Philippe Lambinet; and Carmelo Papa.

Our executive officers during 2010 were:

Name	Position	Years with Company	Years in Semi-Conductor Industry	Age
Carlo Bozotti, Chairman	President and Chief Executive Officer	34	34	58
Alain Dutheil, Vice Chairman[1]	Chief Operating Officer	27	41	65
Georges Auguste[2]	Executive Vice President, Packaging and Test Manufacturing	24	36	61
Orio Bellezza	Senior Executive Vice President, Member of the Corporate Strategic Committee and General Manager, Front-End Manufacturing	27	27	51
Gian Luca Bertino	Executive Vice President, Computer and Communications Infrastructure	13	24	51

Name	Position	Years with Company	Years in Semi-Conductor Industry	Age
Marco Luciano Cassis	Executive Vice President, Japan & Korea Region	23	23	47
Patrice Chastagner	Corporate Vice President, Human Resources	26	26	63
Jean-Marc Chery	Senior Executive Vice President, Member of the Corporate Strategic Committee and Chief Technology Officer	26	26	50
Andrea Cuomo	Senior Executive Vice President, Member of the Corporate Strategic Committee and General Manager, Sales & Marketing, Europe, Middle East and Africa	27	27	56
Claude Dardanne	Executive Vice President, General Manager, Microcontrollers, Memories & Secure MCUs	28	31	58
Carlo Ferro	Senior Executive Vice President, Member of the Corporate Strategic Committee and Chief Financial Officer	11	11	50
Alisia Grenville	Corporate Vice President, Chief Compliance Officer	3	3	43
Paul Grimme	Executive Vice President and General Manager, Automotive Product Group	2	30	51
François Guibert	Executive Vice President, President, Greater China & South Asia Region	30	33	57
Tjerk Hooghiemstra(3)	Senior Executive Vice President, Member of the Corporate Strategic Committee and Chief Administrative Officer	1	7	54
Otto Kosgalwies	Executive Vice President, Infrastructure and Services	27	27	55
Robert Krysiak	Executive Vice President and General Manager, Americas	28	28	56
Philippe Lambinet	Senior Executive Vice President, Member of the Corporate Strategic Committee and General Manager, Home Entertainment & Displays Group	17	24	53
Loïc Lietar	Executive Vice President, New Ventures	25	25	48
Pierre Ollivier	Corporate Vice President and General Counsel	21	21	55
Carlo Ottaviani(4)	Corporate Vice President, Communication	46	46	67
Carmelo Papa	Senior Executive Vice President, Member of the Corporate Strategic Committee and General Manager, Industrial Multisegment Sector	28	28	61
Jeffrey See	Executive Vice President, Packaging and Test Manufacturing	41	41	65

(1) Mr. Dutheil was replaced by Didier Lamouche on January 26, 2011. Mr. Dutheil has continued to act as an advisor to the Company.
(2) Mr. Fabio Gualandris replaced Mr. Auguste as Corporate Vice President, Director Product Quality Excellence in February 2011. Effective May 1, 2011, Mr. Auguste will be taking over from Mr. See, Executive Vice President, Packaging and Test Manufacturing, who has decided to retire at the end of June 2011, after 41 years with the Company.
(3) Mr. Hooghiemstra has held this position since February 2010.
(4) Mr. Ottaviani passed away in January 2011. Following Mr. Ottaviani's passing, Ms. Claudia Levo became our Corporate Vice President, Communication.

Detailed biographies of our executive officers are available on our website www.st.com at http://www.st.com/internet/com/about_st/st_executive_officers.jsp

5.6. Risk Management and Control Systems

For the statement on the main features of our risk management and control systems and of the group of which the financial data are included in our annual accounts, please refer to the section Risk Management and Internal Control in the Report of the Managing Board.

5.7. Required information Article 10 Takeover Directive

The EU Takeover Directive requires that listed companies publish additional information providing insight into defensive structures and mechanisms which they apply. The relevant provision has been implemented into Dutch law by means of a decree of April 5, 2006. Pursuant to this decree, Dutch companies whose securities have been admitted to trading on a regulated market have to include information in their annual report which could be of importance for persons who are considering taking an interest in the company.

This information comprises amongst other things:

- the capital structure of the company;
- restrictions on the transfer of securities and on voting rights;
- special powers conferred upon the holders of certain shares;
- the rules governing the appointment and dismissal of board members and the amendment of the articles of association;
- the rules on the issuing and the repurchasing of shares by the company;
- significant agreements to which the company is a party and which contain change of control rights (except where their nature is such that their disclosure would be seriously prejudicial to the company); and
- agreements between the company and its board members or employees providing for a "golden parachute".

Capital structure.

Our authorized share capital amounts to EUR 1,809,600,000, divided into 1,200,000,000 common shares and 540,000,000 preference shares, with a nominal value of EUR 1.04 per share. As of December 31, 2010, 910,420,305 common shares were issued of which 28,734,002 were repurchased (representing 3.15% of the issued share capital as per December 31, 2010) and recorded as treasury shares. As of December 31, 2010, no preference shares were issued and outstanding.

Restrictions on the transfer of shares.

We not have restrictions on the transfer of our common and preference shares, provided that Stichting Continuïteit ST, if it holds preference shares, requires the consent of STMicroelectronics to sell or otherwise dispose of preference shares or voting rights attached thereto.

Holdings in us that are subject to a disclosure obligation.

For information on holdings in us that are subject to a disclosure obligation pursuant to Chapter 5.3 of the Dutch Financial Markets Supervision Act ("*Wet op het financieel* toezicht"), please refer to chapter "Major Shareholders" further on.

Special controlling rights.

We do not have special controlling rights attached to our common or preference shares.

Control of employees share/option schemes.

We do not have any scheme granting rights to employees to subscribe for or acquire shares in our share capital or the share capital of a subsidiary of us where the control is not directly exercised by the employees. However, key employees as determined by our Unvested Share Award Plans are granted share awards (as part of their compensation) with a staggered vested schedule pursuant to our determined criteria. Supervisory board members are granted share awards that vest immediately. For more information on employees share/option schemes, see the Remuneration Report.

Restrictions on voting rights.

We do not have any restrictions on voting rights nor have we cooperated in the issuance of depositary receipts for shares.

Agreements with shareholders that may give rise to restrictions on the transfer of shares or restrictions of voting rights.

We do not have any agreements with shareholders that may give rise to restrictions on the transfer of shares or restrictions of voting rights. However, please see below under "Shareholders' Agreements" for certain information on shareholders' agreements regarding us to which we are not a party.

Provisions on appointment and dismissal of members of our Managing Board and Supervisory Board and amendment of our Articles of Association.

Please see the information included above under "Managing Board" and "Supervisory Board" with respect to the appointment and dismissal of the members of our Managing Board and Supervisory Board.

Our Articles of Association can be amended by our shareholders' meeting, upon the proposal of our Supervisory Board, by a simple majority of the votes cast at a meeting where at least 15% of the issued and outstanding share capital is present or represented. If a quorum is not present, a further meeting can be convened which shall, irrespective of the share capital represented, to pass a resolution. If the relevant amendment affects the rights of holders of common shares or holders of preference shares, the approval of the meeting of holders of common shares and the meeting of holders of preference shares, respectively, is required.

Authority of the Managing Board regarding the issuance and repurchase of shares.

Our Managing Board does not have the authority to issue shares or grant rights to subscribe for shares pursuant to our Articles of Association. Our Supervisory Board has this authority. Pursuant to a shareholders' resolution adopted at our annual shareholders' meeting held on April 26, 2007, our Supervisory Board has been authorized for a period of five years to resolve to (i) issue any number of common shares and/or preference shares as comprised in our authorized share capital from time to time; (ii) to fix the terms and conditions of share issuance; (iii) to exclude or to limit preemptive rights of existing shareholders; and (iv) to grant rights to subscribe for common shares and/or preference shares, all for a period of five years from the date of such annual shareholders' meeting.

Pursuant to a shareholders' resolution adopted at our annual shareholders' meeting held on May 25, 2010, our Managing Board, subject to the approval of our Supervisory Board, was authorized for a period up to November 14, 2011 (inclusive) to acquire shares subject to the limits of our Articles of Association and the acquisition price conditions set forth in such shareholders' resolution. Furthermore, our Articles of Association provide that we shall be able to acquire shares in our own share capital in order to transfer these shares under employee stock option or stock purchase plans, without an authorization of our shareholders' meeting.

Agreements with the sole member of our Managing Board and other employees regarding distributions upon the termination of their employment contract in connection with a public offer on us.

The employment contract of our President and CEO, Mr. Bozotti, provides that upon a change of control following a takeover bid (i) all unvested stock awards granted to Mr. Bozotti will fully vest and (ii) the bonus payable under our Executive Incentive Plan will be due for the full amount, which is 150% of the executive gross annual salary. Such benefits are not linked to termination of the employment agreement.

Stichting Continuïteit ST — our preference shares

We are a party to an option agreement with Stichting Continuïteit ST dated February 7, 2007 (the "Stichting") regarding our preference shares. Our Managing Board and our Supervisory Board, along with the board of the Stichting, have declared that they are jointly of the opinion that the Stichting is independent of us. The option agreement provides for the issuance of up to a maximum 540,000,000 preference shares. Any such shares would be issued to the Stichting upon its request and in its sole discretion and upon payment of at least 25% of the par value of the preference shares to be issued. The shares would be issuable in the event of actions considered hostile by our Managing Board and our Supervisory Board, such as a creeping acquisition (in such case up to 30% minus one share of our issued and outstanding share capital) or an offer on our common shares, which are unsupported by our Managing Board and our Supervisory Board and which the board of the Stichting determines would be contrary to our interests, our shareholders or other stakeholders. The preference shares may remain outstanding for no longer than two years. No preference shares have been issued to date. The effect of the preference shares may be to create a level-playing field in the event actions which are considered to be hostile by our Managing Board and our Supervisory Board, as described above, occur and which the board of the Stichting determines to be contrary to our interests and our shareholders and other stakeholders.

5.8. Code of Ethics

Since 1987, we have had a corporate policy on Business Conduct and Ethics (the "Policy") for all of our employees, including our chief executive officer and chief financial officer. We have adapted this Policy to reflect recent regulatory changes. The Policy is designed to promote honest and ethical business conduct, to deter wrongdoing and to provide principles to which our employees are expected to adhere and which they are expected to advocate.

The Policy provides that if any officer to whom it applies acts in contravention of its principles, we will take appropriate steps in terms of the procedures in place for fair disciplinary action. This action may, in cases of severe breaches, include dismissal.

Our Policy on Business Conduct and Ethics is posted on our internet website at http://www.st.com. There have been no amendments or waivers, express or implicit, to our Policy since its inception.

5.9. Deviations from the Code

According to the Dutch Corporate Governance Code, as revised by the Dutch Corporate Governance Monitoring Committee on December 10, 2008 (the "Code"), STMicroelectronics is required to publish a list of current exceptions to the Code, and an explanation why STMicroelectronics does not comply ("Comply or Explain"). For more information on the Dutch Corporate Governance Code, please visit the website www.commissiecorporategovernance.nl. Because STMicroelectronics is listed on the New York Stock Exchange ("NYSE"), it is required to comply with the U.S. Sarbanes-Oxley Act of 2002, as well as NYSE listing rules, and the rules and regulations promulgated by the U.S. Securities and Exchange Commission ("SEC"). For the full text of the U.S. Sarbanes-Oxley Act of 2002 as well as the NYSE listing rules, and the rules and regulations promulgated by the SEC, please see www.sec.gov.

STMicroelectronics complies with the Code by applying most of its principles and best practice provisions that are addressed to the Managing Board and the Supervisory Board or by explaining why it deviates from such provisions. STMicroelectronics applies such principles and best practice provisions, with the exception of the following best practice provisions:

- Best practice provision II.2.13: STMicroelectronics does not publish this information in detail, as this is considered competitively sensitive information.
- Best practice provision III.2.2: STMicroelectronics criteria deviate from the criteria in the Dutch Corporate Governance Code but are in conformity with the STMicroelectronics Corporate Governance Charter as approved by our shareholders in the 2004 annual shareholders' meeting.
- Best practice provision III.3.5: The terms of office of some Supervisory Board members of STMicroelectronics exceed the maximum term of twelve years as mentioned in the Dutch Corporate Governance Code. However, if the maximum term is exceeded, this is always approved by STMicroelectronics's shareholders' meeting as members of the Supervisory Board are appointed by our shareholders' meeting.

- Best practice provision III.7.1: The remuneration of the Supervisory Board of STMicroelectronics partly consists of shares and or rights to shares. As stated in the STMicroelectronics Corporate Governance Charter, approved by STMicroelectronics's shareholders in the 2004 annual sharehold-ers' meeting, STMicroelectronics strongly believes that the granting of irrevocable stock options or other stock-based compensation to Supervisory Board members enables better identification with shareholder interests and that stock-based compensation is conducive to attracting, incentivizing and retaining the most suitable candidates to accept service as Supervisory Board members, in light of worldwide practices in the semiconductor and technology industries.
- Best practice provision III.5.11: The chairman of the Supervisory Board is also the chairman of the Compensation Committee. The members of the Supervisory Board have appointed the chairman of the Supervisory Board as chairman of the Compensation Committee.
- Best practice provision III.7.3: STMicroelectronics advanced certain funds relating to withholding taxes on behalf of one of its Supervisory Board members in connection with his sale of restricted stock awards. Such advances were not material and have been fully repaid to STMicroelectronics. The advances have been an exception and STMicroelectronics will in the future not make such advances available to Supervisory Board members.
- Best practice provision IV.3.13: During 2010 STMicroelectronics has deviated from best practice provision IV.3.13 (policy on bilateral contacts with shareholders) as it is still in the process of formulating such policy. STMicroelectronics intends to comply with this best practice provision.

The Managing Board.

Carlo Bozotti,

Sole member of the Managing Board,

President and Chief Executive Officer

5.10. Major Shareholders

The following table sets forth certain information with respect to the ownership of our issued common shares based on information available to us as of February 14, 2011:

Shareholders	Common Shares Owned	
	Number	%
ST Holding II	250,704,754	27.54
Public	575,278,098	63.19
Brandes Investment Partners[1]	55,703,451	6.12
Treasury shares	28,734,002	3.16
Total	910,420,305	100

(1) According to information filed February 14, 2011 on Schedule 13G, Brandes Investment Partners' shares in our company are beneficially owned by the following group of entities: Brandes Investment Partners, L.P., Brandes Investment Partners, Inc., Brandes Worldwide Holdings, L.P., Charles H. Brandes, Glenn R. Carlson and Jeffrey A. Busby.

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

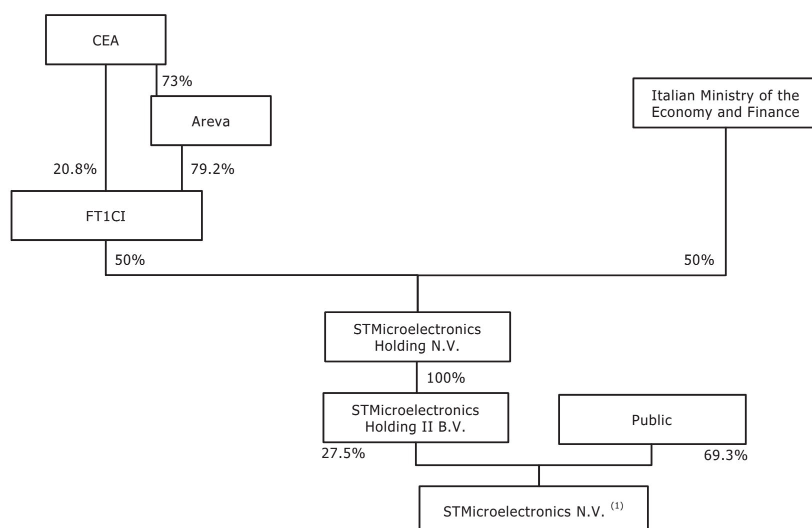
ST Holding II is a wholly owned subsidiary of ST Holding. As of December 31, 2010, FT1CI (the "French Shareholder"), controlled by Areva and CEA, and the Ministry of the Economy and Finance (the "Italian Shareholder"), directly held 50% each in ST Holding. The indirect interest of FT1CI and the Ministry of the Economy and Finance in us is split on a 50%-50% basis. Through a structured tracking stock system implemented in the articles of association of ST Holding and ST Holding II, FT1CI and the Ministry of the Economy and Finance each indirectly held 125,352,377 of our common shares, representing approximately 13.7% of our issued share capital as of December 31, 2010. Any disposals or, as the case may be, acquisitions by ST Holding II on behalf of FT1CI or the Ministry of the Economy and Finance, will decrease or, as the case may be, increase the indirect interest of respectively FT1CI or the Ministry of the Economy and Finance, in our issued share capital. FT1CI is a jointly held company originally set up by Areva and France Telecom to control the interest of the French shareholders in ST Holding. As of December 31, 2010, Areva and CEA are the sole shareholders of FT1CI. Following the transfer to the Ministry of the Economy and Finance of all of CDP's shares in STMicroelectronics N.V. on December 21, 2010, CDP no longer has a shareholding in ST Holding. Following a preliminary announcement on December 16, 2010 and documents subsequently filed by ST Holding II with the Securities and Exchange Commission, we became aware that the Fonds Stratégique d'Investissement ("FSI") entered into a binding share purchase agreement with Areva on February 8, 2011 with a view to acquiring Areva's stake in FT1CI, at a price of €7.00 per share for a total of €695 million, and thereby become an indirect 10.9% shareholder in STMicroelectronics N.V. FSI is a strategic investment fund 51% owned by Caisse des Dépôts et Consignations and 49% owned by the French government. Areva (formerly known as CEA-Industrie) is a corporation controlled by CEA. Areva is listed on Euronext Paris in the form of Investment Certificates. CEA is a French-government funded technological research organization. CDP is an Italian corporation 70% owned by the Ministry of the Economy and Finance and 30% owned by a consortium of 66 Italian banking foundations.

ST Holding II owned 90% of our shares before our initial public offering in 1994, and has since then gradually reduced its participation, going below the 66% threshold in 1997 and below the 50% threshold in 1999. ST Holding II may further dispose of its shares as provided below in "— STH Shareholders' Agreement— Disposals of our Common Shares" and pursuant to the eventual conversion of our outstanding convertible instruments. Set forth below is a table of ST Holding II's holdings in us as of the end of each of the past three financial years:

	Common Shares Owned	
	Number	%
December 31, 2010	250,704,754	27.5
December 31, 2009	250,704,754	27.5
December 31, 2008	250,704,754	27.5

Announcements about additional disposals by ST Holding II or our indirect shareholders may come at any time, and we may not be informed of such beforehand.

The chart below illustrates the shareholding structure as of December 31, 2010:



(1) In addition to the 27.5% held by ST Holding and the 69.3% held by the Public, 3.2% are held by us as Treasury Shares.

On December 21, 2010, CDP transferred to the Ministry of the Economy and Finance all of its shares in us, held indirectly through ST Holding. Following this transaction, CDP no longer holds any of our shares, whether indirectly through ST Holding or directly, and is no longer a party to the STH Shareholders' Agreement and all of its rights related thereto have been transferred to the Ministry of the Economy and Finance.

Announcements about additional disposals by ST Holding II or our indirect shareholders may come at any time. Our direct or indirect shareholders may sell our existing common shares or issue financial instruments exchangeable into our common shares at any time while at the same time seeking to retain their rights regarding our preference shares. In addition, substantial sales by us of new common shares or convertible bonds could cause our common share price to drop significantly.

All transactions with major shareholders were at arm's length, and are therefore in compliance with provision III.6.4 of the Dutch Corporate Governance Code.

5.11. Shareholders' Agreements

5.11.1. STH Shareholders' Agreement

We were formed in 1987 as a result of the decision by Thomson-CSF (now called Thales) and STET (now called Telecom Italia S.p.A.) to combine their semiconductor businesses and to enter into a shareholders' agreement on April 30, 1987, which was amended on December 10, 2001, restated on March 17, 2004 and further amended on February 26, 2008. The February 26, 2008 amended and restated agreement (as amended, the "STH Shareholders' Agreement") supersedes and replaces all previous agreements. The current parties to the STH Shareholders' Agreement are Areva, CEA, the Ministry of the Economy and Finance and FT1CI. Following the Ministry of the Economy and Finance's acquisition of all of CDP's shares in us, held indirectly through ST Holding, CDP is no longer a party to the STH Shareholders' Agreement and all of its rights and obligations related thereto have been transferred to the Ministry of the Economy and Finance. The Ministry of the Economy and Finance is in the process of signing a deed of adherence to the Shareholders' Agreement. Upon FSI's acquisition of the FT1CI shares, it intends to continue the Shareholders' Agreement until the conclusion of a new shareholders' agreement with the Ministry of the Economy and Finance.

We understand, based on publicly available documents, that once FSI and Areva implement the share purchase agreement of February 8, 2011, FSI will become a party to the STH Shareholders' Agreement and will sign a deed of adherence thereto, and Areva will no longer be a party thereto.

Pursuant to the terms of the STH Shareholders' Agreement, FT1CI, on the one hand, and the Ministry of the Economy and Finance, on the other hand, have agreed to certain corporate governance rights provided that they maintain equal interests in our share capital. See further details below.

5.11.1.1. Restructuring of the Holding Companies

If necessary, the parties agreed to restructure the two holding companies (ST Holding and ST Holding II) to simplify the structure to the extent possible or desirable. In any case, at least one holding company will continue to exist to hold our common shares. The Company that now holds or may hold our common shares in the future for indirect shareholders is referred to below as the "holding company."

5.11.1.2. Standstill

The STH Shareholders' Agreement contains a standstill provision that precludes any of the parties and the parties' affiliates from acquiring, directly or indirectly, any of our common shares or any instrument providing for the right to acquire any of our common shares other than through the holding company. The standstill is in effect for as long as such party holds our common shares through ST Holding. The parties agreed to continue to hold their stakes in us at all times through the current holding structure of ST Holding and ST Holding II, subject to exercising the preference share option granted to ST Holding if ST Holding were to choose not to exercise such rights directly.

5.11.1.3. Corporate Governance

The STH Shareholders' Agreement provides for a balanced corporate governance of the indirect interests in us between FT1CI and the Ministry of the Economy and Finance (FT1CI and the Ministry of the Economy and Finance are collectively defined as "STH Shareholders" and individually defined as "STH Shareholder") for the duration of the "Balance Period", despite actual differences in indirect economic interest in us. The "Balance Period" is defined as (i) a period through March 17, 2011, provided that each STH Shareholder owns at all times a voting stake at least equal to 10.5% of our issued and outstanding shares, and (ii) subject to the aforementioned condition, thereafter as long as each STH Shareholder owns at any time, including as a result of the exercise of the "Re-balancing Option" (as defined below), a voting stake equal to at least 47.5% of the total voting stakes. During the Balance Period, each of FT1CI and the Ministry of the Economy and Finance has an option to rebalance their shareholdings, referred to as the "Rebalancing Option", as further described below.

FSI and the Italian Ministry of the Economy and Finance have recently entered into discussions aimed at extending the March 17, 2011 deadline incorporated into the definition of the Balance Period.

During the Balance Period, the STH Shareholders agree that the holding company will have a managing board comprised of two members (one member designated by FT1CI, and one previously designated by CDP, with a new member to be designated by the Ministry of the Economy and Finance at the next Annual General Meeting of ST Holding) and a supervisory board comprised of six members (three designated by FT1CI and three previously designated by CDP, with three new members to be designated by the Ministry of the Economy and Finance at the next Annual General Meeting of ST Holding). The Chairman of the Supervisory Board of the holding company shall be designated for a three-year term by one shareholder (with the other shareholder entitled to designate the Vice Chairman), such designation to alternate between the Ministry of the Economy and Finance on the one hand and FT1CI on the other hand. The current Chairman is Matteo Del Fante.

During the Balance Period, any other decision, to the extent that a resolution of the holding company is required, must be pursuant to the unanimous approval of the shareholders, including but not limited to the following: (i) the definition of the role and structure of our Managing Board and Supervisory Board, and those of the holding company; (ii) the powers of the Chairman and the Vice Chairman of our Supervisory Board, and that of the holding company; (iii) information by the holding company's managing board and supervisory board, and those by us; (iv) treatment of confidential information; (v) appointment of any additional members of our Managing Board and that of the holding company; (vi) remuneration of the members of our Managing Board and those of the holding company; (vii) internal audit of STMicroelectronics N.V. and of the holding company; (viii) industrial and commercial relationships between STMicroelectronics N.V. and the Ministry of the Economy and Finance or STMicroelectronics N.V. and either or both FT1CI shareholders, or any of their affiliates; and (ix) any of the decisions listed in article 16.1 of our Articles of Association including our budget and pluri-annual plans.

With regard to STMicroelectronics N.V. during the Balance Period: (i) each of the STH Shareholders (FT1CI, on the one hand, and the Ministry of the Economy and Finance, on the other hand) shall have the right to insert on a list prepared for proposal by the holding company to our annual shareholders meeting the same number of members for election to the Supervisory Board, and the holding company shall vote in favor of such members; (ii) the STH Shareholders will cause the holding company to submit to our annual shareholders meeting and to vote in favor of a common proposal for the appointment of the Managing Board; and (iii) any decision relating to the voting rights of the holding company in us shall require the unanimous approval of the holding company shareholders and shall be submitted by the holding company to our annual shareholders meeting. The STH Shareholders also agreed that the Chairman of our Supervisory Board will be designated upon proposal of an STH Shareholder for a three-year term, and the Vice Chairman of our Supervisory Board will be designated upon proposal of the other STH Shareholder for the same period, and vice-versa for the following three-year term. The STH Shareholders further agreed that the STH Shareholder proposing the appointment of the Chairman be entitled to propose the appointment of the Assistant Secretary of our Supervisory Board, and the STH Shareholder proposing the appointment of the Vice Chairman be entitled to propose the appointment of the Secretary of our Supervisory Board. Finally, each STH Shareholder is entitled to appoint a Financial Controller to the Supervisory Board. Our Secretary, Assistant Secretary and two Financial Controllers are referred to as professionals (not members) of our Supervisory Board.

In addition, the following resolutions, to the extent that a resolution of the holding company is required, must be resolved upon by a shareholders' resolution of the holding company, which shall require the unanimous approval of the STH Shareholders: (i) any alteration in the holding company's articles of association; (ii) any issue, acquisition or disposal by the holding company of its shares or change in share rights; (iii) any alteration in our authorized share capital or issue by us of new shares and/or of any financial instrument giving rights to subscribe for our common shares; any acquisition or disposal by the holding company of our shares and/or any right to subscribe for our common shares; any modification to the rights attached to our common shares; any merger, acquisition or joint venture agreement to which we are or are proposed to be a party; and any other items on the agenda of our general shareholders' meeting; (iv) the liquidation or dissolution of the holding company; (v) any legal merger, legal de-merger, acquisition or joint venture agreement to which the holding company is proposed to be a party; and (vi) the adoption or approval of our annual accounts or those of the holding company or a resolution concerning a dividend distribution by us.

At the end of the Balance Period, the members of our Supervisory Board and those of the holding company designated by the minority shareholder of the holding company will immediately resign upon request of the holding company's majority shareholder, subject to the rights described in the previous paragraph.

After the end of the Balance Period, unanimous approval by the shareholders of the holding company remains required to approve:

(i) As long as any of the shareholders indirectly owns at least equal to the lesser of 3% of our issued and outstanding share capital or 10% of the remaining STH Shareholders' stake in us at such time, with respect to the holding company, any changes to the articles of association, any issue, acquisition or disposal of shares in the holding company or change in the rights of its shares, its liquidation or dissolution and any legal merger, de-merger, acquisition or joint venture agreement to which the holding company is proposed to be a party.

(ii) As long as any of the shareholders indirectly owns at least 33% of the holding company, certain changes to our articles of association (including any alteration in our authorized share capital, or any issue of share capital and/or financial instrument giving the right to subscribe for our common shares, changes to the rights attached to our shares, changes to the preemptive rights, issues relating to the form, rights and transfer mechanics of the shares, the composition and operation of the Managing and Supervisory Boards, matters subject to the Supervisory Board's approval, the Supervisory Board's voting procedures, extraordinary meetings of shareholders and quorums for voting at shareholders meetings).

(iii) Any decision to vote our shares held by the holding company at any general meeting of our shareholders with respect to any substantial and material merger decision. In the event of a failure by the shareholders to reach a common decision on the relevant merger proposal, our shares attributable to the minority shareholder and held by the holding company will be counted as present for purposes of a quorum of shareholders at one of our shareholders meetings, but will not be voted (i.e., will be abstained from the vote in a way that they will not be counted as a negative vote or as a positive vote).

(iv) In addition, the minority shareholder will have the right to designate at least one member of the list of candidates for our Supervisory Board to be proposed by the holding company if that shareholder indirectly owns at least 3% of our total issued and outstanding share capital, with the majority STH Shareholder retaining the right to appoint that number of members to our Supervisory Board that is at least proportional to such majority STH Shareholder's voting stake.

Finally, at the end of the Balance Period, the unanimous approval required for other decisions taken at the STMicroelectronics N.V. level shall only be compulsory to the extent possible, taking into account the actual power attached to the direct and indirect shareholding together held by the STH Shareholders in our company.

5.11.1.4. Disposals of our Common Shares

The STH Shareholders' Agreement provides that each STH Shareholder retains the right to cause the holding company to dispose of its stake in us at its sole discretion, provided it is pursuant to either (i) the issuance of financial instruments, (ii) an equity swap, (iii) a structured finance deal or (iv) a straight sale. ST Holding II may enter into escrow arrangements with STH Shareholders with respect to our shares, whether this be pursuant to exchangeable notes, securities lending or other financial instruments. STH Shareholders that dispose of our shares through the issuance of exchangeable instruments, an equity swap or a structured finance deal maintain the voting rights of the underlying shares in their ST Holding voting stake provided that such rights remain freely and continuously held by the holding company as though the holding company were still holding the full ownership of the shares.

As long as any of the parties to the STH Shareholders' Agreement has a direct or indirect interest in us, except in the case of a public offer, no sales by a party may be made of any of our shares or of FT1CI, ST Holding or ST Holding II to any of our top ten competitors, or any company that controls such competitor.

5.11.1.5. Re-adjusting and Re-balancing options

The STH Shareholders' Agreement provides that the parties have the right, subject to certain conditions, to re-balance their indirect holdings in our shares to achieve parity between FT1CI on the one hand and the Ministry of the Economy and Finance on the other hand. If at any time prior to March 17, 2011, the voting stake in us of one of the STH Shareholders (FT1CI on the one hand, and the Ministry of the Economy and Finance on the other hand) falls below 10.5% due either to (a) the exchange by a third party of any exchangeable instruments issued by an STH Shareholder or (b) to an issuance by us of new shares subscribed to by a third party, such STH Shareholder will have the right to notify the other STH Shareholder of its intention to exercise a "Re-adjusting Option". In such case, the STH Shareholders will cause the holding company to purchase the number of our common shares necessary to increase the voting stake of such STH Shareholder to 10.5% of our issued and outstanding share capital.

If three months prior to March 17, 2011, the Balance Period has not already expired and if on such date the voting stake of one of the STH Shareholders (FT1CI on the one hand, and the Ministry of the Economy and Finance on the other hand) has fallen below 47.5% of the total voting stake in ST Holding, such STH Shareholder will have the right to notify the other STH Shareholder of its intention to exercise a "Re-balance Option" no later than 30 Business Days prior to March 17, 2011. In such case, the STH Shareholders will cause the holding company to purchase before March 17, 2011 the number of our common shares necessary to re-balance at 50/50% the respective voting stakes of the STH Shareholders.

FSI and the Italian Ministry of the Economy and Finance have recently entered into discussions aimed at extending the March 17, 2011 deadline incorporated into the definition of the Balance Period.

5.11.1.6. Change of Control Provision

The STH Shareholders' Agreement provides for tag-along rights, preemptive rights, and provisions with respect to a change of control of any of the shareholders or any controlling shareholder of FT1CI, on the one hand, and the Ministry of the Economy and Finance, on the other hand. The shareholders may transfer shares of the holding company or FT1CI to any of the shareholders' affiliates, which would include the Italian state or the French state with respect to entities controlled by a state. The shareholders and their ultimate shareholders will be prohibited from launching any takeover process on any of the other shareholders.

5.11.1.7. Non-competition

Pursuant to the terms of STH Shareholders' Agreement, neither we nor ST Holding are permitted, as a matter of principle, to operate outside the field of semiconductor products. The parties to the STH Shareholders' Agreement also undertake to refrain directly or indirectly from competing with us in the area of semiconductor products, subject to certain exceptions, and to offer us opportunities to commercialize or invest in any semiconductor product developments by them.

5.11.1.8. Deadlock

In the event of a disagreement that cannot be resolved between the parties as to the conduct of the business and actions contemplated by the STH Shareholders' Agreement, each party has the right to offer its interest in ST Holding to the other, which then has the right to acquire, or to have a third party acquire, such interest. If neither party agrees to acquire or have acquired the other party's interest, then together the parties are obligated to try to find a third party to acquire their collective interests, or such part thereof as is suitable to change the decision to terminate the agreement. The STH Shareholders' Agreement will remain in force as long as the Ministry of the Economy and Finance, on the one hand, and any of Areva, FT1CI or CEA, on the other hand, are shareholders of the holding company.

5.11.2. Statutory Considerations

As is the case with other companies controlled by the French government, the French government has appointed a *Commissaire du Gouvernement* and a *Contrôleur d'Etat* for FT1CI. Pursuant to Decree No. 94-214, dated March 10, 1994, these government representatives have the right (i) to attend any board meeting of FT1CI, and (ii) to veto any board resolution or any decision of the president of FT1CI within ten days of such board meeting (or, if they have not attended the meeting, within ten days of the receipt of the board minutes or the notification of such president's decision); such veto lapses if not confirmed within one month by the Ministry of the Economy or the Ministry of the Industry. FT1CI is subject to certain points of the Decree of August 9, 1953 pursuant to which the Ministry of the Economy and any other relevant ministries have the authority to approve decisions of FT1CI relating to budgets or forecasts of revenues, operating expenses and capital expenditures. The effect of these provisions may be that the decisions taken by us and our subsidiaries that, by the terms of the STH Shareholders' Agreement, require prior approval by FT1CI, may be adversely affected by these veto rights under French law.

6. Dividend Policy

STMicroelectronics seeks to use our available cash in order to develop and enhance our position in the very capital-intensive semiconductor market while at the same time managing our cash resources to reward our shareholders for their investment and trust in us.

Based on our annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes each year to the Supervisory Board the allocation of our earnings involving, whenever deemed possible and desirable in line with our objectives and financial situation, the distribution of a cash dividend.

The Supervisory Board, upon the proposal of the Managing Board, decides each year, in accordance with this policy, which portion of the profits shall be retained in reserves to fund future growth or for other purposes and makes a proposal to the shareholders concerning the amount, if any, of the annual cash dividend.

In the past five years, we have paid the following dividends:

- On May 25, 2010, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2009 of $0.28 per share.
- On May 20, 2009, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2008 of $0.12 per share.
- On May 14, 2008, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2007 of $0.36 per share.
- On April 26, 2007, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2006 of $0.30 per share.
- On April 27, 2006, our shareholders adopted the payment of a cash dividend with respect to the year ended December 31, 2005 of $0.12 per share.

Future dividends will depend on our accumulated profits, our capacity to generate cash flow, our financial situation, the general economic situation and prospects and any other factors that the Supervisory Board, upon the recommendation of our Managing Board, shall deem important.

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7.1. Consolidated income statement

In millions of USD

except per share amount	Notes	Year ended December 31, 2010	December 31, 2009
Sales	**7.6.26.**	10,262	8,465
Other revenues	**7.6.26.**	84	45
Total revenues		**10,346**	**8,510**
Cost of sales	**7.6.28.**	(6,670)	(6,268)
Gross profit		**3,676**	**2,242**
Selling, general and administrative	**7.6.28.**	(1,190)	(1,199)
Research and development	**7.6.28.**	(1,861)	(2,079)
Other income	**7.6.29.**	158	279
Other expenses	**7.6.29.**	(96)	(78)
Impairment on assets held for sale and related costs		-	(25)
Operating profit (loss)		**687**	**(860)**
Impairment and realized loss on available-for-sale investments		-	(140)
Finance income	**7.6.30.**	75	76
Finance costs	**7.6.30.**	(107)	(63)
Loss on convertible debt repurchase	**7.6.14.**	(32)	(7)
Share of gain (loss) of associates and jointly controlled entities and gain on investment divestiture	**7.6.10.**	2	(95)
Impairment or reversal of impairment on investments in associates	**7.6.10.**	162	(211)
Profit (Loss) before income tax		**787**	**(1,300)**
Income tax benefit / (expense)	**7.6.32.**	(168)	76
Net result		**619**	**(1,224)**
Attributable to:			
The equity holders of the parent		867	(1,003)
Non-controlling interests		(248)	(221)
Net result		**619**	**(1,224)**
Profit (Loss) per share attributable to the equity holders of the parent			
Profit (Loss) per share (Basic)	**7.6.33.**	0.98	(1.14)
Profit (Loss) per share (Diluted)	**7.6.33.**	0.98	(1.14)

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

7.2. Consolidated statement of comprehensive income

In millions of USD	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Net result		**619**	**(1,224)**
Exchange differences on translation of foreign operations		**(299)**	**111**
Net movement on cash flow hedges		27	(7)
Income tax effect		(1)	1
	7.6.31.	**26**	**(6)**
Net gain / (loss) on available-for-sale financial assets		32	12
Income tax effect		(2)	(1)
	7.6.31.	**30**	**11**
Other comprehensive income, net of tax		**(243)**	**116**
Total comprehensive income, net of tax		**376**	**(1,108)**
Attributable to:			
The equity holders of the parent		636	(902)
Non-controlling interests		(260)	(206)
Total comprehensive income, net of tax		**376**	**(1,108)**

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

7.3. Consolidated statement of financial position

In millions of USD	Notes	December 31, 2010	December 31, 2009
Assets			
Non-current assets			
Property, plant and equipment	**7.6.11.**	4,117	4,178
Goodwill	**7.6.13.**	972	989
Intangible assets	**7.6.12.**	2,060	1,959
Investments in associates and jointly controlled entities	**7.6.10.**	133	303
Other non-current financial assets	**7.6.14.**	125	510
Deferred tax assets	**7.6.32.**	548	642
Other non-current assets	**7.6.15.**	326	219
Total non-current assets		**8,281**	**8,800**
Current assets			
Inventories	**7.6.16.**	1,497	1,275
Trade accounts receivable	**7.6.17.**	1,230	1,366
Other current financial assets	**7.6.14.**	1,211	1,068
Other receivable and assets	**7.6.18.**	524	718
Cash and cash equivalents	**7.6.19.**	1,892	1,588
Total current assets		**6,354**	**6,015**
Assets held for sale		29	31
Total assets		**14,664**	**14,846**
Equity			
Equity attributable to the equity holders of the parent		8,751	8,367
Non-controlling interests		996	1,263
Total equity	**7.6.21.**	**9,747**	**9,630**
Non-current liabilities			
Interest-bearing loans and borrowings	**7.6.14.**	1,091	2,194
Other non-current financial liabilities	**7.6.14.**	-	56
Employee benefits	**7.6.23.**	296	232
Deferred tax liabilities	**7.6.32.**	207	204
Non-current provisions	**7.6.22.**	135	133
Other non-current liabilities	**7.6.24.**	124	91
Total non-current liabilities		**1,853**	**2,910**
Current liabilities			
Interest-bearing loans and borrowings — current portion	**7.6.14.**	655	201
Trade accounts payable	**7.6.25.**	1,233	883
Other payables and accrued liabilities	**7.6.25.**	359	358
Employee benefits — current portion	**7.6.23.**	566	504
Current provisions	**7.6.22.**	156	266
Other current financial liabilities	**7.6.14.**	11	34
Income tax payable	**7.6.32.**	84	60
Total current liabilities		**3,064**	**2,306**
Total equity and liabilities		**14,664**	**14,846**

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

7.4. Consolidated statement of changes in equity

For the year ended December 31, 2009

		Equity attributable to the equity holders of the parent						
In millions of USD	Note	Ordinary shares	Capital surplus	Treasury shares	Other reserves	Retained earnings	Non-controlling interests	Total equity
As at January 1, 2009		**1,156**	**2,114**	**(482)**	**1,470**	**4,501**	**474**	**9,233**
Net result		-	-	-	-	(1,003)	(221)	(1,224)
Other comprehensive income, net of tax		-	-	-	101	-	15	116
Total comprehensive income		**-**	**-**	**-**	**101**	**(1,003)**	**(206)**	**(1,108)**
Employee share award scheme, net of tax	**7.6.21.5.**	-	-	105	36	(105)	-	36
Share conversion option of 2016 Convertible Bonds	**7.6.21.6.**	-	-	-	260	-	-	260
Purchase of equity from non-controlling interests		-	319	-	-	-	(411)	(92)
Non-controlling interests arising on business combinations		-	-	-	-	-	1,411	1,411
Dividends		-	-	-	-	(105)	(5)	(110)
As at December 31, 2009		**1,156**	**2,433**	**(377)**	**1,867**	**3,288**	**1,263**	**9,630**

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

For the year ended December 31, 2010

In millions of USD	Notes	Equity attributable to the equity holders of the parent						
		Ordinary shares	Capital surplus	Treasury shares	Other reserves	Retained earnings	Non-controlling interests	Total equity
As at January 1, 2010		**1,156**	**2,433**	**(377)**	**1,867**	**3,288**	**1,263**	**9,630**
Net result		-	-	-	-	867	(248)	619
Other comprehensive income, net of tax		-	-	-	(231)	-	(12)	(243)
Total comprehensive income		**-**	**-**	**-**	**(231)**	**867**	**(260)**	**376**
Employee share award scheme, net of tax	**7.6.21.5.**	-	-	73	34	(73)	-	34
Share conversion option of 2016 Convertible Bonds	**7.6.21.6.**	-	-	-	(39)	-	-	(39)
Dividends, 0.28 $ per share		-	-	-	-	(247)	-	(247)
Dividends to non-controlling interests		-	-	-	-	-	(7)	(7)
As at December 31, 2010		**1,156**	**2,433**	**(304)**	**1,631**	**3,835**	**996**	**9,747**

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

7.5. Consolidated statement of cash flows

In millions of USD	Note	December 31, 2010	December 31, 2009
Cash flows from operating activities			
Cash generated from operations	**7.6.20.**	**2,358**	**1,101**
Interests paid		(14)	(34)
Income tax refunded / (paid)		(22)	142
Net cash from operating activities		**2,322**	**1,209**
Cash flows from investing activities			
Payments for purchases of tangible assets		(1,034)	(451)
Investments in short-term deposits		(62)	-
Payments for purchases of available-for-sale financial assets		(1,100)	(1,730)
Proceeds from sales of available-for-sale financial assets		1,219	1,446
Disposal of a financial instrument		-	26
Investments in intangible and financial assets		(634)	(576)
Release of restricted cash		250	-
Net proceeds from sale of shares received on investment divestiture		319	-
Proceeds received in business combinations		-	1,155
Payment for business combinations		(11)	(18)
Interests received		24	45
Net cash from (used in) investing activities		**(1,029)**	**(103)**
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings		76	1
Repurchase of convertible debt		(508)	(103)
Repayment of interest-bearing loans and borrowings		(218)	(134)
Dividends paid to equity holders of the parent company		(212)	(158)
Dividends paid to non-controlling interests		(7)	(5)
Purchase of equity from non-controlling interests		-	(92)
Payment for other financing activities		(32)	(2)
Net cash used in financing activities		**(901)**	**(493)**
Effect of changes in exchange rates		(88)	(14)
Net cash increase (decrease)		**304**	**599**
Cash and cash equivalents at the beginning of the period		1,588	989
Cash and cash equivalents at the end of the period		1,892	1,588

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

7.6. Notes to the consolidated financial statements

7.6.1. Corporate information

STMicroelectronics N.V. (the "Company") is registered in the Netherlands with its corporate seat in Amsterdam, the Netherlands, and address at Schiphol Boulevard 265, 1118 BH Schipol Airport, the Netherlands, and its corporate headquarters located in Geneva, Switzerland.

STMicroelectronics and its subsidiaries (together "the Group") are a global independent semiconductor group that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits ("ICs") and discrete devices. The Group offers a diversified product portfolio and develops products for a wide range of market applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Within its diversified portfolio, the Group has focused on developing products that leverage its technological strengths in creating customized, system-level solutions with high-growth digital and mixed-signal content.

STMicroelectronics is a publicly traded company, listed on the New York Stock Exchange, on Euronext Paris and on the Borsa Italiana (Italian Stock Exchange).

These consolidated financial statements have been approved by the Supervisory Board on March 11, 2011, for submission to the annual general shareholders' meeting.

7.6.2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and certain other financial assets and liabilities (including derivative financial instruments) that have been measured at fair value. The consolidated financial statements are presented in dollars of the United States of America and all values are rounded to the nearest million (USD million) except when otherwise stated. Under Article 35 of the Group's Articles of Association, the financial year extends from January 1 to December 31, which is the period-end of each fiscal year.

7.6.3. Statement of compliance

These consolidated financial statements are prepared for Dutch statutory purposes, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. In accordance with Article 402, Title 9, Book 2 of the Dutch Civil Code STMicroelectronics N.V.'s corporate income statement is presented in abbreviated form.

7.6.4. Basis of consolidation

The consolidated financial statements comprise the financial statements of STMicroelectronics N.V. and its subsidiaries as at December 31, 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are fully eliminated.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to the parent company. Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Associates include all entities over which the Group has a significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. These investments are accounted for by the equity method of accounting and are initially recognized at cost. They are presented in the consolidated statement of financial position on the line "Investments in associates".

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are consistent with the policies adopted by the Group.

7.6.5. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IFRS 1 First-time Adoption of International Financial Standards — Additional Exemptions for First-time Adopters
- IFRS 2 Group Cash-settled Share-based Payment Arrangements
- IFRIC 17 Distributions of Non-cash Assets to Owners
- Improvements to International Financial Reporting Standards (issued 2009)

The adoption of the Standard or Interpretation above-mentioned has not had a significant impact on the financial statements or performance of the Group.

In April 2009, the IASB issued its second omnibus of amendments to deal with non-urgent but necessary amendments to IFRS (the "annual improvements process"). There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any significant impact on financial position or performance of the Group.

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations** — Disclosures of non-current assets (or disposal group) classified as held for sale or discontinued operations: clarifies that the disclosures required in respect of non-current assets or disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- **IAS 1 Presentation of Financial Statements — Current/non-current classification of convertible instruments**: the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- **IAS 7 Statement of Cash Flows — Classification of expenditures on unrecognized assets**: explicitly states that only expenditure that results in a recognized asset can be classified as cash flow from investing activities.
- **IAS 17 Leases — Classification of leases of land and buildings**: the amendment removes the specific guidance on classifying land as a lease so that only the general guidance remains.
- **IAS 18 Revenue — Determining whether an entity is acting as a principal or an agent**: the Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: (i) has primary responsibility for providing the goods or services, (ii) has inventory risks, (iii) has discretion in establishing prices and (iv) bears the credit risk.
- **IAS 36 Impairment of assets — Unit of accounting for goodwill impairment test**: clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.

- **IAS 39 Financial Instruments: Recognition and Measurement — Assessment of loan prepayment penalties as embedded derivatives**: the amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
- **IAS 39 Financial Instruments: Recognition and Measurement — Scope exemption for business combination contract**: clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
- **IAS 39 Financial Instruments: Recognition and Measurement — Cash flow hedge accounting**: clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- **IFRIC 16 Hedges of a Net Investment in a Foreign Operation —** Amendment to the restriction on the entity that can hold hedging instruments: the amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.
- **IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial Instruments: Recognition and Measurement —** This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hydrid financial asset out of 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument remains classified as at fair value through profit or loss in its entirety.

7.6.6. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

- **IAS 24 Related Party Disclosures (Amendment)** — The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- **IAS 32 Financial Instruments: Presentation — Classification of Rights Issues (Amendment)** - The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.
- **IFRS 9 Financial Instruments: Classification and Measurement** - IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The standard has not yet been

endorsed by the European Union. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- **IFRIC 14 Prepayments of a minimum funding requirement (Amendment)** - The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments** - IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial statements
- IFRIC 13 Customer Loyalty Programs

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

7.6.7. Summary of significant accounting policies

7.6.7.1. Business combinations and goodwill

The Group accounts for business combinations in accordance with IFRS 3 (revised), using the acquisition method. The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.

Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This is a policy choice on a transaction by transaction basis.

Goodwill arises when there is a positive difference between:

- the aggregate of consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
- the net identifiable assets acquired.

Goodwill is initially recorded at cost. If the acquirer has made a gain from a bargain purchase that gain is recognized in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group cash generating units ("CGU") that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

A cash generating unit represents a unit one level below the level of an operating segment for which discrete financial information is available and which is subject to regular review by segment management.

The impairment test determines whether the recoverable amount of each cash-generating unit, which is the higher of its assets' fair value less cost to sell and its value in use, is lower than its total carrying amount. If lower, an impairment loss is recognized for the excess of the carrying amount over the recoverable amount. If the impairment loss exceeds the book value of goodwill, allocation is made on a pro rata basis over the remaining assets of the CGU. In determining the value in use of a cash-generating unit, the Group usually estimates the expected discounted future cash flows associated with the unit. Significant management judgments and estimates are used in forecasting the future discounted cash flows, including: the applicable industry's sales volume forecast and selling price evolution, the cash-generating unit's market penetration, the market acceptance of certain new technologies, relevant cost structure, the discount rates applied are based on various scenarios incorporating a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values.

7.6.7.2. Investments in associates and jointly controlled entities

The Group's investment in its associates and its jointly controlled entities is accounted for using the equity method. An associate is an entity in which the Group has significant influence. A jointly controlled entity is an entity whereby the partners have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the partners.

Under the equity method, the investment in the associate or in the jointly controlled entity is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate or jointly controlled entity. Goodwill relating to the associate or jointly controlled entity is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the result of operations of the associate or jointly controlled entity. Where there has been a change recognized directly in the equity of the associate or jointly controlled entity, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity or other comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associates or jointly controlled entities are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement on the line "Share of gain (loss) of associates and jointly controlled entities and gain on investment divestiture". This is the profit attributable to equity holders of the associate or jointly controlled entity and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate or jointly controlled entity.

The financial statements of the associate or jointly controlled entity are prepared for the same reporting period as the parent company or with a quarter-lag if the associate or jointly controlled entity cannot prepare financial statements in a timing compliant with the closing timeframe of the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates or on the Group's interest in its jointly controlled entities. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or jointly controlled entity and its carrying value and recognizes the amount in the income statement. To the extent that the recoverable amount of an investment in an associate or jointly controlled entity subsequently increases, the Group reverses the impairment previously recorded.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the income statement.

Upon loss of joint control the Group measures and recognizes its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognized in the income statement. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

7.6.7.3. Foreign currency translation

The U.S. dollar is the functional currency for the Company and the presentation currency for the Group, which is the currency of the primary economic environment in which the Group operates. The worldwide semiconductor industry uses the U.S. dollar as a currency of reference for actual pricing in the market. Furthermore, the majority of the Group's transactions are denominated in U.S. dollars, and revenues from external sales in U.S. dollars largely exceed revenues in any other currency. However, non-dollar labor costs are concentrated primarily in the countries of the Euro zone.

The functional currency of each subsidiary throughout the Group is either the local currency or the US dollar, determined on the basis of the economic environment in which each subsidiary operates. For consolidation purposes, assets and liabilities included in the financial statement of the Group's subsidiaries having the local currency as functional currency are translated at current rates of exchange at the reporting date. Income and expense items and cash flow items are translated at the monthly exchange rate in which they are recognized, since they approximate the applicable spot rate. This has been determined to be an adequate reflection of average exchange rate of the period. The currency translation adjustments ("CTA") generated by the conversion of the financial position and results of operations from local functional currencies are reported as a component of "Other reserves" in the consolidated statement of changes in equity.

Assets, liabilities, revenues, expenses, gains or losses arising from transactions denominated in foreign currency are recorded in the functional currency of the recording entity at the exchange rate during the month of the transaction. At each reporting date, balances denominated in a currency other than the recording entity's functional currency are re-measured into the functional currency at the exchange rate prevailing at the reporting date. The related exchange gains and losses are recorded in the consolidated income statement as "Other income" or "Other expenses".

Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are distinguished between translation differences resulting from changes in the amortized cost of the security and fair value changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in the consolidated income statement as finance cost or finance income below operating income, and fair value changes in carrying amount are recognized in the available-for-sale reserve in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain, or on the line "Other income" or "Other expenses" within the operating results. Translation differences on non-monetary financial assets and liabilities such as equity securities at fair value through profit or loss are recognized in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the transaction closing rate.

7.6.7.4. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating intercompany sales within the Group. Revenue is recognized as follows:

Sales

Revenue from the sale of products is recognized upon transfer of significant risks and rewards of ownership to the customer, assuming that the revenue to be recognized can be measured reliably and it is probable that economic benefits will flow to the Group. Based on the standard shipping terms applied this usually occurs at the time of shipment.

Consistent with standard business practice in the semiconductor industry, price protection is granted to distribution customers on their existing inventory of the Group's products to compensate them for declines in market prices. The ultimate decision to authorize a distributor refund remains fully within the control of the Group. The Group records the accrued amounts as a reduction of revenue at the time of the sale.

The Group's customers occasionally return the Group's products for technical reasons. The Group provides for such returns when they are considered probable and can be reasonably estimated. The Group records the accrued amounts as a reduction of revenue.

The Group records a provision for warranty costs as a charge against cost of sales, based on historical trends of warranty costs incurred as a percentage of sales, which management has determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period.

Distribution costs are recorded in "cost of sales".

Revenue recognition from the rendering of services that can be measured reliably is based on the stage of completion of the transaction at the reporting date.

While the majority of the Group's sales agreements contain standard terms and conditions, the Group may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. Revenues from contracts with multiple-element arrangements are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by internal or third-party analyses of market-based prices. A delivered element is considered a separate unit of accounting if it has a value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered elements in the arrangement, and delivery or performance of undelivered elements in the arrangement is considered probable and substantially under the Group's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for a single unit of accounting in accordance with the criteria described in the preceding paragraphs.

Other revenues

Other revenues primarily consist of license revenue and patent royalty income, which are recognized ratably over the term of the agreements. Other revenues also include, from time to time sales of technology license bundled with support over a defined time period. This kind of arrangements is a multiple-element arrangement and is accounted for according to the policy described in the preceding paragraph.

Fundings

Fundings received by the Group are mainly from governmental agencies. Income is recorded when all qualifying expenditures have been incurred and the Group has obtained sufficient evidence from the relevant authorities that the credit will be granted. The Group's primary sources for government funding are French, Italian and other European Union ("EU") governmental entities, and Singapore agencies. Such funding is generally provided to encourage research and development activities, industrialization and local economic development. The EU has developed model contracts for research and development funding that requires beneficiaries to disclose the results to third parties on reasonable terms. The conditions for receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with European Commission regulations, as well as specifications regarding objectives and results. Certain specific contracts contain obligations to maintain a minimum level of employment and investment during a certain period of time. There could be penalties if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations.

In accordance with the Group's revenue recognition policy, funding related to these contracts is recorded when the conditions required by the contracts are met. The Group's funding programs are classified under three general categories: funding for research and development activities, capital investment, and loans.

Funding for research and development activities

Funding for research and development activities is the most common form of funding that the Group receives. Public funding for such activities is recorded as "Other income" in the Group's consolidated income statement. Public funding is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions are met. The majority of this public funding is not received for development projects recognized by the Group as intangible assets, in which case the Group would have recognized such funding as a reduction of the corresponding intangible assets.

The Group receives certain specific project-related research tax credits ("Credit Impot Recherche") in its tax jurisdictions. Such credits can be recovered through the reduction of income tax to be paid for the year. Nevertheless, the Group is entitled to receive in cash for such credit even if no income tax is expected to be paid. The Group recognizes these credits as long-term or short-term receivables depending on the expected time to collection. Since 2008 in France these credits are enacted on the basis of a new tax law and as such deducted from "Research and development" in the consolidated income statement. The Group considers the tax credits received from French tax authorities as government grant based on the fact that the credit is granted independently from tax payments of the Group. The Group does not discount the research tax credits.

Capital investments

Capital investment funding is recorded as a reduction of "Property, plant and equipment" and is recognized in the Group's consolidated income statement according to the depreciation charges of the funded assets during their useful lives. The Group also receives capital funding in Italy, which is recovered through the reduction of various government liabilities, including income taxes, value-added tax and employee-related social charges. When the funding has been classified as long-term receivable, it is reflected in the statement of financial position at its discounted net present value. The subsequent accretion of the discount is recorded as non-operating profit in "Finance income".

Loans

The Group receives certain loans from public sources, related to large capital investment projects, at preferential interest rates. For loans received before January 1, 2009, the Group records these loans at their nominal value as debt in its consolidated statement of financial position. For loans received after January 1, 2009, the loans are measured and recognized in accordance with IAS 39. The benefit calculated as the difference between the initial carrying amount of the loans determined in accordance with IAS 39 and the proceeds received is recognized in accordance with the policy described in the preceding paragraphs.

Finance income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

7.6.7.5. Research and development

Research and development expenditures include costs incurred by the Group, the Group's share of costs incurred by other research and development interest groups and costs associated with co-development contracts. Research costs are expensed as incurred and are presented net of French research tax credits.

Expenditures incurred on development projects, mainly related to the design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success considering its economic profitability and technological feasibility, and costs can be measured reliably. Research and tax credits are also recognized as a reduction of intangible assets for the portion that can be reliably allocated to development projects. Development expenditures recognized as assets are amortized, when in use, over their estimated useful lives, not exceeding three years (Refer to note 7.k. Intangible assets). Other development costs are expensed as incurred. Development costs recognized as an expense are not recognized as an asset in a subsequent period. Amortization expenses recognized on capitalized development costs are recorded as cost of sales. Amortization expenses on technologies and licenses purchased by the Group from third parties or acquired in a business combination to facilitate the Group's research are recorded as research and development expenses.

An impairment test is performed whenever a triggering event questions the future recoverability, or at least annually, for the capitalized development projects still not in use. A loss is recognized in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Write-offs and impairment expenses recognized on capitalized development costs are recorded as cost of sales.

7.6.7.6. Income taxes

Income tax expense represents the income taxes expected to be paid or the benefit expected to be received related to the current year income or loss in each individual tax jurisdiction. Items recognized in other comprehensive income or directly in equity are recognized net of tax. Income tax expense for specific tax assessments are also estimated and recorded when an additional tax payment is determined probable. Deferred tax assets and liabilities are recorded, using the liability method, for temporary differences arising between the tax and book bases of assets and liabilities and for the benefits of tax credits and operating loss carry-forwards. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Group does not provide deferred income taxes on temporary differences arising on investments in subsidiaries and associates because the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future, or if reversed, will not be subject to tax.

The Group receives certain research tax credits in some of its jurisdictions. Except for the French tax credits granted after 2008, these research tax credits are deemed to benefit the income tax.

Income taxes are recognized in the cash flows from operating activities in the consolidated statement of cash flows.

7.6.7.7. Earnings per share

Basic earnings per share are computed by dividing net result attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are computed using the treasury stock method by dividing net profit (adding-back interest expense, net of tax effects, related to convertible debt if determined to be dilutive) by the weighted average number of ordinary shares and potential ordinary shares outstanding during the period. The weighted average shares used to compute diluted earnings per share include the incremental shares of ordinary shares relating to stock options granted, non vested shares and convertible debt to the extent such incremental shares are dilutive. Non vested shares with performance or market conditions are included in the computation of diluted earnings per share if their conditions have been satisfied at the reporting date and if the awards are dilutive. If all the conditions have not been satisfied by the end of the period, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

7.6.7.8. Cash and cash equivalents

Cash and cash equivalents represents cash on hand, deposits at call with banks, highly liquid investments purchased with an original maturity of ninety days or less. Bank overdrafts are not netted against cash and cash equivalents and are shown as part of current liabilities on the consolidated statement of financial position.

7.6.7.9. Restricted cash

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

7.6.7.10. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is based on the weighted average cost by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on the Group's manufacturing performance. In the case of underutilization of manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable costs to sell.

As described in Note 7.6.7.15, the Group hedges a portion of its Euro-denominated front-end manufacturing costs of semi-finished goods. The Group does not adjust the initial carrying amount of inventory by the cumulative amount of the hedging instrument fair value changes recorded as other comprehensive income in other reserves for settled hedging transactions. This component of other comprehensive income is reclassified into earnings when inventory is sold.

The Group performs on a continuous basis inventory write-off of products, which have the characteristics of slow-moving, old production date and technical obsolescence. Additionally, the Group evaluates its product inventory to identify obsolete or slow-selling stock by computing any excess inventory based on the previous period sales, orders' backlog and production plans. Inventory associated with obsolete or uncommitted inventory is expensed to cost of sales.

7.6.7.11. Intangible assets with finite useful lives

Intangible assets acquired separately are recognized at cost and include technologies and licenses purchased from third parties and purchased software.

The cost of intangible assets acquired in a business combination such as customer relationships, in-process research & development, is the acquisition-date fair value.

Internally generated intangible assets, excluding, internally developed software and costs incurred on other development projects that meet all capitalization criteria as defined in IAS 38 are not capitalized and subject to amortization. Expenditure on internally generated intangible assets is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The carrying value of intangible assets with finite useful lives is assessed for impairment whenever there is an indication that intangible assets may be impaired. An impairment loss is recognized in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. In determining recoverability, the Group usually estimates the fair value based on the projected discounted future cash flows associated with the intangible assets and compares this to their carrying value.

Intangible assets with finite lives are amortized over their useful economic lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Amortization is computed using the straight-line method over their estimated useful lives.

The capitalization of costs for internally generated software developed for the Group's internal use begins when the preliminary project stage is completed and when the Group, implicitly or explicitly, authorizes and commits to funding a computer software project since it will be probable that the project will be completed and will be used to perform the function intended.

Expenditures incurred on development projects, mainly related to the design and testing of new or improved products, are recognized as intangible assets net of any research tax credit attributable to the specific projects when the Group can demonstrate all of the following:

- the technical feasibility of completing the item under development so that it will be available for use or sale;
- its intention to complete the item under development and ability to use it or sell it;
- how the item under development will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the item under development; and
- its ability to measure reliably the expenditures attributable to the project during its development.

Development costs are amortized, when the development is complete, on a straight-line basis over the period of their expected benefits, not exceeding three years.

A summary of the policies applied to the Group's intangible assets is as follows:

	Technologies & licenses	Purchased software	Internally developed software	Development costs	Customer relationships
Useful lives	Finite	Finite	Finite	Finite	Finite
Amortization method used	Straight line basis over estimated useful life — 3-7 years	Straight line basis over estimated useful life — 3-4 years	Straight line basis over estimated useful life — Max 4 years	Straight line basis over estimated useful life — Max 3 years	Straight line basis over estimated useful life — 4-12 years
Internally generated or acquired	Acquired	Acquired	Internally generated	Internally generated	Acquired

7.6.7.12. *Property, plant and equipment*

Property, plant and equipment are stated at historical cost, net of government fundings, accumulated depreciation and/or impairment losses, if any. Major additions and improvements are capitalized as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of item can be measured reliably; minor replacements and repairs are charged to the consolidated income statement.

Land is not depreciated. Depreciation on fixed assets is computed using the straight-line method over the following estimated useful lives:

Nature of tangible asset	Estimated useful life
Buildings	33 years
Facilities & leasehold improvements	5-10 years
Machinery and equipment	3-10 years
Computer and R&D equipment	3-6 years
Other	2-5 years

The Group evaluates in each period whether there is a reason to suspect that tangible assets or groups of assets might not be recoverable. Several impairment indicators exist for making this assessment such as: significant changes in the technological, market, economic or legal environment in which the Group operates or in the market to which the asset is dedicated, or available evidence of obsolescence of the asset, or indication that its economic performance is, or will be, worse than expected. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognized in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is normally estimated by the Group based on independent market appraisals or using discounted cash-flow procedure.

The value in use corresponds to the sum of discounted future cash flows to be derived from the particular asset, using market assumptions such as the utilization of the Group's fabrication facilities and their continuous technological competitiveness, change in the selling price and the adoption of new technologies. The Group also evaluates, and adjusts if appropriate, the assets' useful lives, at each reporting date or when impairment indicators exist. Assets classified as held for sale are reflected at the lower of their carrying amount or fair value less selling costs and are not depreciated during the selling period. Costs to sell include incremental direct costs to transact the sale that would not have been incurred except for the decision to sell.

When property, plant and equipment are retired or otherwise disposed of, the net book value of the assets is removed from the Group's books and the net gain or loss is included in "Other income" or "Other expenses" in the consolidated income statement.

A manufacturing line is composed of several individual equipments which are individually recorded, depreciated and disposed of if needed.

Leasing agreements in which a significant portion of the risks and rewards of ownership are retained by the Group are classified as finance leases. These leases are included in "property, plant and equipment" at the lower of fair value and present value of minimum lease term payments. They are depreciated over the shorter of the estimated useful life or the lease term. Leasing agreements classified as operating leases are arrangements in which the lessor retains a significant portion of the risks and rewards of ownership of the leased asset. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

7.6.7.13. Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. The Group determines the classification of its financial assets at initial recognition. The Group did not hold at December 31, 2008 and December 31, 2009 any asset classified as held-to-maturity.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets when they are expected to be realized within twelve months of the reporting date. This category also includes derivatives classified as held for trading including foreign currency forward contracts and currency options.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets. Loans and receivables are classified in the consolidated statement of financial position as trade accounts receivable, other receivables and long-term loans and receivables and cash and cash equivalents.

Gains and losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the consolidated income statement within "Other income" or "Other expenses" in the period in which they arise, when the transactions for such instruments is related to the Group's operating activities, Gains and losses arising from changes in fair value of financial assets not related to the operating activities of the Group, are presented within "Finance income" and "Finance costs" in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months after the reporting date.

Regular purchases and sales of financial assets are recognized on the trade date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Changes in the fair value excluding translation differences of monetary and non-monetary securities classified as available for sale are recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement.

The fair values of quoted investments are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models and reference indexes, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity securities are not reversed through the consolidated income statement if the security recovers its value prior to disposal.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

7.6.7.14. Trade accounts receivable

The accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of the estimated cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an impairment account, and the amount of the loss is recognized in the consolidated income statement as "Selling, general and administrative". When a trade receivable is uncollectible, it is written-off against the impairment account for trade receivable. Subsequent recoveries of amounts previously written off are credited against "selling, general and administrative expenses" in the consolidated income statement.

In the event of sales of receivables and factoring, the Group derecognizes the receivables and accounts for them as a sale only to the extent that the receivables have been transferred outside the consolidated group and the Group has transferred substantially all of the risks and rewards of ownership of the receivables.

7.6.7.15. Derivative financial instruments and hedging activities

Derivative financial instruments are classified as held-for-trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held-for-trading

The worldwide operations of the Group lead to an exposure to adverse movements in foreign currency exchange rate. The Group enters into foreign currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at STMicroelectronics's subsidiaries. In addition forward contracts and currency options are also used by the Group to reduce its exposure to U.S. dollar fluctuations in Euro-denominated and Swedish Krona-denominated forecast intercompany transactions that cover a large part of research and development expenditures and certain corporate expenses incurred on STMicroelectronics's behalf by subsidiaries. These intercompany transactions are not closely linked to ultimate transactions with third parties. These instruments do not qualify as hedging instruments under the requirements of the IAS 39.

The derivative financial instruments held-for-trading are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value. Fair value adjustments and realized gains and losses are recognized in the consolidated income statement on the line "other income" or "other expenses" with the exception of fair value movements of derivative financial instruments not directly related to the operations of the Group, whereby the movements are reported within "Finance income" or "Finance costs".

Derivative financial instruments designated as hedging instruments

These instruments include notably forward currency contracts and interest rate swaps that are entered into by the Group to hedge its risks associated with interest rate and foreign currency fluctuations.

For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges, when they hedge exposure to variability in cash flows of a recognized asset or liability or a highly probable forecasted transaction; or
- Fair value hedges, when they hedge exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk.

The following criteria must be in place before the Group will use hedge accounting:

- Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied
- The hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period and the hedge is effective on an ongoing basis
- For a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

Cash flow hedges

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Group also hedges a portion of its Euro-denominated forecasted intercompany purchases of products whose underlying front-end manufacturing production costs of semi-finished goods are incurred in euros, since these transactions are considered highly probable to occur.

Such derivatives financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated income statement. Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction effects the income statement, such as when the forecast purchase or sale occurs.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs.

Fair value hedges

Such derivative financial instruments are also initially recognized at fair value on the date on which the derivative contract is entered into. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is remeasured at fair value and gains and losses are recognized in the consolidated income statement.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the income statement over the remaining term of maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The change in fair value of the hedging instrument is also recognized in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

7.6.7.16. Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

7.6.7.17. Employee benefits

Pension obligations

The Group sponsors various pension schemes for its employees. These schemes conform to local regulations and practices of the countries in which the Group operates. They are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. Such plans include both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. Significant estimates are used in determining the assumptions incorporated in the calculation of the pension obligations, which is supported by input from independent actuaries. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to profit or loss over the employees' expected average remaining working lives. Past-service costs are recognized immediately in profit or loss, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other long-term employee benefits

The Group provides long term employee benefits such as seniority awards in certain countries. The entitlement to these benefits is usually conditional on the employee completing a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to profit or loss in the period of change. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the reporting date are discounted to present value. In the case of an offer made to encourage voluntary redundancy, the Group bases the measurement of termination benefits on the number of employees expected to accept the offer.

Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing plans when it is contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

All the share plans of the Group are equity settled.

The fair value of the employee services received in exchange for the grant of share-based awards is recognized as an expense and as a corresponding increase in shareholders' equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted at date of grant. Any applicable employee social charges are also expensed pro rata over the same period as the share-based compensation expense.

7.6.7.18. Financial Debt

Compound Financial Instruments

Compound financial instruments are assessed for separate accounting into debt and equity components based on the circumstances at the inception of the instruments. The Group recognizes separately the components of the financial instrument that a) creates a financial liability and b) grants an option to the holder of the instrument to convert it into an equity instrument of STMicroelectronics. A conversion option embedded in the compound financial instrument is an equity instrument when STMicroelectronics has an unconditional right through this option to avoid settlement in cash or another financial asset as well as if the amount is settled by at a fixed amount of shares for a fixed price. When separate accounting is applied, the fair value of the liability portion of the convertible debt is determined using a market interest rate for an equivalent non-convertible debt over the period of future probable cash flows as estimated on the date of issuance. This amount is recognized as a financial liability on an amortized cost basis until redeemed, extinguished on conversion or on the maturity of the bonds. The remainder of the proceeds is allocated to the conversion option recognized in equity and not subsequently remeasured except on conversion or expiry. When separate accounting cannot be applied because settlement in cash or another financial asset cannot be avoided, the conversion option is recorded at fair value and reported as a liability component as part of non-current liabilities on the consolidated statement of financial position.

Debt issuance and other transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. The costs allocated to the liability component of the financial instrument are amortized in “finance cost” until extinguishment of the liability component.

Bank loans and senior bonds

Bank loans and senior bonds, are recognized initially at fair value, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method within “Finance costs”.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

7.6.7.19. Equity movements

Ordinary share capital

The Group has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognized in equity, net of tax.

Treasury shares and contracts on own shares

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments. Changes in the fair value are reported in the income statement.

Dividends on ordinary share capital

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Group’s shareholders.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

7.6.7.20. Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method when maturity of the payables exceeds one year.

7.6.7.21. Provisions

Provisions for restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlements is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of the outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as finance cost.

7.6.7.22. Contingencies

The Group is subject to the possibility of loss contingencies arising in the ordinary course of business. These include but are not limited to: warranty cost on the products of Group, breach of contract claims, claims for unauthorized use of third party intellectual property, tax claims and provisions for specifically identified income tax exposures as well as claims for environmental damages. In determining loss contingencies, the Group considers the likelihood of a loss of an asset or the incurrence of a liability as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is probable that a liability has been incurred and when the amount of the loss can be reasonably estimated. The Group regularly evaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Group. Changes in these evaluations could result in adverse, material impact on the Group's results of operations, cash flows or its financial position for the period in which they occur.

7.6.7.23. Segment reporting

Operating segments are defined as a component of the entity that (i) engages in business activities from which it may earn revenues and incur expenses, (ii) whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker (Company's Sole Member of Managing Board) to make decision about resources to be allocated to the segments and assess its performance and (iii) for which discrete financial information is available.

For the computation of the segments' internal financial measurements, the Group uses certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Additionally, in compliance with the Group's internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges.

7.6.8. Significant accounting judgments, estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below.

7.6.8.1. Income taxes

The Group is required to assess the likelihood of recovery of deferred tax assets. As at December 31, 2010, the Group believes that all of the deferred tax assets as recorded on the consolidated statement of financial position would ultimately be recovered. This assessment requires the exercise of judgment on the part of the Group's 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, the Group's ability to generate future taxable income that is sufficient to utilize loss carry-forwards or tax credits before their expiration. Deferred tax assets have increased substantially in the period 2007-2009 in light of the Group's negative net result, particularly at ST-Ericsson, while decreased in 2010 due to improved performances resulting in net income. As at December 31, 2010, the Group assessed the recoverability of deferred tax assets based on current operating assumptions. In particular, a significant part of the increase in the deferred tax assets was recorded in relation to net operating losses incurred in ST-Ericsson joint-venture. These net operating losses will expire in seven years; currently, deferred tax assets have been recognized on the basis of the most updated business plans including its tax considerations. The future recoverability of these net operating losses is partly dependent on the successful market penetration of new product releases. The Group has received several design wins to support the forecasted recoverability of the deferred tax assets.

In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Group recognizes liabilities for anticipated tax audit issues based on estimates that probable additional taxes will be due. The Group reverses the liability and recognizes a tax benefit during the period if it ultimately determines that the liability is no longer necessary. An additional charge is recorded in income tax expense in the period in which the Group determines that the recorded tax liability is less than the Group expects the ultimate assessment to be.

7.6.8.2. Impairment of long-lived assets

Long-lived assets are tested or reviewed for impairment in accordance with accounting policies stated in Notes 7.6.7.5, 7.6.7.11 and 7.6.7.12. Considerable management judgments are necessary to identify impairment indicators and to estimate future sales and expenses, which underlie the discounted future cash flow projections. Factors such as changes in the planned use of property, plant and equipment, the closure of facilities, the change in the use or in the market acceptance of certain new technologies, could result in shortened useful lives or impairment charges to be recognized in the period in which such determination is made.

7.6.8.3. Pension obligations

The Group sponsors various pension schemes for its employees. The expense incurred under the defined benefit retirement plans is based upon statistical and actuarial calculations, and is impacted by assumptions on discount rates used to reach the present value of future pension liabilities, expected return that will be made on existing pension assets, future salary increases as well as future pension increases and statistical-based assumptions covering future withdrawals of participants from the plan and estimates of life expectancy.

The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants and may significantly impact the amount of pension costs and pension liabilities to be recognized in the period in which such determination is made.

7.6.8.4. Fair value of financial instruments

The Group holds certain financial instruments that are not traded in an active market. For the valuation of the fair value of such instruments, the Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

7.6.8.5. Business combinations

The Group has entered, and may also in the future enter, into agreements to acquire business activities. In accounting for business combinations, IFRS 3 (revised) requires that the Group initially recognizes each identifiable asset and liability of the acquired businesses at their acquisition date fair values. As technology, research and development activities and customer relationships are the main value drivers in the microelectronic industry, a significant amount of the purchase price paid relates to the related identifiable intangible assets.

As no active market exists for most intangible assets, the determination of their acquisition date fair value requires a considerable amount of estimates and judgment. These estimates include, but are not limited to, estimates of future cash flows related to these intangibles, charges for other assets used to generate cash flows in combination with other assets (contributory asset charges), the useful lives and the derivation of the appropriate cost of capital to discount the projected cash flows. As the actual results may differ materially from the cash flow projections, impairment charges in subsequent periods might be required.

7.6.8.6. Capitalized development costs

Development costs are capitalized in accordance with the accounting policy described in notes 7.6.7.5. and 7.6.7.11. Initial capitalization of costs is based on management's judgment that economic profitability and technological feasibility is confirmed, usually when a product or technology has reached a certain maturity level in product life cycle model used by the Group. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of a project, discount rate to be applied and the expected period of benefits. As at December 31, 2010, the carrying amount of capitalized development costs was $1,167 million (2009: $930 million).

7.6.9. Business combinations

7.6.9.1. Acquisitions in 2010

In 2010, the Group completed two transactions to acquire substantially all the assets of two development stage companies based in the United States of America. These acquisitions provide the Group with leading technologies in the fields of rectifier diodes and powerline communications. Both transactions were structured as asset deals which have been accounted for as business combinations and were determined to be included in the reportable segment "Industrial and Multisegment Sector" ("IMS").

The fair value of the identifiable assets and assumed liabilities acquired from these two companies at acquisition-date were as follows:

In millions of USD	Fair value recognized on acquisition
Technology	13
Goodwill	1
In-process R&D	5
Total identifiable net assets at fair value	**19**
Purchase consideration	19

The purchase consideration is made of cash payments for $11 million and the acquisition-date fair value of contingent considerations. Goodwill on these transactions arises principally due to the value of the assembled workforce.

7.6.9.2. Acquisitions in 2009

ST-NXP Wireless — Buy out of the 20% non-controlling interest of NXP B.V.

The ST-NXP Wireless purchase agreement provided the Group with a call option and NXP with a put option on NXP's 20% non-controlling interest in the new company. Based on the original terms of the purchase agreement, the options could be exercised three years after signing of the agreement, or earlier in case of a business combination with Ericsson Mobile Platforms ("EMP").

Prior to the closing of the transaction with Ericsson, on February 1, 2009, the Group exercised its option to purchase the 20% non-controlling interest of NXP in ST-NXP for a price of $92 million. NXP's non-controlling interest amounted to $411 million as at February 1, 2009, thus generated a gain recognized in equity of $319 million.

ST-Ericsson — Acquisition of the Ericsson Mobile Platform ("EMP")

On February 3, 2009, the Group closed a transaction to combine the businesses of EMP and ST-NXP Wireless into a new venture, named ST-Ericsson. ST-Ericsson combines the resources of the two companies and focuses on developing and delivering a complete portfolio of mobile platforms wireless semiconductor solutions across a broad spectrum of mobile technologies. The operations of ST-Ericsson are conducted through two groups of companies. The parent of one of the groups is ST-Ericsson Holding AG ("JVS"), which is owned 50% plus a controlling share by ST. JVS is responsible for the full commercial operation of the combined businesses, namely sales, marketing, supply and the full product responsibility. The parent of the other group, ST-Ericsson AT Holding AG ("JVD"), is owned 50% plus a controlling share by Ericsson and will be focused on fundamental R&D activities.

The Group has determined that it controls JVS and therefore consolidates JVS, but that it has only significant influence on JVD and therefore accounts for its investment in JVD under the equity method. JVD is discussed further in Note 7.6.10.

In connection with the contributions by ST and Ericsson of their respective businesses to the venture entities, Ericsson paid cash directly to the Group for $700 million and contributed an additional $445 million to JVS.

The transaction has been accounted for as a business combination under IFRS 3 (revised).

The consolidated financial statements include the results of JVS for the eleven month period from the acquisition date. In accordance with IFRS 3 (revised), the Group elected to measure non-controlling interests at full fair value.

The fair value of the identifiable assets and liabilities of the EMP business as at the date of acquisition were:

In millions of USD	Fair value recognized on acquisition
Property, plant and equipment	23
Customer relationships	48
Other current assets and liabilities net	(47)
Cash in JVS	445
Total identifiable net assets at fair value	**469**
Non-controlling interest measured at fair value	(306)
Goodwill arising on acquisition	143
Purchase consideration	**306**

The total purchase consideration and the cash flows on acquisition were as follows:

In millions of USD	
Non-controlling interest in ST-NXP wireless given to Ericsson via JVS	1,105
Cash received from Ericsson	(700)
Non-controlling interest in JVD given by Ericsson	(99)
Total consideration	**306**
Analysis of cash flows on acquisition:	
Transaction costs of the acquisition (included in cash flows from operating activities)	**9**
Cash received from Ericsson	700
Cash in JVS	445
Subsequent cash adjustments between parent companies	10
Net proceeds from business combinations (included in cash flows from investing activities)	**1,155**

There are no contingent assets or liabilities recognized in the transaction. The goodwill of $143 million arises principally due to expected synergies and the value of the assembled workforce. An amount of $26 million is expected to be tax-deductible.

The fair value of the non-controlling interests was determined based on a third party evaluation of the fair values of the businesses contributed. Due to lack of comparable market transactions, the EMP business was valued using a Discounted Cash Flow approach. The primary inputs used to measure the fair value were the stand-alone business plan for the five-year period 2009-2013, including certain cost synergies of the venture, and the weighted average cost of capital, which was determined to be 8.9%. The resulting value of the EMP business was then allocated between the two entities of the venture as follows: (a) specifically identifiable assets as well as customer-related intangibles and the cost synergies were allocated to the portion of the EMP business contributed to JVS, and (b) specifically identifiable assets as well as the value of the usage rights of the technology were allocated to the portion of the EMP business contributed to JVD. The fair value of the Group's contribution of its ST-NXP Wireless business to JVS was determined based upon the valuation of the EMP business contributed to JVS and JVD and the cash consideration that was agreed upon between the Group and Ericsson to compensate for the difference in fair values between the two companies' contributions. Upon closing, JVS was determined to be included in the reportable segment "Wireless".

7.6.10. Investments in associates and jointly controlled entities

Investments in associates and jointly controlled entities as at December 31, 2010 and December 31, 2009 were as follows:

In millions of USD	December 31, 2010 Carrying amount	December 31, 2010 % of interests	December 31, 2009 Carrying amount	December 31, 2009 % of interests
Numonyx	-	-	223	48.6%
ST-Ericsson AT Holding (“JVD”)	39	49.9%	67	49.9%
3Sun Srl	83	33.3%	-	
Others	11		13	
Total	**133**		**303**	

Numonyx

In 2007, the Group entered into an agreement with Intel Corporation and Francisco Partners L.P. to create a new independent semiconductor company from the key assets of the Group’s Flash Memory Group and Intel’s flash memory business (“FMG deconsolidation”).

The Numonyx transaction closed on March 30, 2008. At closing, through a series of steps, the Group contributed its Flash Memory assets and businesses for 109,254,191 common shares of Numonyx, representing a 48.6% equity ownership stake valued at $966 million, and $156 million in long-term subordinated notes.

Upon creation, Numonyx entered into financing arrangements for a $450 million term loan and a $100 million committed revolving credit facility from two primary financial institutions. The loans had a four-year term. Intel and the Group had each granted in favor of Numonyx a 50% debt guarantee not joint and several. In the event of default, the banks would have exercised the Group’s rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the assets. The debt guarantee was recognized as a $69 million liability, corresponding to the fair value of the guarantee at inception of the transaction. The same amount was also added to the value of the equity investment.

On February 10, 2010, the Group announced that, together with its partners Intel Corporation and Francisco Partners, it had entered into a definitive agreement with Micron Technology Inc., in which Micron would acquire Numonyx Holdings B.V. in an all-stock transaction. As soon as the Group considered that it was highly probable that the sale would be completed within 12 months, the investment in Numonyx was reclassified as an asset held for sale and measured at fair value less costs to sell. Immediately before this reclassification, the Group reversed partially the impairment recorded in the previous years for an amount of $162 million. This reversal is presented in the line “Impairment or reversal of impairment on investments in associates”.

On May 7, 2010, the transaction with Micron effectively closed. In exchange for its 48.6% stake in Numonyx, the Group received approximately 66.88 million shares of Micron common stock. At the opening of the US financial market on May 7, 2010, the price of Micron’s shares was $8.75 per share. Hence, the value of the shares at closing date was $583 million taking into account a discount of $2 million to reflect the lock-up period restriction applicable to these shares. As described in Note 7.6.14.4, around 40 million Micron shares have been hedged and as described in note 7.6.14.1., around 47 million Micron shares were sold after the end of the lock-up period.

In connection with this transaction, the Group also paid $78 million due to Francisco Partners at the end of the shares’ six month lock-up period. Also, at the closing of this transaction the senior credit facility that was supported by the Group’s guarantee of $225 million has been repaid in full by Numonyx. The overall transaction resulted in a gain after tax of $18 million included in line “Share of gain (loss) of associates and jointly controlled entities and gain on investment divestiture”.

ST-Ericsson AT SA ("JVD")

On February 3, 2009, the Group announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms ("EMP") and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Group received an interest in ST-Ericsson AT Holding AG that was valued at $99 million. In 2010, ST-Ericsson AT Holding AG was merged into ST-Ericsson AT SA. JVD, in which the Group owns 50% less a controlling share held by Ericsson, is the parent company of a group of entities that perform fundamental R&D activities for the ST-Ericsson venture. The Group has a significant influence and therefore accounts for JVD under the equity method.

The following table illustrates summarized financial information of the Group's investment in JVD:

In millions of USD	December 31, 2010	December 31, 2009
Share of JVD's unaudited IFRS statement of financial position:		
Non-current assets	24	26
Current assets	28	17
Equity	8	10
Non-current liabilities	6	6
Current liabilities	38	27
Share of JVD's unaudited IFRS revenue and profit (loss):		
Revenue	107	121
Profits	(1)	(8)
Carrying amount of the investment	**39**	**67**
Initial value of investment	99	99
Cumulated share of profit or loss	(9)	(8)
Cumulated amortization of basis difference	(51)	(24)

3Sun Srl ("3Sun")

3Sun is a joint initiative between Enel Green Power, Sharp and the Group for the manufacture of triple-junction thin film photovoltaic panels in Catania, Italy. Each partner owns a third of the common shares of the entity. The Group exercises joint-control over 3Sun and consequently accounts for its investment in 3Sun under the equity method.

As part of the transaction with Micron, the Group exercised its right to indirectly purchase the Numonyx M6 facility in Catania, Italy. On July 1, 2010, Numonyx contributed the M6 going concern and facility to 3Sun and immediately transferred the newly issued shares of 3Sun to the Group against the redemption of the $78 million subordinated notes due by Numonyx to the Group. Since the investment in 3Sun is denominated in euro, the investment is revalued at each reporting date closing, the exchange difference being recorded as currency translation adjustment in other comprehensive income. The Group's current maximum exposure to loss as a result of its involvement with 3Sun is limited to its equity investment that amounted to $83 million as at December 31, 2010.

7.6.11. Property, plant and equipment

Property, plant and equipment consisted of the following:

	As at December 31, 2009		
In millions of USD	Gross value	Accumulated depreciation	Net value
Land	96	-	96
Buildings	1,011	(295)	716
PP&E under finance lease	214	(105)	109
Facilities and leasehold improvements	3,158	(2,331)	827
Machinery and equipment	13,765	(11,633)	2,132
Computer and R&D equipment	544	(458)	86
Furniture and other tangible fixed assets	252	(146)	106
Construction in progress	106	-	106
Total	**19,146**	**(14,968)**	**4,178**

	As at December 31, 2010		
	Gross value	Accumulated depreciation	Net value
Land	88	-	88
Buildings	954	(307)	647
PP&E under finance lease	209	(133)	76
Facilities and leasehold improvements	3,036	(2,381)	655
Machinery and equipment	13,916	(11,534)	2,382
Computer and R&D equipment	520	(442)	78
Furniture and other tangible fixed assets	211	(144)	67
Construction in progress	124	-	124
Total	**19,058**	**(14,941)**	**4,117**

Changes in the net carrying amount of property, plant and equipment are detailed as follows:

In millions of USD	Lands	Buildings	Finance leases	Facilities and leasehold improvements	Machinery and equipment	Computer and R&D equipment	Furniture /other tangible assets	Construction in progress	Total
Balance as at December 31, 2008	**89**	**743**	**90**	**1,038**	**2,663**	**88**	**61**	**48**	**4,820**
Additions	7	10	55	95	330	42	128	58	725
Business combinations	-	-	-	-	23	-	-	-	23
Disposals	-	-	-	-	(3)	-	(50)	-	(53)
Impairment	(2)	(15)	-	(21)	(35)	-	-	(1)	(74)
Transfer to assets held for sale	-	-	-	(51)	-	-	(6)	-	(57)
Depreciation expense	-	(33)	(37)	(247)	(872)	(45)	(26)	-	(1,260)
Foreign currency translation	2	11	1	13	26	1	(1)	1	54
Balance as at December 31, 2009	**96**	**716**	**109**	**827**	**2,132**	**86**	**106**	**106**	**4,178**
Additions	-	1	-	64	878	35	47	268	1,293
Transfers	-	3	-	16	224	-	-	(243)	-
Disposals	(4)	(7)	-	(9)	-	-	(67)	-	(87)
Impairment	-	-	-	(1)	(10)	-	(2)	-	(13)
Depreciation expense	-	(31)	(32)	(201)	(760)	(40)	(13)	-	(1,077)
Foreign currency translation	(4)	(35)	(1)	(41)	(82)	(3)	(4)	(7)	(177)
Balance as at December 31, 2010	**88**	**647**	**76**	**655**	**2,382**	**78**	**67**	**124**	**4,117**

In the year ended December 31, 2010, capital investment funding has totaled $4 million (2009: $4 million) and were accounted for as a reduction of the gross value of related tangible assets. The impact of capital funding on depreciation expense for the year ended December 31, 2010 is a reduction of $13 million (2009: $22 million). In 2010, the Group made equipment sales for cash proceeds of $29 million (2009: $10 million).

7.6.12. Intangible assets

Intangible assets consisted of the following:

In millions of USD	As at December 31, 2009		
	Gross value	Accumulated amortization	Net value
Purchased technologies and licenses	849	(528)	321
Purchased software	284	(208)	76
Internally developed software	270	(143)	127
Capitalized development costs	1,314	(384)	930
Contractual customer relationships	580	(75)	505
Total	**3,297**	**(1,338)**	**1,959**

	As at December 31, 2010		
	Gross value	Accumulated amortization	Net value
Purchased technologies and licenses	890	(650)	240
Purchased software	309	(257)	52
Internally dev eloped software	203	(34)	169
Capitalized development costs	1,661	(494)	1,167
Contractual customer relationships	551	(119)	432
Total	**3,614**	**(1,554)**	**2,060**

Changes in the net carrying amount are detailed as follows:

In millions of USD	Purchased technologies and licenses	Purchased software	Internally developed software	Capitalized development costs	Contractual customer relationships	Total
Balance as at December 31, 2008	**392**	**53**	**166**	**745**	**509**	**1,865**
Additions	71	4	44	437	-	556
Business combinations	-	-	-	-	48	48
Disposals	(5)	-	-	-	-	(5)
Impairment/Write-offs	-	-	-	(69)	-	(69)
Transfer	1	49	(50)	-	-	-
Amortization expense	(139)	(30)	(33)	(183)	(52)	(437)
Foreign currency translation	1	-	-	-	-	1
Balance as at December 31, 2009	**321**	**76**	**127**	**930**	**505**	**1,959**
Additions	27	3	68	527	-	625
Business combinations	18	-	-	-	-	18
Disposals	-	-	-	-	-	-
Impairment/Write-offs	-	-	-	(90)	-	(90)
Transfer	1	10	49	-	(60)	-
Amortization expense	(130)	(37)	(76)	(200)	(13)	(456)
Foreign currency translation	3	-	1	-	-	4
Balance as at December 31, 2010	**240**	**52**	**169**	**1,167**	**432**	**2,060**

For the year ended December 31, 2010, additions of intangible assets amounted to $643 million (2009: $604 million), of which $18 million (2009: $48 million) were acquired through business combinations as described in Note 7.6.9.

Purchase price allocation on the acquisition of substantially all assets of two development stage companies resulted in $13 million of technology and $5 million of in-process R&D with useful lives ranging from 5 to 7 years.

Purchase price allocation on the acquisition of EMP in 2009 resulted in $48 million of customer relationships with a useful life of four years.

The 2010 amortization expense included $206 million (2009: $216 million) in costs of sales, $166 million (2009: $138 million) in research and development and $84 million (2009: $83 million) in selling general and administrative.

Development costs capitalized on projects that are still in progress and therefore not yet amortized amounted to $760 million as at December 2010 (2009: $612 million). The impairment and write-offs of capitalized development costs for an aggregate amount of $90 million in 2010 (2009: $69 million) were recognized in costs of sales.

7.6.13. Goodwill

Goodwill split by operating segment are as follows:

In millions of USD	Automotive Consumer Computer and Communication Infrastructure ("ACCI")	Wireless sector ("Wireless")	Industrial and Multi segment Sector ("IMS")	Total
As at January 1, 2010	**25**	**890**	**74**	**989**
Business combinations			1	1
Decrease in goodwill due to a release of contingent consideration booked initially under IFRS3	-	(6)	-	(6)
Foreign currency translation	-	(7)	(5)	(12)
As at December 31, 2010	**25**	**877**	**70**	**972**

As at December 31, 2010, the gross value of goodwill was $991 million (2009: $1,008 million) and the accumulated impairment was $19 million (2009: $19 million).

During the second half of 2010, the Group performed its annual impairment test on goodwill which did not evidence any impairment.

Goodwill is allocated to the Group's cash-generating units ("CGUs"). The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by management covering a five-year period.

The key-assumptions used for value-in-use calculations are based on a five-year plan of each CGU tested including average annual revenues growth, in aggregate for relevant CGUs, higher than Group's average by approximately 5% resulting from the forecasted faster growth for these businesses and their incoming new products, and an average gross margin over the five-year period within a range of 37% and 49%. Discount rates are pre-tax and inferred from the observed volatility of share prices for comparable companies in the semi-conductor industry, and range from 9% to 11% depending on CGUs.

These assumptions have been used, as applicable, for the analysis of each CGU within the product segments. Management determined budgeted gross margin based on past performance and its expectations for the market development. The average yearly growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs. A reasonable change in these assumptions would not result in an impairment.

7.6.14. Other financial assets and financial liabilities

7.6.14.1. Other financial assets

In millions of USD	December 31, 2010	December 31, 2009
Other financial assets (including derivatives)		
Other financial assets		
Available-for-sale investments – quoted debt and equity securities	1,063	1,042
Available-for-sale investments – unquoted debt securities	72	215
Available-for-sale investments – unquoted equity securities	28	29
Restricted cash	7	250
Short-term deposits	67	-
Other	8	6
Total other financial assets	**1,245**	**1,542**
Current	1,126	1,032
Non-current	119	510
Derivative financial instruments		
Cash flow hedges		
Foreign exchange forward contracts	24	9
Currency collars	2	9
Contingent zero-cost collars	27	-
Derivatives not designated as hedges		
Currency collars	3	-
Foreign exchange forward contracts	35	18
Total derivatives financial instruments	**91**	**36**
Current	85	36
Non-current	6	-
Total other financial assets (including derivatives)	**1,336**	**1,578**
Total current	1,211	1,068
Total non-current	125	510

Movements in other financial assets (excluding derivatives) recorded in 2010 are summarized as follows:

In millions of USD	Jan 1, 2010	Change in fair value included in OCI*	Change in fair value included in income statement	Purchase	Sale	Currency translation adjustment	Numonyx disposal	Other movements	Dec 31, 2010
Government bonds issued by the U.S. Treasury	340	-	-	690	(680)	-	-	-	350
Government bonds issued by foreign governments	144	-	-	410	(331)	(10)	-	-	213
Senior debt floating rate note issued by financial institutions	548	4	(3)	-	(208)	(13)	-	-	328
Quoted equity instruments	10	(13)	(33)	-	(375)	-	583	-	172
Sub-total Available-for-sale investments – quoted debt and equity securities	**1,042**	**(9)**	**(36)**	**1,100**	**(1,594)**	**(23)**	**583**	**-**	**1,063**
Auction rate securities	42	30	-	-	-	-	-	-	72
Long-term subordinated notes	173	2	6	-	-	-	(181)	-	-
Sub-total Available-for-sale investments – unquoted debt securities	**215**	**32**	**6**	**-**	**-**	**-**	**(181)**	**-**	**72**
Available-for-sale investments – unquoted equity securities	29	(1)	-	-	-	-	-	-	28
Equity securities at fair value through profit or loss	-	-	2	-	-	-	20	(22)	-
Restricted cash	250	-	-	-	-	-	-	(243)	7
Short-term deposits	-	-	5	62	-	-	-	-	67
Other current financial assets	6	-	2	-	-	-	-	-	8
Total other financial assets (excluding derivatives)	**1,542**	**22**	**(21)**	**1,162**	**(1,594)**	**(23)**	**422**	**(265)**	**1,245**

*OCI: Other comprehensive income

Available-for-sale investments – quoted debt and equity securities

As at December 31, 2010, the Group had investments in quoted marketable debt instruments (French, German and U.S. government bonds and floating rate notes) for an aggregate value of $891 million (Dec 31, 2009: $1,032 million). The duration of the government bonds portfolio is less than five months on average and the securities are rated Aaa by Moody's and AAA by Standard & Poor's. All government bonds and floating-rate notes are classified as available-for-sale financial assets and recorded at fair value as at December 31, 2010, with changes in fair value recognized as other comprehensive income in the available-for-sale reserve.

Out of the 10 investment positions in floating-rate notes, with the only exception of a senior floating-rate note of Euro 15 million principal amount issued by Lehman Brothers whose impairment was recorded in 2008, 8 positions are in an unrealized loss position, which has been considered as not prolonged and not significant. For all floating rate notes, except the Lehman Brothers senior unsecured bonds described below, the Group expects to recover the debt instruments' entire amortized cost basis. Since the duration of the floating-rate note portfolio is 1.5 years on average and the instruments have a minimum Moody's rating of A2 (with the only exception of the Lehman Brothers senior unsecured bonds), the Group expects the value of the securities to return to par as the final maturity is approaching. In addition, the Group does not expect to be required to sell the instruments before maturity. As such, no credit loss has been identified on these instruments.

As at December 31, 2010, the Group also had investments in quoted equity securities for an aggregate value of $172 million (Dec 31, 2009: $10 million), consisting mainly of Micron shares for $161 million received as a result of the disposal of Numonyx. These shares were locked up for six months from the closing-date of the transaction with Micron. As described in Note 7.6.14.4, a significant portion of these shares was hedged with contingent zero-cost collars. During November and December 2010, the Group sold around 47 million of those shares, together with the related hedging instruments. The $375 million proceeds from the sale generated a loss of $33 million reported in the line "Finance costs" on the consolidated income statement. This loss was partially neutralized by a $2 million gain on the unwinding of a contingent-zero-cost collar designated as cash flow hedge and a $4 million gain on the sale of a combined option. In addition, the Group recognized during the year 2010, $33 million finance income corresponding to the ineffective portion of the hedge instruments as disclosed in Note 7.6.30. These transactions are further described in Note 7.6.14.

The decrease in fair value of $15 million of the remaining shares held by the Group as at December 31, 2010 was included as other comprehensive income in the available-for-sale reserve. The decrease in fair value was not considered to be significant and prolonged and no impairment was recorded for the year ended December 31, 2010.

Available-for-sale investments – unquoted debt instruments

The auction-rate securities, which have a final maturity up to 40 years, were purchased in the Group's account by Credit Suisse Securities LLC contrary to the Group's instructions.

On February 16, 2009, the Group announced that an arbitration panel of the Financial Industry Regulatory Authority ("FINRA"), in a full and final resolution of the issues submitted for determination, awarded the Group, in connection with such unauthorized auction rate securities, approximately $406 million, comprising compensatory damages, as well as interest, attorney's fees and consequential damages, which were assessed against Credit Suisse. In addition, the Group is entitled to retain an interest award of approximately $27 million, out of which $25 million has already been paid, plus interest at the rate of 4.64% on the par value of the portfolio from December 31, 2008 until March 31, 2010 and 0.42% from March 31, 2010 until the Award is paid in full.

The Group petitioned the United States District Court for the Southern District of New York seeking enforcement of the award. Credit Suisse responded by seeking to vacate the FINRA award. In December 2009, Credit Suisse, because of its contingent interest in certain securities held by the Group and issued by Deutsche Bank, requested that the Group either tender the securities or accept that the amount that would be received by the Group pursuant to such tender be deducted from the sum to be collected by the Group if and when the FINRA award is confirmed and enforced. Pursuant to legal advice, and while reserving its legal rights, the Group participated in the tender offer, sold Auction Rate Securities with a face value of $154 million and collected $75 million. On March 19, 2010, in connection with the Group's legal action to recover from Credit Suisse the amount invested in unauthorized auction rate securities against the Group's instructions, the federal district court in New York issued a ruling affirming the unanimous arbitration award in its favor for more than $432 million, including collected interest, entered into in February 2009 by FINRA. The ruling of the federal district court in New York denied Credit Suisse's motion to vacate the award, also granting the Group's petition to affirm the award and directing Credit Suisse to pay the unpaid balance.

On August 24, 2010 the New York Court for the Southern District issued a judgment confirming the ruling of March 2010. On February 24, 2011, we received notice that the US Court of Appeals for the Second Circuit has fixed March 28, 2011 as the trial date. Based on the ruling the Group should receive approximately $357 million, which include approximately $27 million of interest to date, in addition to the approximately $75 million previously received in December 2009 upon selling a portion of the securities, as described above. This ruling can be appealed by Credit Suisse to the Court of Appeals for the Second Circuit upon resolution of all post judgment motions.

Upon receipt of the award, the Group will transfer ownership of the portfolio of unauthorized auction rate securities to Credit Suisse. Until the award is executed, the Group will continue to own the Auction Rate Securities and, consequently, will account for them in the same manner as in the prior periods. Until the FINRA award is executed, the ownership of the auction-rate securities must be considered as a separate unit of accounting for impairment assessment. From the first quarter of 2008, the fair value measure of these securities was based on a theoretical model using yields obtainable for comparable assets. The value inputs for the evaluation of these securities were publicly available indexes of securities with the same rating, similar duration and comparable/similar underlying collaterals or industries exposure (such as ABX for the collateralized debt obligation and ITraxx and IBoxx for the credit-linked notes until CLN have been tendered on December 2009), which the Group believes approximates the orderly exit value in the current market. The estimated value of these securities could further decrease due to a deterioration of the specific indexes used for the evaluation. Fair value measurement information is further detailed in Note 7.6.14.5.

Long-term subordinated notes

The Group received upon the creation of Numonyx long-term subordinated notes amounting to $156 million at inception, bearing interest at market rates and with a maturity as at March 30, 2038. These long-term notes yield 9.5% interest, generally payable in kind for seven years and in cash thereafter. These notes were partially repaid as a result of the transaction with Micron as described in Note 7.6.10. The remaining amount of $78 million was repaid by Numonyx with the contribution of the M6 facility in Catania, Italy to a company called 3Sun Srl.

Restricted cash

Under the terms of the agreement to sell Numonyx to Micron, the Group retained the $250 million deposit with DBS Bank Ltd. in Singapore, which was intended to guarantee the Hynix-Numonyx Joint Venture's debt financing for such amount. Concurrent with the divestiture of Numonyx, the Group entered into an agreement with Micron and Numonyx that provided that, in the event Hynix exercised its right to purchase Numonyx's interest in the Hynix joint venture following the closing of the Numonyx transaction, Numonyx would take over all or part of the Group's obligations under the guarantee. On May 31, 2010, Numonyx notified the Group that on May 28, 2010, Hynix had delivered a call option exercise notice to them. Following these events, the $250 million deposit in favor of the Numonyx-Hynix joint venture was released to the Group on August 31, 2010, upon the completion of Hynix's purchase of Numonyx's equity interest in the Hynix-Numonyx Joint Venture.

The Group recognized $7 million as at December 31, 2010 for the obligation to return cash collateral related to the cash-flow hedge transaction on Micron shares as described in Note 7.6.14.4. The right to reclaim such cash collateral from the Bank was reported as "Restricted cash" on the consolidated statement of financial position as at December 31, 2010.

Short-term deposits

In 2010, the Group invested $67 million of cash in short-term deposits with a maturity of one year. These deposits are held at one bank with a long-term rating of Aa2/AA-. Interest on this deposit is paid at maturity with interest rates fixed at inception for the duration of the deposit. The principal will be repaid at final maturity and is readily convertible in cash.

7.6.14.2. Other financial liabilities

In millions of USD	December 31, 2010	December 31, 2009
Other financial liabilities (including derivatives)		
Other financial liabilities		
Debt financial guarantee Numonyx	-	39
Debt financial guarantee Hynix	-	17
Total other financial liabilities	**-**	**56**
Current	-	-
Non-current	-	56
Derivative financial instruments		
Cash flow hedges		
Foreign exchange forward contracts	2	11
Purchased currency options	-	8
Currency collars	1	
Derivatives not designated as hedges		
Foreign exchange forward contracts	7	-
Purchased currency options	-	15
Currency collars	1	
Total derivatives financial instruments	**11**	**34**
Current	11	34
Non-current	-	-
Total other financial liabilities (including derivatives)	**11**	**90**
Total current	11	34
Total non-current	-	56

7.6.14.3. Interest-bearing loans and borrowings

In millions of USD	December 31, 2010	December 31, 2009
ST-Ericsson's parent financing	75	-
Bank loans		
1.79% due 2010, floating rate at LIBOR + 1.0%	-	40
Funding program loans from European Investment Bank		
0.32% (w.a.*), floating interest rate at LIBOR + 0.017%	80	100
0.31% (w.a.*), floating interest rate at LIBOR + 0.026%	47	56
0.34% (w.a.*), floating interest rate at LIBOR + 0.052%	116	136
0.62% (w.a.*), floating interest rate at LIBOR + 0.317%	155	180
0.50% (w.a.*), floating interest rate at LIBOR + 0.213%	170	200
Other Funding program loans		
0.90% (w.a.*), due 2010, fixed interest rate	-	12
0.46% (w.a.*), due 2012, fixed interest rate	2	6
0.50% (w.a.*), due 2013, fixed interest rate	3	3
0.49% (w.a.*), due 2014, fixed interest rate	3	8
0.50% (w.a.*), due 2016, fixed interest rate	1	2
0.50% (w.a.*), due 2017, fixed interest rate	1	67
0.74% (w.a.*), due 2017, fixed interest rate	2	
Finance leases:		
6.48% (w.a.*), due 2011, fixed interest rate	2	8
5.00% (w.a.*), due 2013, fixed interest rate	68	93
6.00% (w.a.*), due 2014, fixed interest rate	7	9
5.29% (w.a.*), due 2017, fixed interest rate	2	2
Senior Bonds		
1.43%, due 2013, floating interest rate Euribor + 0.40%	569	720
Convertible Bonds		
4.92% convertible bonds due 2016	443	753
Total interest-bearing loans and borrowings	**1,746**	**2,395**
Total current	655	201
Total non-current	1,091	2,194

* Weighted average

Interest-bearing loans and borrowings are denominated in the following currencies:

In millions of USD	December 31, 2010	December 31, 2019
U.S. Dollars	1,097	1,476
Euros	649	919
Total	**1,746**	**2,395**

The European Investment bank's loans denominated in Euro, but drawn in USD, are classified as USD denominated debt. Aggregate future maturities of interest-bearing loans and borrowings outstanding are as follows:

In millions of USD	December 31, 2010
2011	655
2012	136
2013	690
2014	106
2015	84
Thereafter	75
Total	**1,746**

Convertible debt

In February 2006, the Group issued $1,131 million principal amount at maturity of zero coupon senior convertible bonds due in February 2016. The bonds were issued at 100% of principal with a yield to maturity of 1.5% and resulted in net proceeds to the Group of $974 million less transaction fees. The bonds are convertible by the holder at any time prior to maturity at the adjusted conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. The holders can redeem the convertible bonds upon a change of control or on February 23, 2012 at a price of $1,093.81 and on February 24, 2014 at a price of $1,126.99 per one thousand dollar face value of the bonds. On February 23, 2011, the holders redeemed 41,123 convertible bonds at a price of $1,077.58, out of the total of 490,170 outstanding bonds, or about 8%.

In 2009 and 2010, the Group repurchased partially the zero coupon senior convertible bonds due in February 2016. The Group allocated the consideration paid to the separate components of the convertible bonds using a method consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible instrument was issued. The result of these transactions is summarized as follows:

In millions of USD	2009 Repurchase	2010 Repurchase
Principal amount repurchased	98	386
Decrease in value of liability component of 2016 convertible bonds	85	339
Decrease in value of equity component of 2016 convertible bonds	11	39
Loss on repurchase of 2016 convertible bonds	7	32
Cash consideration	103	410

Senior Bonds

In March 2006, STMicroelectronics Finance B.V. ("ST BV"), a wholly owned subsidiary of the Group, issued floating rate senior bonds with a principal amount of €500 million at an issue price of 99.873%. The notes, which mature on March 17, 2013, pay a coupon rate of the three-month Euribor plus 0.40% on the 17th of June, September, December and March of each year through maturity. In the event of changes to the tax laws of the Netherlands or any successor jurisdiction, ST BV or the Company may redeem the full amount of senior bonds for cash. In the event of certain change in control triggering events, the holders can cause ST BV or the Company to repurchase all or a portion of the bonds outstanding. During 2010 the Company repurchased 74 thousand bonds for a total cash consideration of $98 million.

Credit facilities

The Group had unutilized committed medium term credit facilities with core relationship banks totaling $492 million. In addition, the aggregate amount of the Company's and its subsidiaries' total available short-term credit facilities, excluding foreign exchange credit facilities, was approximately $664 million as at December 31, 2010. In addition, ST-Ericsson had $100 million of committed line from Ericsson as parent company, of which $75 was withdrawn and reported as "Short-term borrowings" at December 31, 2010. The Group also has three committed credit facilities with the European Investment Bank as part of R&D funding programs. The first one, for a total of €245 million for R&D in France was fully drawn in U.S. dollars for a total amount of $341 million, of which $98 million were paid back as at December 31, 2010. The second one, signed on July 21, 2008, for a total amount of €250 million for R&D projects in Italy, was fully drawn in U.S. dollars for $380 million, of which $54 million was paid back as at December 31, 2010. The third one, signed in September 2010, for a total of €350 million for R&D projects in France was undrawn as at December 31, 2010.

7.6.14.4. Hedging activities and derivatives

Derivative instruments not designated as hedges

The Group conducts its business on a global basis in various major international currencies. As a result, the Group is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities at the Group's subsidiaries. The Group enters into currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at the Group's subsidiaries. These instruments do not qualify as hedging instruments and are marked-to-market at each period-end with the associated changes in fair value recognized in "Other income" or "Other expenses" in the consolidated income statement.

To reduce its exposure to U.S. dollar exchange rate fluctuations, the Group hedges certain Euro-denominated forecasted transactions that cover at reporting date a large part of its research and development, selling, general and administrative expenses through the use of currency forward contracts and currency options, including collars. The Group also hedges certain Swedish krona-denominated forecasted transactions that cover at reporting date a large part of its future research and development expenses through the use of currency forward contracts. These instruments do not qualify as hedging instruments and are marked-to-market at each period-end with the associated changes in fair value recognized in "Other income" or "Other expenses" in the consolidated income statement.

The notional amount of these financial instruments amounted to $1,659 million in 2010 (2009: $1,448 million). The main currencies covered are the Euro, the Singapore Dollar, the Japanese Yen, the Swiss Franc, the Swedish Krona, the British Pound and the Malaysian Ringgit.

Foreign currency forward contracts and currency options not designated as cash flow hedge outstanding as of December 31, 2010 have remaining terms of 3 days to 21 months, maturing on average after 79 days.

Derivative instruments designated as cash flow hedges

To reduce its exposure to U.S. dollar exchange rate fluctuations, the Group hedges certain Euro-denominated forecasted transactions that cover at reporting date a portion of its front-end manufacturing costs of semi-finished goods through the use of currency forward contracts and currency options, including collars.

The principles regulating the hedging strategy for derivatives designated as cash flow hedge is to hedge between 40% and 70% of the total forecasted transactions for manufacturing costs. The maximum length of time over which the Group hedges its exposure to the variability of cash flows for forecasted transactions is 24 months.

These derivative instruments are designated and qualified as cash flow hedges. They are reflected at their fair value in the consolidated statement of position. The gain or loss from the effective portion of the hedge is reported in the statement of comprehensive income and is reclassified into earnings in the same period in which the hedged transaction affects earnings, and within the same consolidated income statement line item as the impact of the hedged transaction.

For the year ended December 31, 2010, the Group recorded an increase in cost of sales of $37 million (2009: decrease of $29 million) related to the realized loss incurred on such hedged transactions. No significant ineffective portion of the hedge was recorded on the lines “Other income” or “Other expenses” for the years ended December 31, 2010 and 2009.

The notional amount of foreign currency forward contracts and currency options, including collars, designated as cash flow hedge amounted to $1,065 million (2009: $623 million). The forecasted transactions hedged at December 31, 2010 were determined to be highly probable of occurrence.

As at December 31, 2010, $26 million of deferred gains on derivative instruments, net of an immaterial tax amount were included in the cash flow hedge reserve in other comprehensive income and were expected to be reclassified as earnings during the next twenty four months based on the monthly forecasted semi-finished manufacturing costs.

Foreign currency forward contracts and currency options designated as cash flow hedge outstanding as of December 31, 2010 have remaining terms of 6 days to 21 months, maturing on average after 131 days.

As at December 31, 2010, the Group had the following outstanding derivative instruments that were entered into to hedge Euro-denominated forecasted transactions:

In millions of Euros	Notional amount for hedge on forecasted manufacturing costs transactions
Forward contracts	662
Currency options	27
Collars	108

Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group’s interest rate risk arises mainly from long-term borrowings at fixed rates. The Group analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Since almost all the liquidity of the Group is invested in floating rate instruments, the Group’s interest rate risk arises from the mismatch of fixed rate liabilities and floating rate assets.

Other market risk

As part of its ongoing investing and financing activities, the Group may from time to time enter into certain derivative transactions. In the first half of 2010, the Group purchased a put option in order to hedge a potential equity position in Micron Technology, for a total notional amount of 10 million shares. The put option was classified as financial asset at fair value through profit or loss. On April 6, 2010, the Group entered into a written call option, with a notional amount of 5 million shares, to be combined to the existing purchased put in order to structure a zero-cost collar as a single hedging instrument of the highly probable forecasted sale of Micron shares. The combined options did not meet the criteria of IAS 39 to qualify as a cash flow hedge. On November 30, 2010 the Group decided to sell the underlying Micron shares and simultaneously unwound the purchased put and the written call composing the collar. On November 30, 2010, the Group sold 7,000,000 Micron shares and 3,000,000 shares on December 7, 2010, together with the related derivative instruments. Total proceeds from the unwinding of the derivative instruments totaled $5 million, which generated a gain of $4 million reported on the line “Finance income” on the consolidated income statement for the year ended December 31, 2010.

In addition to the combined options as described above, the Group entered in April 2010 into three contingent zero-cost collars to hedge forecasted sales of Micron shares for a total notional amount of approximately 40 million shares. The hedged forecasted sales were assessed to be highly probable transactions, from inception of the hedge and on an on-going basis, and the hedging transaction qualified for cash flow hedge. The contingency premium paid on these instruments, which totaled $9 million, was excluded from effectiveness measurement and recorded immediately in the consolidated income statement on the line "Finance costs". On December 9, 2010 the Group decided to discontinue the hedge relationship for one of the 3 collars to sell 20,000,000 underlying hedged Micron shares and simultaneously unwind the related hedging collar. Between December 9, 2010 and December 20, 2010, the Group sold the 20,000,000 Micron shares and unwound the corresponding hedging instrument. Total proceeds from the unwinding of the collar totaled $16 million, which generated a gain of $2 million on the line "Finance income" on the consolidated income statement for the year ended December 31, 2010. The impact of the sale of Micron shares is described in Note 7.6.14.1. The remaining two zero-cost collars, for a total notional amount of 20,056,131 shares, were not discontinued and still qualified for cash flow hedge accounting as at December 31, 2010. The hedge effectiveness measurement of these two collars is based on their intrinsic value and the Group recognized in other comprehensive income the change in fair value of the hedging instruments due to their intrinsic value while changes due to the time value were immediately recognized on the line "Finance Income" or "Finance Costs" on the consolidated income statement. During the year-ended December 31, 2010, changes in fair value of the hedging instruments were due to changes in the intrinsic value of the instruments for $9 million and due to changes in the time value of the instruments for $33 million. Therefore $9 million have been deferred as other comprehensive income in the cash flow hedge reserve and an income of $33 million was recognized on the line "Finance income" on the consolidated income statement.

7.6.14.5. Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
In millions of USD	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Financial assets				
Trade receivables	1,230	1,366	1,230	1,366
Other receivables and assets	524	718	524	718
Available for sale financial investments	1,163	1,286	1,163	1,286
Financial assets at fair value through profit or loss (excluding derivatives)	-	-	-	-
Restricted cash	7	250	7	250
Other financial assets	452	220	452	220
Cash and cash equivalents	1,892	1,588	1,892	1,588
Financial liabilities				
Interest-bearing loans and borrowings (including current portion)	1,751	2,370	1,802	2,473
Other non-current financial liabilities	-	56	-	56
Trade accounts payable	1,233	883	1,233	883
Other payables and accrued liabilities	359	507	359	507
Other current financial liabilities	11	34	11	34

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Trade receivables, cash and cash equivalents, trade accounts payable, other payables and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Other receivable and assets approximate their carrying amounts due either to their short-term maturities or to the fact that they are recorded at their net discounted present value.

- Available for sale financial investments:
    - The fair value of government bonds, quoted equity securities and floating rate notes, with the exception of the floating rate notes issued by Lehman Brothers, is determined based upon quoted market prices for the identical instruments. Since 2008, the fair value of the floating rate notes issued by Lehman Brothers relies on information received from a major credit rating entity based on historical recovery rates.
    - Since 2008, the fair value of auction-rate securities is based on a theoretical model using yields obtainable for comparable assets. The value inputs for the evaluation of these securities were publicly available indexes of securities with the same rating, similar duration and comparable/similar underlying collaterals or industries exposure (such as ABX for the collateralized debt obligation, ITraxx and IBoxx for the credit-linked notes), which the Group believes approximates the orderly exit value in the current market.
    - The fair value of the long-term subordinated note is estimated based on publicly available fixed interest swap rates for instrument with similar maturities, taking into account the credit risk feature of the issuer of the debt securities.
    - The fair value of unquoted equity securities is estimated based on the valuation of the underlying investments on a new round of third party financing or upon liquidation.
    - The fair value of quoted equity securities is based on the quoted price per share adjusted to reflect any applicable restrictions.
- The fair value of restricted cash is its carrying amount
- The fair value of interest-bearing loans and borrowings is determined based on quoted market prices, and by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the Group's borrowing rates for similar types of borrowing arrangements.
- The fair value of derivatives instruments is determined based upon quoted market prices for similar instruments.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at December 31, 2010, the Group held the following financial instruments measured at fair value:

In millions of USD	December 31, 2010	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts	35	-	35	-
Quoted equity securities	-	-	-	-
Currency collars	3	-	3	-
Cash flow hedges				
Foreign exchange forward contracts	24	-	24	-
Currency collars	2	-	2	-
Contingent zero-cost collar	27	-	27	-
Available-for-sale financial assets				
Available-for-sale investments – quoted debt and equity securities	1,063	1,052	-	11
Available-for-sale investments – unquoted debt securities	72	-	-	72
Available-for-sale investments – unquoted equity securities	28	-	-	28
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	2	-	2	-
Currency collars	2	-	2	-
Cash flow hedges				
Foreign exchange forward contracts	7	-	7	-

As at December 31, 2009, the Group held the following financial instruments measured at fair value:

In millions of USD	December 31, 2009	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts	18	-	18	-
Cash flow hedges				
Foreign exchange forward contracts	9	-	9	-
Purchased currency options	9	-	9	-
Available-for-sale financial assets				
Available-for-sale investments – quoted debt and equity securities	1,042	1,031	-	11
Available-for-sale investments – unquoted debt securities	215	-	-	215
Available-for-sale investments – unquoted equity securities	29	-	-	29
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	15	-	15	-
Cash flow hedges				
Foreign exchange forward contracts	11	-	11	-
Purchased currency options	8	-	8	-

During the reporting period ending December 31, 2010, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.

For assets measured at fair value using significant unobservable inputs (Level 3), the reconciliation between January 1, 2010 and December 31, 2010 is presented as follows:

In millions of USD	Fair value measurements using significant unobservable inputs (Level 3)
As at January 1, 2009	**453**
Increase in fair value included in AFS reserve for available-for-sale financial assets	15
Impairment charge and losses on auction-rate securities included in the income statement	(140)
Impairment charge on available-for-sale unquoted equity securities	(3)
Paid-in-kind interest on Numonyx subordinated notes	16
Change in fair value on Numonyx subordinated notes, before tax	(11)
Settlements and redemptions	(75)
As at December 31, 2009	**255**
Amount of total losses included in the 2009 income statement attributable to assets still held at the reporting date	75
As at January 1, 2010	**255**
Change in fair value of Auction Rate Securities	30
Change in fair value of unquoted equity securities	(1)
Paid-in-kind interest on Numonyx subordinated notes	6
Change in fair value on Numonyx subordinated notes, before tax	2
Extinguishment of Numonyx subordinated notes	(181)
As at December 31, 2010	**111**
Amount of total losses included in the 2010 income statement attributable to assets still held at the reporting date	-

7.6.15. Other non-current assets

Non-current loans and receivables consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Long-term receivables related to funding	8	8
Long-term receivables related to tax refunds	278	170
Other assets	40	41
Total	**326**	**219**

These non-current receivables are all due within 5 years from the balance sheet date except certain receivables related to funding which are expected to be received beyond 5 years.

Long-term receivables related to funding are mainly public grants to be received from governmental agencies in Italy as part of long-term research and development, industrialization and capital investment projects.

Other assets are composed of individually insignificant amounts as at December 31, 2010 and December 31, 2009.

Long-term receivables are reflected in the statement of financial position at their discounted net present value. The fair value of long-term receivables related to funding amounts to $8 million. As at December 31, 2010 and December 31, 2009, only individually insignificant long-term loans and receivables were fully impaired. No long-term loans and receivables were past due but not impaired.

The carrying amounts of the Group's non-current loans and receivables are denominated in the following currency:

In millions of USD	December 31, 2010	December 31, 2009
US dollar	24	41
Euro	296	170
Japanese Yen	4	-
Other currencies	2	8
Total	**326**	**219**

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

7.6.16. Inventories

Inventories consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Raw materials	80	73
Work-in-process	976	769
Finished products	441	433
Total	**1,497**	**1,275**

The amount of write-off of inventories recognized as an expense in 2010 is $67 million (2009: $122 million) which is recognized in cost of sales.

The carrying amount of inventories is presented net of a provision for slow-moving items of $50 million as at December 31, 2010 (2009: $50 million)

7.6.17. Trade accounts receivable

Trade accounts receivable consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Trade accounts receivable	1,247	1,385
Impairment of trade receivables	(17)	(19)
Total	**1,230**	**1,366**

The carrying value less provision for impairment of trade receivables is assumed to approximate the fair values of the trade receivables due to their short-term nature. Doubtful account expense is reported as selling, general and administrative expenses in the income statement. The individually impaired receivables mainly relate to customers, who are unexpectedly in difficult economic situations; a portion of such receivables is expected to be recovered.

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

In millions of USD	December 31, 2010	December 31, 2009
Beginning of period	**19**	**25**
Losses recognized in selling, general and administrative	1	2
Additions due to business combinations	-	-
Reversal	(3)	(8)
End of period	**17**	**19**

Amounts charged to the provision account are generally written-off when there is no expectation of recovering additional cash. The maximum exposure to credit risk at the reporting date is the fair value of trade accounts receivable net of impairment. In 2010, Nokia represented 13.9% (2009: 16.1%) of the Group's revenue. Sales to Nokia are primarily recorded in the Wireless Sector operating segment.

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

As at December 31, 2010, the ageing analysis of trade receivables is as follows:

			Past due but not impaired		
In millions of USD	Total	Neither past due nor impaired	Less than a month	Between 1 and 6 months	Over 6 months
2010	**1,230**	**1,113**	**106**	**11**	-
2009	1,366	1,232	101	29	4

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

In millions of USD	December 31, 2010	December 31, 2009
US dollar	1,095	1,189
Euro	123	131
Japanese Yen	29	17
Swedish Krona	-	48
Other currencies	-	-
Total	**1,247**	**1,385**

The Group enters into factoring transactions to accelerate the realization in cash of some trade accounts receivable within ST-Ericsson. In 2010, $781 million of trade accounts receivable were sold without recourse, with a financial cost of $2 million reported on the line "Finance costs" of the consolidated income statement for the year ended December 31, 2010.

7.6.18. Other receivables and assets

Other receivables and assets consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Receivables from government agencies	171	208
Advances	68	79
Prepayments	51	50
Accrued income	-	4
Other indirect tax receivable	117	272
Other current assets	117	105
Total	**524**	**718**

The carrying amounts are assumed to approximate fair value. Other receivables do not contain significant impaired assets. As at December 31, 2010, other receivables past due but not impaired were not material. These related mainly to receivables from government agencies for which there is no recent history of default.

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

In millions of USD	December 31, 2010	December 31, 2009
US dollar	174	107
Euro	299	599
Other currencies	51	12
Total	**524**	**718**

Receivables from government agencies relate to research and development contracts, research tax credits, industrialization contracts and capital investment projects. The maximum exposure to credit risk at the reporting date is the carrying amount of other receivables.

7.6.19. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Cash at bank and in hand	220	99
Deposits at call with banks	1,672	1,489
Total	**1892**	**1,588**

7.6.20. Cash generated from operations

Cash generated from operations is detailed as follows:

In millions of USD	December 31, 2010	December 31, 2009
Net result	**619**	**(1,224)**
Depreciation and amortization	1,513	1,629
Interest expense on convertible debt	28	21
Impairment and realized losses on financial assets	-	140
Loss / (Gain) on financial assets	13	8
Loss on convertible debt repurchase	32	7
Other non-cash items	(21)	(13)
Deferred and accrued income tax	139	(147)
Share of loss of associates, impairments or reversal of impairments on investments in associates	(168)	307
Impairment, restructuring and other related closure costs	(38)	(27)
Trade receivables, net	139	(300)
Inventories, net	(252)	553
Trade payables	212	(54)
Other assets and liabilities net	142	201
Cash generated from operations	**2,358**	**1,101**

7.6.21. Equity

7.6.21.1. Outstanding shares

The authorized share capital of STMicroelectronics is EUR 1,810 million consisting of 1,200,000,000 common shares and 540,000,000 preference shares, each with a nominal value of EUR 1.04. As at December 31, 2010, the number of common shares issued was 910,420,305 shares (December 31, 2009: 910,319,305 shares).

As at December 31, 2010, the number of common shares outstanding was 881,686,303 shares (December 31, 2009: 878,333,566 shares).

7.6.21.2. Preference shares

The 540,000,000 preference shares, when issued, will entitle a holder to full voting rights and to a preferential right to dividends and distributions upon liquidation.

On January 22, 2008, an option agreement was concluded between the Company and Stichting Continuïteit ST. This option agreement provides for the issuance of 540,000,000 preference shares. Any such shares should be issued by the Company to the Foundation, upon its request and in its sole discretion, upon payment of at least 25% of the par value of the preference shares to be issued. The issuing of the preference shares is conditional upon (i) the Company receiving an unsolicited offer or there being the threat of such an offer; (ii) the Company's Managing and Supervisory Boards deciding not to support such an offer and; (iii) the Board of the Foundation determining that such an offer or acquisition would be contrary to the interests of the Company and its stakeholders. The preference shares may remain outstanding for no longer than two years. There were no preference shares issued as of December 31, 2010.

7.6.21.3. Treasury shares

Following the authorization by the Supervisory Board, announced on April 2, 2008, to repurchase up to 30 million shares of its common stock, the Group acquired 29,520,220 shares as at December 31, 2008, for a total amount of approximately $313 million, also reflected at cost as a reduction of the shareholders' equity. This repurchase intends to cover the transfer of shares to employees upon vesting of future share based remuneration programs.

The treasury shares have been designated for allocation under the Group's share based remuneration programs of non-vested shares including such plans as approved by the 2005, 2006, 2007, 2008, 2009 and 2010 Annual General Meeting of Shareholders. As of December 31, 2010, 14,186,218 of these treasury shares were transferred to employees under the Group's share based remuneration programs of which 3,251,737 in the year ended December 31, 2010.

As of December 31, 2010, the Group owned a number of treasury shares equivalent to 28,734,002.

7.6.21.4. Stock-option plans

In 1999, the Shareholders voted to renew the Supervisory Board Option Plan whereby each member of the Supervisory Board would receive, during the three-year period 1999-2001, 18,000 options for 1999 and 9,000 options for both 2000 and 2001, to purchase shares of capital stock at the closing market price of the shares on the date of the grant. In the same three-year period, the professional advisors to the Supervisory Board would receive 9,000 options for 1999 and 4,500 options for both 2000 and 2001. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant for both 1999 and 2000 and ten years from the date of grant for 2001.

In 2001, the Shareholders voted to adopt the 2001 Employee Stock Option Plan (the "2001 Plan") whereby options for up to 60,000,000 shares may be granted in installments over a five-year period. The options may be granted to purchase shares of common stock at a price not lower than the market price of the shares on the date of grant. In connection with a revision of its equity-based compensation policy, the Group decided in 2005 to accelerate the vesting period of all outstanding unvested stock options. The options expire ten years after the date of grant.

In 2002, the Shareholders voted to adopt a Stock Option Plan for Supervisory Board Members and Professionals of the Supervisory Board. Under this plan, 12,000 options can be granted per year to each member of the Supervisory Board and 6,000 options per year to each professional advisor to the Supervisory Board. Options would vest 30 days after the date of grant. The options expire ten years after the date of grant.

A summary of the stock option activity for the plans for the two years ended December 31, 2010 and 2009 is as follows:

	Number of Shares	Price per share	
		Range	Weighted Average
Outstanding at December 31, 2008	**39,431,433**	**$16.73 - $39.00**	**$27.35**
Options forfeited	(1,487,601)	$17.08 - $39.00	$27.69
Outstanding at December 31, 2009	**37,943,832**	**$16.73 - $39.00**	**$27.33**
Options forfeited	(2,646,937)	$17.08 - $39.00	$29.55
Outstanding at December 31, 2010	**35,296,895**	**$16.73 - $39.00**	**$27.17**

The weighted average remaining contractual life of options outstanding as of December 31, 2010 and 2009 was 1.9 and 2.9 years, respectively.

The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options exercisable as of December 31, 2010 were as follows:

Number of shares	Option price range	Weighted average exercise price	Weighted average remaining contractual life
130,531	$16.73 - $17.31	$17.04	3.8
18,809,704	$19.18 - $24.88	$21.02	2.8
153,650	$25.90 - $29.70	$26.72	2.4
16,203,010	$31.09 - $39.00	$34.38	0.9

7.6.21.5. Non-vested share awards

On April 28, 2007, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2007 Supervisory Board Plan"), of which 22,500 awards were immediately waived. These awards were granted at the nominal value of the share of €1.04 and vested over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they were not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 45,000 shares, vested as at April 28, 2008. Furthermore, following the end of mandate of one of the members of the Board, 7,500 shares were accelerated in 2008. The second tranche of this plan, representing 45,000 shares, vested as at April 28, 2009. In 2010, the third tranche of the plan, representing 45,000 shares vested as at April 28, 2010. As of December 31 2010, no awards were outstanding under the 2007 Supervisory Board Plan.

On June 18, 2007, the Group granted 5,691,840 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2007 Employee Plan"). The Compensation Committee and the Supervisory Board also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company as detailed below. The shares were granted for free to employees, and vested upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in two of the Group's European subsidiaries for whom a subplan was simultaneously created, the nonvested shares vested over the following requisite service period: 32% as at April 26, 2008, 32% as at April 26, 2009 and 36% as at April 26, 2010. The following requisite service period was required for the nonvested shares granted under the two local subplans: for the first one, 64% of the granted stock awards vested as at June 19, 2009 and 36% as at June 19, 2010. In addition, the sale by the employees of the shares once vested was restricted over an additional two-year period, which was not considered as an extension of the requisite service period. For the second subplan, 32% vested as at June 19, 2008, 32% as at April 26, 2009 and 36% as at April 26, 2010. In 2008, the Group failed to meet one performance condition during one semester. Consequently, one sixth of the shares granted, totaling 926,121 shares, of which 242,233 on the first subplan and 2,634 on the second subplan, was lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 1,097,124 shares, vested as at April 26, 2008. The first tranche of one of the local subplans, representing 4,248 shares, vested as at June 19, 2008. In addition, 31,786 shares were accelerated during the year, of which 2,999 under the subplans. The second tranche of the original plan, representing 1,048,429 shares and the second tranche of one of the local subplans, representing 3,914 shares, vested as at April 26, 2009. The first tranche of the other local subplan, representing 768,157 shares, vested as at June 19, 2009. In addition, 32,360 shares were accelerated during 2009, of which 4,974 under the subplans. In 2010, the third tranche of the original plan and the third tranche of one of the local subplans, representing respectively 1,097,454 and 4,395 shares, vested as at April 26, 2010. The second tranche of the other local subplan, representing 395,853 shares, vested as at June 19, 2010. In addition, 35,857 shares were accelerated during the year, of which 12,262 under one of the subplans. These shares were transferred to employees from the treasury shares owned by the Group. At December 31, 2010, no awards were outstanding under the 2007 Employee Plan.

On December 6, 2007, the Managing Board of the Group, as authorized by the Supervisory Board of the Compensation Committee, granted additional 84,450 shares to selected employees designated by the Managing Board of the Company as part of the 2007 Employee Plan. This additional grant had the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 14,023 shares were lost for vesting, of which 498 on the subplan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 10,434 shares, vested as at April 26, 2008. In addition, 11,311 shares were accelerated during the year. The second tranche of the original plan, representing 21,585 shares, vested as at April 26, 2009. The first tranche of the subplan, representing 1,602 shares, vested as at December 7, 2009. In 2010, the third tranche of the plan, representing 23,181 shares and the second tranche of the subplan, representing 900 shares vested as at April 27, 2010. At December 31, 2010, no nonvested shares were outstanding as part of this additional grant.

On February 19, 2008, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 135,550 shares to selected employees designated by the Managing Board of the Company as part of the 2007 Employee Plan. This additional grant had the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 22,559 shares were lost for vesting, of which 5,887 on the local subplan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 26,407 shares, vested as at April 26, 2008. In addition, 320 shares were accelerated during the year. The second tranche of the original plan, representing 21,978 shares, vested as at April 26, 2009. In addition, 567 shares were accelerated during 2009. The first tranche of the subplan, representing 8,417 shares, vested as at February 20, 2010, the third tranche of the plan, representing 24,653 shares, as at April 26, 2010 and the second tranche of the subplan, representing 4,404 shares, as at April 27, 2010. At December 31, 2010, no nonvested shares were outstanding as part of this additional grant.

On May 16, 2008, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2008 Supervisory Board Plan"), of which 22,500 awards were immediately waived. These awards were granted at the nominal value of the share of €1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 47,500 shares, vested as at May 16, 2009. The second tranche of this plan, representing 47,500 shares, vested as at May 16, 2010. Furthermore, following the resignation of one of the members, 5,000 shares were accelerated in 2010. As of December 31, 2010, 42,500 awards were outstanding under the 2008 Supervisory Board Plan.

On July 22, 2008, the Group granted 5,723,305 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2008 Employee Plan"). The Compensation Committee also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. The shares were granted for free to employees, vesting upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in two of the Group's European subsidiaries for whom a subplan was simultaneously created, the nonvested shares vest over the following requisite service period: 32% as at May 14, 2009, 32% as at May 14, 2010 and 36% as at May 14, 2011. The following requisite service period is required for the nonvested shares granted under the two local subplans: for the first one, 64% of the granted stock awards vest as at July 23, 2010 and 36% as at May 14, 2011. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. For the second one, 32% vested as at July 22, 2009, 32% as at May 14, 2010 and 36% will vest as at May 14, 2011. In 2009, based on the final calculations, the Group concluded that only one performance condition was met. Consequently, two third of the shares granted, totaling 3,747,193 shares, of which 1,020,134 on the first subplan and 35,598 on the second subplan, were lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 427,324 shares, vested as at May 14, 2009. The first tranche of one of the local subplans, representing 5,719 shares, vested as at July 23, 2009. In addition, 15,588 shares were accelerated during 2009. The second tranche of the original plan and of one of the subplan, representing respectively 401,928 and 5,612 shares, vested as at May 14, 2010. The first tranche of the other subplan, representing 331,677 shares, vested as at July 23, 2010. In addition, 27,169 shares were accelerated during the year, of which 2,351 under one of the subplans. These shares were transferred to employees from the treasury shares owned by the Group. At December 31, 2010, 619,609 nonvested shares were outstanding, of which 173,885 under the first local subplan and 6,294 under the second local subplan.

On February 27, 2009, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 50,400 shares to selected employees designated by the Managing Board of the Company as part of the 2008 Employee Plan, with the same terms and conditions as the original plan. As a consequence of the failed performance conditions explained above, 33,589 shares were lost for vesting, of which 11,365 on the first local subplan and 1,332 on the second local subplan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 3,348 shares, vested as at May 14, 2009. The first tranche of the second local subplan, representing 214 shares, vested as at February 28, 2010. The second tranche of the original plan and of the second subplan, representing respectively 2,648 and 214 shares, vested as at May 14, 2010. At December 31, 2010 8,901 nonvested shares were outstanding as part of this additional grant, of which 5,685 under the first local subplan and 240 under the second local subplan.

On May 20, 2009, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2009 Supervisory Board Plan"), of which 7,500 awards were immediately waived. These awards are granted at the nominal value of the share of €1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 52,500 shares, vested as at May 20, 2010. Furthermore, following the resignation of one of the members, 10,000 shares were accelerated in 2010. As of December 31 2010, 95,000 awards were outstanding under the 2009 Supervisory Board Plan.

On July 28, 2009, the Group granted 5,575,240 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2009 Employee Plan"). The Compensation Committee also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. The shares were granted for free to employees, vesting upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in one of the Group's European subsidiaries for whom a subplan was simultaneously created, the nonvested shares vest over the following requisite service period: 32% vested as at May 20, 2010, 32% will vest as at May 20, 2011 and 36% as at May 20, 2012. The following requisite service period is required for the nonvested shares granted under the local subplan: 64% of the granted stock awards vest as at July 29, 2011 and 36% as at May 20, 2012. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. In 2010, based on the final calculations, the Group concluded that two of the three performance conditions were met. Consequently, one third of the shares granted, totaling 1,827,349 shares, of which 475,238 for the subplan, was lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 870,001 shares, vested as at May 20, 2010. At December 31, 2010, 2,770,290 nonvested shares were outstanding, of which 954,065 under the subplan.

On November 30, 2009, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 8,300 shares to selected employees designated by the Managing Board of the Company as part of the 2009 Employee Plan. This additional grant has the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 2,762 shares were lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 1,772 shares, vested as at May 20, 2010. At December 31, 2010, 3,766 nonvested shares were outstanding as part of this additional grant.

On May 27, 2010, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 172,500 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board ("The 2010 Supervisory Board Plan"), of which 7,500 awards were immediately waived. These awards were granted at the nominal value of the share of €1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. Furthermore, following the resignation of one of the members, 15,000 shares were accelerated in 2010. As of December 31, 2010, 150,000 awards were outstanding under the 2010 Supervisory Board Plan.

On July 22, 2010, the Group granted 6,344,725 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock ("The 2010 Employee Plan"). The Compensation Committee also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. The shares were granted for free to employees, and will vest upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in one of the Group's European subsidiaries for whom a subplan was simultaneously created, the nonvested shares vest over the following requisite service period: 32% as at May 25, 2011, 32% as at May 25, 2012 and 36% as at May 25, 2013. The following requisite service period is required for the nonvested shares granted under the local subplan: 64% of the granted stock awards vest as at July 23, 2012 and 36% as at May 25, 2013. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. At December 31, 2010, 6,285,170 nonvested shares were outstanding, of which 1,616,500 under the subplan.

On December 17, 2010, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 221,650 shares to selected employees designated by the Managing Board of the Company as part of the 2010 Employee Plan. This additional grant has the same terms and conditions as the original plan. At December 31, 2010, 221,650 nonvested shares were outstanding as part of this additional grant.

A summary of the nonvested share activity for the years ended December 31, 2010 and December 31, 2009 is presented below:

Nonvested Shares	Number of Shares	Exercise price
Outstanding as at December 31, 2008	**11,169,105**	**$0-€1.04**
Awards granted:		
2008 Employee Plan	50,400	$ 0
2009 Employee Plan	5,583,540	$ 0
2009 Supervisory Board Plan	165,000	€ 1.04
Awards forfeited:		
2006 Employee Plan	(8,507)	$ 0
2007 Employee Plan	(52,896)	$ 0
2008 Employee Plan	(73,057)	$ 0
2009 Employee Plan	(42,800)	$ 0
2009 Supervisory Board Plan	(7,500)	€ 1.04
Awards cancelled on failed vesting conditions:		
2008 Employee Plan	(3,780,782)	$ 0
Awards vested:		
2006 Employee Plan	(1,694,162)	$ 0
2006 Supervisory Board Plan	(14,000)	€ 1.04
2007 Employee Plan	(1,898,592)	$ 0
2007 Supervisory Board Plan	(45,000)	€ 1.04
2008 Employee Plan	(451,979)	$ 0
2008 Supervisory Board Plan	(47,500)	€ 1.04
Outstanding as at December 31, 2009	**8,851,270**	**$0-€1.04**
Awards granted:		
2010 Employee Plan	6,566,375	$ 0
2010 Supervisory Board Plan	172,500	€ 1.04
Awards forfeited:		
2007 Employee Plan	(5,944)	$ 0
2008 Employee Plan	(13,730)	$ 0
2009 Employee Plan	(49,682)	$ 0
2010 Employee Plan	(59,555)	$ 0
2010 Supervisory Board Plan	(7,500)	€ 1.04
Awards cancelled on failed vesting conditions:		
2009 Employee Plan	(1,830,111)	$ 0
Awards vested:		
2007 Employee Plan	(1,595,384)	$ 0
2007 Supervisory Board Plan	(45,000)	€ 1.04
2008 Employee Plan	(769,462)	$ 0
2008 Supervisory Board Plan	(52,500)	€ 1.04
2009 Employee Plan	(886,891)	$ 0
2009 Supervisory Board Plan	(62,500)	€ 1.04
2010 Supervisory Board Plan	(15,000)	€ 1.04
Outstanding as at December 31, 2010	**10,196,886**	**$0-€1.04**

The grant date fair value of nonvested shares granted to employees under the 2007 Employee Plan was $19.35. The fair value of the nonvested shares granted reflected the market price of the shares at the date of the grant. On April 1, 2008, the Compensation Committee approved the statement that two performance conditions were fully met and that for one condition only one half of it was achieved. Consequently, the compensation expense recorded on the 2007 Employee Plan reflects the statement that five sixths of the awards granted vested, as far as the service condition is met.

The grant date fair value of nonvested shares granted to employees under the 2008 Employee Plan was $10.64. The fair value of the nonvested shares granted reflected the market price of the shares at the date of the grant. On March 23, 2009, the Compensation Committee approved the statement that one performance condition was fully met. Consequently, the compensation expense recorded on the 2008 Employee Plan reflects the statement that one third of the awards granted will fully vest, as far as the service condition is met.

The grant date fair value of nonvested shares granted to employees under the 2009 Employee Plan was $7.54. On the 2009 Employee Plan, the fair value of the nonvested shares granted reflected the market price of the shares at the date of the grant. On April 14, 2010, the Compensation Committee approved the statement that two performance conditions were fully met. Consequently, the compensation expense recorded on the 2009 Employee Plan reflects the statement that two third of the awards granted will fully vest, as far as the service condition is met.

The grant date fair value of nonvested shares granted to employees under the 2010 Employee Plan was $8.69. On the 2010 Employee Plan, the fair value of the nonvested shares granted reflected the market price of the shares at the date of the grant. On the contrary, the Group estimates the number of awards expected to vest by assessing the probability of achieving the performance conditions. At December 31, 2010, a final determination of the achievement of the performance conditions had not yet been made by the Compensation Committee of the Supervisory Board. However, the Group has estimated that two third of the awards are expected to vest. Consequently, the compensation expense recorded for the 2010 Employee Plan reflects the vesting of two third of the awards granted, subject to the service condition being met. The assumption of the expected number of awards to be vested upon achievement of the performance conditions is subject to changes based on the final measurement of the conditions, which is expected to occur in the first quarter of 2011.

The following table illustrates the classification of pre-payroll tax and social contribution stock-based compensation expense included in the consolidated income statement for the year ended December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Cost of sales	6	7
Selling, general and administrative	18	19
Research and development	10	11
Other	-	1
Total pre-payroll tax and social contribution compensation	**34**	**38**

Compensation cost, excluding payroll tax and social contribution, capitalized as part of inventory was $2 million at December 31, 2010 and 2009. As of December 31, 2010 there was $33 million of total unrecognized compensation cost related to the grant of nonvested shares, which is expected to be recognized over a weighted average period of approximately 18.1 months.

The total deferred income tax expense recognized in the consolidated income statement related to unvested share-based compensation expense amounted to $3 million for the year ended December 31, 2010, including a shortfall recorded on the 2007 Employee Plan closed during 2010 due to the vesting fair value being significantly lower than the grant fair value. The total deferred income tax benefit recognized in the consolidated income statement related to unvested share-based compensation expense amounted to $8 for the years ended December 31, 2009.

7.6.21.6. *Other reserves*

Other reserves include the following components as at December 31, 2010:

In millions of USD	2016 Share conversion option reserve	Share-based compen-sation reserve	Available-for-sale (AFS) reserve	Cash Flow Hedge (CFH) reserve	Foreign currency translation reserve	Total other reserves
As at December 31, 2008	**-**	**396**	**(15)**	**11**	**1,078**	**1,470**
Reclassification of share conversion option	260	-	-	-	-	260
Share-based compensation expense for the year	-	36	-	-	-	36
Net movement recognized in the statement of comprehensive income	-	-	11	(6)	96	101
As at January 1, 2010	**260**	**432**	**(4)**	**5**	**1,174**	**1,867**
Repurchase of 2016 convertible bonds	(39)	-				(39)
Share-based compensation expense for the year	-	34				34
Net movement recognized in the statement of comprehensive income	-	-	30	26	(287)	(231)
As at December 31, 2010	**221**	**466**	**26**	**31**	**887**	**1,631**

2016 Share conversion option: The 2016 Share conversion option reserve is used to recognize the equity component of the 2016 Convertible bond. Refer to Note 7.6.14.3 for further details on the impact of the repurchase of the 2016 convertible bonds.

Share-based compensation reserve: The share-based compensation reserve is used to recognize the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to Notes 7.6.21.4 and 7.6.21.5 for further details on these share-based compensation programs.

Cash Flow hedge reserve: The cash flow hedge reserve contains the effective portion of the cash flow hedge relationship incurred as at the reporting date.

Available-for-sale (AFS) reserve: This reserve records fair value changes on available-for-sale financial assets.

Foreign currency translation reserve: The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

7.6.21.7. *Dividends*

At the Company's Annual General Meeting of Shareholders held on May 25, 2010, the distribution of a cash dividend of $0.28 per common share, amounting to approximately $247 million, to be paid in four equal installments, was adopted by the Company's shareholders. Through December 31, 2010, three installments were paid for an amount of $186 million including withholding tax. The remaining $0.07 per share cash dividend to be paid in the first quarter of 2011 totaled $62 million and was reported in "Other payables and accrued liabilities" on the consolidated statement of financial position as at December 31, 2010.

At the Company's Annual General Meeting of Shareholders held on May 20, 2009, the distribution of a cash dividend of $105 million or $0.12 per common share to be paid in four equal installments was adopted by the Company's shareholders.

7.6.22. Provisions

Movements in provisions during the year ended December 31, 2010 are detailed as follows:

In millions of USD	Restructuring	Warranty and product Guarantee	Tax	Total
As at December 31, 2009	203	3	193	399
Expense recognized during the period	92	1	4	97
Unused provisions	(7)	-	-	(7)
Amounts paid	(142)	-	(36)	(178)
Discount expense	1	-	-	1
Currency translation effect	(9)	-	(12)	(21)
As at December 31, 2010	138	4	149	291
Current 2010	132	4	20	156
Non-current 2010	6	-	129	135
Current 2009	189	3	74	266
Non-current 2009	14	-	119	133
	203	3	193	399

Restructuring provisions

The Group is currently engaged in two major restructuring plans, the STE restructuring plan and the manufacturing restructuring plan that are briefly described hereafter. The Group is also engaged in various initiatives aimed at reducing the operating expenses through a workforce reduction.

In April 2009, ST-Ericsson announced a restructuring plan (the "STE restructuring plan"). The main actions included in the restructuring plan were a re-alignment of product roadmaps to create a more agile and cost-efficient R&D organization and a reduction in workforce of 1,200 worldwide to reflect further integration activities following the merger. On December 3, 2009, ST-Ericsson expanded its restructuring plan, targeting additional annualized savings in operating expenses and spending, along with an extensive R&D efficiency program.

The Group announced in 2007 that management committed to a restructuring plan aimed at redefining the Group's manufacturing strategy in order to be more competitive in the semiconductor market (the "manufacturing restructuring plan"). This manufacturing plan includes the following initiatives: the transfer of 150mm production from Carrollton (Texas) to Asia, the transfer of 200mm production from Phoenix (Arizona) to Europe and Asia and the restructuring of the manufacturing operations in Morocco with a progressive phase out of the activities in Ain Sebaa site synchronized with a significant growth in Bouskoura site.

In 2010, the Group incurred restructuring charges and other related closures costs for $85 million relating primarily to:

- $64 million (2009: $100 million) for the STE restructuring plan composed of $59 million of on-going termination benefits for involuntary leaves and benefits paid within voluntary leave arrangements, and lease contract termination costs totalling $5 million pursuant to the closure of certain locations.
- $18 million (2009: $79 million) for the manufacturing restructuring plan for closure costs and one-time termination benefits to be paid to employees who render services until the complete closure of the Carrollton (Texas) and Phoenix (Arizona) fabs.
- $3 million (2009: $55 million) restructuring charges and other related closure costs related to other committed restructuring initiatives.

Warranty and product guarantee

The Group's customers occasionally return the Group's products for technical reasons. The Group's standard terms and conditions of sale provide that if the Group determines that products are non-conforming, the Group will repair or replace the non-conforming products, or issue a credit or rebate of the purchase price. Quality returns are not related to any technological obsolescence issues and are identified shortly after sale in customer quality control testing. Quality returns are usually associated with end-user customers, not with distribution channels. The Group provides for such returns when they are considered probable and can be reasonably estimated. The Group records the accrued amounts as a reduction of revenue.

Tax provisions

Tax provisions are related to certain tax positions that remain open for review in the Group's major tax jurisdictions

7.6.23. Employee benefits

Employee benefits liabilities are detailed as follows:

In millions of USD	December 31, 2010	December 31, 2009
Retirement benefit obligation liability	267	258
Other long term employee benefits	50	42
Salaries and wages	368	287
Social charges on salaries and wages	177	149
Total employee benefits liabilities	862	736
Current	566	504
Non-current	296	232

Pensions

The Group has a number of defined benefit pension plans covering employees in various countries. The plans provide for pension benefits, the amounts of which are calculated based on factors such as years of service and employee compensation levels. The Group uses December 31 as measurement date for all its plans. Eligibility is generally determined in accordance with local statutory requirements. In 2010 and 2009, the major defined benefit pension plans and long-term employee benefit plans were in Italy and France.

The amounts recognized in the statement of financial position are determined as follows:

In millions of USD	December 31, 2010	December 31, 2009
Benefit obligations wholly or partially funded	(465)	(412)
Fair value of plan assets	372	339
Benefit obligations wholly unfunded	(226)	(216)
Unrecognized actuarial gain (loss)	44	26
Reserve against prepaid	(3)	-
Unrecognized past service cost	11	5
Total pension liabilities	(267)	(258)

The movements in the pension liability are as follows:

In millions of USD	2010	2009
Beginning of the year	**258**	**264**
Exchange difference	(2)	7
Pension expense before asset ceiling	42	41
Changes in the reserve against prepaid	2	(2)
Plan merger / acquisition	(1)	7
Contributions paid	(32)	(59)
End of the year	**267**	**258**

Changes in defined benefit obligation are as follows:

In millions of USD	2010	2009
Beginning of the year	**628**	**558**
Service cost	25	22
Interest cost	30	30
Employee contributions	5	4
Plan amendment — past service cost — non vested benefits	12	-
Actuarial gain (loss)	20	27
Acquisition/Transfer in	1	12
Divestiture/Transfer out	(4)	(5)
Effect of curtailment	(2)	(2)
Effect of settlement	(19)	(16)
Benefits paid	(13)	(25)
Effect of foreign exchange translation	8	23
End of the year	**691**	**628**

Change in plan assets are as follows:

In millions of USD	2010	2009
Beginning of the year	**339**	**262**
Expected return on plan assets	18	16
Employer contribution	24	46
Employee contribution	5	4
Acquisition/Transfer in	1	7
Sale/Transfer out	(1)	(6)
Effect of settlement	(17)	(14)
Administration fees	-	-
Benefits paid	(5)	(13)
Actuarial gain (loss)	1	25
Effect of foreign exchange translation	7	12
End of the year	**372**	**339**

The actual return on plan assets in 2010 was a gain of $19 million (2009: gain of $41 million). In 2010, the expected return on plan asset amounted to $18 million (2009: gain of $16 million) resulting in an actuarial gain on plan assets of $1 million (2009: gain of $25 million).

The present value of the defined benefit obligation, the fair value of plan assets and the surplus or deficit in the pension plans for the current annual period and previous four annual periods are as follows:

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	691	628	558	559	570
Fair value of pension plan assets	372	339	262	278	241
Deficit on pension plans	307	289	296	281	329
Experience adjustment on plan assets	(1)	(25)	48	-	-
Experience adjustment on plan liabilities	(3)	7	41	-	-

The amounts recognized in the income related to pensions are as follows:

In millions of USD	2010	2009
Current service cost	25	22
Interest cost	30	30
Expected return on plan assets	(18)	(16)
Amortization of unrecognized past service cost non vested	1	1
Amortization of actuarial net loss (gain)	2	4
Effect of settlement	4	2
Effect of curtailment	(2)	(2)
Asset ceiling	2	(2)
Total pension costs	**44**	**39**

Other long-term employee benefit

Other long-term employee benefits include seniority and loyalty award programs. The movements in the other long-term employee benefits liability are as follows:

In millions of USD	2010	2009
Beginning of the year	**42**	**41**
Exchange differences	(2)	1
Total other long-term benefits costs recognized in the income statement	13	5
Plan merger/acquisition	-	-
Benefits paid	(3)	(5)
End of the year	**50**	**42**

Changes in other long-term benefits obligations are as follows:

In millions of USD	2010	2009
Beginning of the year	**42**	**42**
Service cost	8	4
Interest cost	2	2
Actuarial (gain) loss	4	(1)
Acquisition/Transfer in	-	1
Divestiture/Transfer out	-	(1)
Benefits paid	(3)	(2)
Settlement and curtailment	(1)	(4)
Effect of foreign exchange translation	(2)	1
End of the year	**50**	**42**

The amounts recognized in the income related to other long-term benefits are as follows:

In millions of USD	2010	2009
Current service cost	8	4
Interest cost	2	2
Amortization of unrecognized prior service cost	1	-
Amortization of actuarial net loss (gain)	3	(1)
Effect of curtailment	(1)	-
Total other long-term benefits costs	**13**	**5**

Assumptions

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

	2010	2009
Discount rate	4.68%	5.11%
Expected long-term rate of return on assets	4.99%	5.28%
Future salary increase	3.13%	3.08%

The discount rate was determined by comparison against long-term corporate bond rates applicable to the respective country of each plan. In developing the expected long-term rate of return on assets, the Group modelled the expected long-term rates of return for broad categories of investments held by the plan against a number of various potential economic scenarios.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yield on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality experience are set based on advice from published statistics and experience in each territory.

The Group's pension plan asset allocation at December 31, 2009 and 2010:

	% of plan assets as at	
Asset category	December 31, 2010	December 31, 2009
Equity securities	39%	38%
Bonds securities bearing regular interests	32%	33%
Real estate	7%	9%
Other	22%	20%

The Group's investment strategy for its pension plans is to maximize the long-term rate of return on plan assets with an acceptable level of risk in order to minimize the cost of providing pension benefits while maintaining adequate funding levels.

The Group's practice is to periodically conduct a review in each subsidiary of its asset allocation strategy. A portion of the fixed income allocation is reserved in short-term cash to provide for expected benefits to be paid. The Group's equity portfolios are managed in such a way as to achieve optimal diversity. The Group does not manage any assets internally.

After considering the funded status of the Group's defined benefit plans, movements in the discount rate, investment performance and related tax consequences, the Group may choose to make contributions to its pension plans in any given year in excess of required amounts. In 2010, the Group's contributions to plan assets were $24 million (2009: $46 million) and it expects to contribute cash of $16 million in 2011.

Defined contribution plans

The Group has certain defined contribution plans, which accrue benefits for employees on a pro-rata basis during their employment period based on their individual salaries. In 2010, the annual cost of these plans amounted to approximately $89 million (2009: $81 million).

7.6.24. Other non-current liabilities

Other non-current liabilities consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Capacity rights	33	47
Other non-current liabilities	91	44
Total other non-current liabilities	**124**	**91**

The obligations for capacity rights are mainly due to the terms of the agreement for the inception of Numonyx that included rights granted to Numonyx to use certain assets retained by the Group. This capacity rights have been transferred to the acquirer of Numonyx. As at December 31, 2010, the value of such rights totaled $44 million (2009: $65 million) of which $33 million (2009: $47 million) was classified as a non-current liability.

7.6.25. Trade accounts payables, Other payables and accrued liabilities

In millions of USD	December 31, 2010	December 31, 2009
Trade accounts payable	1,233	883
Dividends due to shareholders	62	26
Taxes other than income taxes	76	80
Advances	31	47
Accounts payable to associates	36	30
Capacity rights	12	21
Royalties	34	35
Other accrued liabilities	108	119
Total other payables and accrued liabilities	**359**	**358**

7.6.26. Significant categories of income

In millions of USD	December 31, 2010	December 31, 2009
Sales of goods	10,262	8,465
License revenue and patent royalty income	84	45
French research tax credit recognized as a reduction of Research & Development expenses	146	146
Research and development funding recognized in Other income	106	201
Finance income	75	76
Total	**10,673**	**8,933**

7.6.27. Operating segment information

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

In the Semiconductors business area, the Group designs, develops, manufactures and markets a broad range of products, including discrete and standard commodity components, application-specific integrated circuits (“ASICs”), full custom devices and semi-custom devices and application-specific standard products (“ASSPs”) for analog, digital, and mixed-signal applications. In addition, the Group further participates in the manufacturing value chain of Smartcard products through its Incard division, which includes the production and sale of both silicon chips and Smartcards.

In the Subsystems business area, the Group designs, develops, manufactures and markets subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to its business as a whole, the Subsystems segment does not meet the requirements for a reportable segment as defined under IFRS.

Starting August 2, 2008, as a consequence of the creation of the joint venture company with NXP, the Group reorganized its groups. A new segment was created to report wireless operations; the product line Mobile, Multimedia & Communications Group ("MMC") which was part of segment Application Specific Groups ("ASG") was abandoned and its divisions were reallocated to different product lines. The remaining part of ASG is now comprised of Automotive Consumer Computer and Telecom Infrastructure Product Groups ("ACCI").

The organization was as follows:

- Automotive Consumer Computer and Communication Infrastructure ("ACCI"), comprised of four product lines:
  - Automotive Products Group ("APG");
  - Computer and Communication Infrastructure ("CCI");
  - Home Entertainment & Displays ("HED"); and
  - Imaging ("IMG", starting January 1, 2009).
- Industrial and Multisegment Sector ("IMS"), comprised of:
  - Analog, Power and Micro-Electro-Mechanical Systems ("APM"); and
  - Microcontrollers, non-Flash, non-volatile Memory and Smart Card products ("MMS").
- Starting February 3, 2009, as a consequence of the merger of ST-NXP Wireless and Ericsson Mobile Platforms to create ST-Ericsson with Ericsson, the Wireless sector ("Wireless") was adjusted and was comprised of:
  - Wireless Multi Media ("WMM");
  - Connectivity & Peripherals ("C&P");
  - Cellular Systems ("CS");
  - Mobile Platforms ("MP");

    in which, since February 3, 2009, the Group reports the portion of sales and operating results of ST-Ericsson as consolidated in the Group's revenue and operating results, and
  - Other Wireless, in which the Group reports manufacturing margin, R&D revenues and other items related to the wireless business but outside the ST-Ericsson JVS.

Starting January 1, 2010 there was a new organization change within the Wireless sector, which is now comprised of the following lines:

- 2 G, EDGE TD-SCDMA & Connectivity;
- 3G Multimedia & Platforms;
- LTE & 3G Modem Solutions;

  in which the Group reports the portion of sales and operating results of ST-Ericsson as consolidated in the Group's revenue and operating results, and
- Other Wireless, in which the Group reports manufacturing margin, R&D revenues and other items related to the wireless business but outside the ST-Ericsson JVS.

The Group has restated its results in prior periods for illustrative comparisons of its performance by product segment. Moreover, following the transfer of a small business unit from ACCI to IMS, the Group has reclassified the prior period's revenues and operating income results of ACCI and IMS. The preparation of segment information according to the new segment structure requires management to make significant estimates, assumptions and judgments in determining the operating income of the segments for the prior reporting periods. Management believes that the restated 2009 presentation is consistent with 2010 and is using these comparatives when managing the Group.

The Group's principal investment and resource allocation decisions in the Semiconductor business area are for expenditures on research and development and capital investments in front-end and back-end manufacturing facilities. These decisions are not made by product segments, but on the basis of the Semiconductor Business area. All these product segments share common research and development for process technology and manufacturing capacity for most of their products.

The following tables present the Group's consolidated net revenues and consolidated operating income by semiconductor product segment. For the computation of the Groups' internal financial measurements, the Group uses certain internal rules of allocation for the costs not directly chargeable to the Groups, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Additionally, in compliance with the Group's internal policies, certain cost items are not charged to the Groups, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges.

Net revenues by product segment and product line

	December 31, 2010	December 31, 2009
Automotive products Group ("APG")	1,420	1,005
Computer and Communication Infrastructure ("CCI")	1,125	932
Home Entertainment & Displays ("HED")	1,006	787
Imaging ("IMG")	569	417
Others	49	11
Automotive Consumer Computer and Communication Infrastructure (ACCI)	**4,169**	**3,152**
Analog, Power and Micro-Electro-Mechanical Systems ("APM")	2,714	1,887
Microcontrollers, non-Flash, non-volatile Memory and Smartcard products ("MMS")	1,181	798
Others	4	2
Industrial and Multisegment Sector	**3,899**	**2,687**
2G, EDGE, TD-SCDMA & Connectivity	956	1,027
3G Multimedia & Platforms	1,223	1,529
LTE & 3G Modem Solutions	35	18
Others	5	11
Wireless	**2,219**	**2,585**
Others	**59**	**86**
Total consolidated net revenues	**10,346**	**8,510**

Operating income (loss) by product group and reconciliation to operating income (loss)

	December 31, 2010	December 31, 2009
Automotive Consumer Computer and Communication Infrastructure (ACCI)	410	(69)
Industrial and Multi segment sector	681	91
Wireless	(483)	(356)
Sub-total operating income of product segments	**608**	**(334)**
Strategic R&D and other R&D programs	(18)	(22)
Phase-out and start-up costs	(15)	(39)
Impairment and restructuring charges	(104)	(291)
Unused capacity charges	(3)	(322)
Manufacturing services	-	-
Other non-allocated income and costs	8	(15)
Adjustment on acquired IP R&D	(26)	(24)
Net impact of capitalized development costs	237	186
Difference in timing for recognition of restructuring provisions	8	26
Impact of difference in gross value of goodwill on impairment charges	-	6
Derivative instruments not designated as hedge instruments under IFRS	13	(7)
Difference on amortization of intangibles acquired in business combinations	(22)	(23)
Other non-allocated expenses and IFRS/US GAAP adjustments	1	(1)
Sub-total Operating loss Others and US GAAP to IFRS adjustments impact on operating income (loss)[1]	**79**	**(526)**
Total operating income (loss)	**687**	**(860)**

The following is a summary of operations by entities located within the indicated geographic areas for 2010 and 2009. Net revenues represent sales to third parties from the country in which each entity is located. A significant portion of property, plant and equipment expenditures is attributable to front-end and back-end facilities, located in the different countries in which the Group operates. As such, the Group mainly allocates capital spending resources according to geographic areas rather than along product segment areas.

Net revenues by geographical area

In millions of USD	December 31, 2010	December 31, 2009
The Netherlands	1,863	1,553
France	174	139
Italy	149	121
USA	1,109	798
Singapore	5,939	4,697
Japan	436	300
Other countries	676	902
Total net revenues	**10,346**	**8,510**

[1] Operating loss Others includes items such as unused capacity charges, impairment, restructuring charges and other related closure costs, start-up costs and other unallocated expenses. The Group's Chief Operating Decision maker uses US GAAP metrics when managing the Group. Therefore, US GAAP to IFRS adjustments are not allocated to product segments.

Property, plant and equipment net by geographical area

In millions of USD	December 31, 2010	December 31, 2009
The Netherlands	17	24
France	1,711	1,714
Italy	783	850
Other European countries	237	158
USA	37	74
Singapore	552	546
Malaysia	298	264
Other countries	482	548
Total property, plant and equipment, net	**4,117**	**4,178**

Payment for purchase of tangible assets by geographical area

In millions of USD	December 31, 2010	December 31, 2009
The Netherlands	3	8
France	420	242
Italy	175	44
Other European countries	55	29
USA	(9)	6
Singapore	172	27
Malaysia	100	35
Other countries	118	60
Total purchase of tangible assets	**1,034**	**451**

Depreciation and amortization by geographical area

In millions of USD	December 31, 2010	December 31, 2009
The Netherlands	304	242
France	400	440
Italy	204	249
Other European countries	193	233
USA	25	62
Singapore	188	207
Malaysia	81	83
Other countries	118	113
Total depreciation and amortization	**1,513**	**1,629**

7.6.28. Expenses by nature

Expenses recorded as cost of sales and research and development and selling, general and administrative are detailed as follows:

In millions of USD	December 31, 2010	December 31, 2009
Depreciation and amortization	1,513	1,629
Employee benefit expenses	3,234	3,086
Purchase of materials and subcontracting services	4,080	3,087
Changes in inventories	(252)	553
Transportation	129	118
Royalties and patents	112	92
Advertising costs	11	9
Other expenses	894	972
Total cost of sales, research and development, and selling, general and administrative	**9,721**	**9,546**

Employee benefit expenses are detailed as follows:

In millions of USD	December 31, 2010	December 31, 2009
Wages and salaries	2,455	2,340
Payroll taxes and other social contribution charges	682	581
Share-based compensation expense	31	38
Pension costs	66	127
Total employee benefit expenses	**3,234**	**3,086**
Of which included in:		
Cost of sales	1,308	1,195
Selling, general and administrative	724	694
Research and development	1,202	1,197

7.6.29. Other income / expenses

Other income consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Research and development funding	106	201
Foreign exchange forward contracts and other currency derivatives	-	59
Settlement of patent litigation	-	16
Net foreign exchange gain	48	-
Gain on sale of non-current assets	4	3
Total other income	**158**	**279**

Other expenses consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Start-up / Phase out costs	15	39
Foreign exchange forward contracts and other currency derivatives	28	-
Patent litigation costs	13	21
Change in fair value of interest swap	-	8
Net foreign exchange loss	37	5
Other expenses	3	5
Total other expenses	**96**	**78**

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

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

Patent costs include legal and attorney fees and payment for claims, patent pre-litigation consultancy and legal fees.

7.6.30. Finance income / costs

Total finance income and finance costs consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Interest income on subordinated notes	5	16
Interest income on other available-for-sale financial assets	5	15
Interests income on restricted cash and short-term bank deposits	20	28
Numonyx bank guarantee amortization	6	17
Ineffective portion of contingent collars designated as cash flow hedges	33	-
Gain on sale of combined options	4	-
Gain on unwinding of cash flow hedges on shares received on investment divestiture	2	-
Total finance income	**75**	**76**
Interests on convertible bonds 2016	28	21
Interests on bank borrowings and senior bonds	17	34
Interests on finance leases	3	4
Bank charges and commissions	6	4
Premium paid on contingent collars	9	-
Change in fair value of held for trading financial instruments	5	-
Loss on sale of shares received on investment divestiture	33	-
Other finance costs	6	-
Total finance costs	**107**	**63**

The liability component of the 2016 convertible bond bears interests at an effective interest rate of 4.92%. In the first half of 2009, the Group recomputed the amount of interest and consequently recorded a cumulative positive adjustment since issuance of $20 million.

7.6.31. Components of other comprehensive income

In millions of USD	December 31, 2010	December 31, 2009
Cash flow hedges:		
Gains/(losses) arising during the year	64	(36)
Reclassification adjustments for gains/(losses) included in the income statement	(37)	29
	27	**(7)**
Available-for-sale financial assets:		
Gains/(losses) arising during the year	62	12
Reclassification adjustments for losses included in the income statement	(30)	-
	32	**12**

7.6.32. Income tax

The major components of income tax benefit (expense) for the years ended December 31, 2010 and 2009 are:

Consolidated income statement

In millions of USD	December 31, 2010	December 31, 2009
The Netherlands taxes-current	(3)	4
Foreign taxes-current	(53)	(54)
Current taxes	**(56)**	**(50)**
The Netherlands taxes – deferred	(10)	-
Foreign deferred taxes	(102)	126
Income tax benefit (expense)	**(168)**	**76**

Consolidated statement of other comprehensive income (deferred tax related to items charged or credited directly to equity during the year)

In millions of USD	December 31, 2010	December 31, 2009
Net gain (loss) on revaluation of cash flow hedges	(1)	1
Unrealized gain (loss) on available-for-sale financial assets	(2)	(1)
Income tax charged directly to equity	**(3)**	-

A reconciliation between income tax benefit and the product of loss before tax multiplied by the Netherlands' statutory tax rate for the years ended December 31, 2010 and 2009 is as follows:

In millions of USD	December 31, 2010	December 31, 2009
Gain (loss) before income tax	**787**	**(1,300)**
Income tax benefit (expense) at the Netherlands' statutory tax rate of 25.5% (2009:25.5)%	(201)	332
Non-deductible, non-taxable and other permanent differences	(50)	(34)
Gain (loss) on investments in associates	44	(80)
Impact of final tax assessments relating to prior years	(29)	21
Effects of change in tax rates on deferred taxes	3	(7)
Current year credits	76	76
Other tax credits	(12)	(4)
Benefits from tax holidays	77	2
Current year tax risk	32	(23)
Earnings (losses) of subsidiaries taxed at different rates	(108)	(207)
Income tax benefit (expense)	**(168)**	**76**

In 2010 and 2009, the line "Earnings (losses) of subsidiaries taxed at different rates" includes a decrease of $91 million and $123 million, respectively, related to significant losses in countries subject to tax holidays.

The tax holidays represent a tax exemption period aimed at attracting foreign technological investment in certain tax jurisdictions. The effect of the tax benefits on basic earnings per share was $0.09 per share in 2010 (2009: nil). These agreements are present in various countries and include programs that reduce up to 100% of taxes in years affected by the agreements. The Group's tax holidays expire at various dates through the year ending December 31, 2019.

Deferred tax assets and liabilities consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Tax loss carry forwards and investment credits	326	398
Inventory valuation	25	34
Impairment charges and restructuring	82	98
Fixed assets depreciation in arrears	47	53
Receivables for government funding	7	18
Pension service costs	35	41
Share awards	7	17
Commercial accruals	10	7
Other temporary differences	116	65
Deferred tax assets	**655**	**731**
Accelerated fixed assets depreciation	83	66
Acquired intangible assets	152	153
Advances of government fundings	16	13
Other temporary differences	63	61
Deferred tax liabilities	**314**	**293**
Net deferred income tax asset	**341**	**438**

For a particular tax-paying component of the Group and within a particular tax jurisdiction, all current and non-current deferred tax assets and liabilities are offset and presented as a single amount. The Group does not offset deferred tax assets and liabilities attributable to different tax-paying component or to different tax jurisdictions.

As at December 31, 2010, the Group has short-term and long-term deferred tax assets. The timing for recovery is expected as follows:

In millions of USD	December 31, 2010	December 31, 2009
Deferred tax assets to be recovered within 12 months	250	179
Deferred tax assets to be recovered beyond 12 months	405	552
Deferred tax assets	**655**	**731**
Deferred tax liabilities to be incurred within 12 months	65	28
Deferred tax liabilities to be incurred beyond 12 months	249	265
Deferred tax liabilities	**314**	**293**
Net deferred income tax asset	**341**	**438**

In millions of USD	December 31, 2008	Exchange differences	Income statement benefit (expense)	December 31, 2009	Exchange differences	Income tax charged directly to equity	Income statement benefit (expense)	December 31, 2010
Deferred tax assets								
Tax losses	271	(4)	131	398	9	-	(81)	326
Impairment charge and restructuring	114	(1)	(15)	98	(5)	-	(11)	82
Fixed asset depreciation	64	(2)	(9)	53	(3)	-	(3)	47
Other	173	(6)	15	182	27	(3)	(6)	200
Total deferred tax assets	622	(13)	122	731	28	(3)	(101)	655
Deferred tax liabilities								
Accelerated tax depreciation	(86)	1	19	(66)	2	-	(19)	(83)
Acquired intangible assets	(165)	-	12	(153)	-	-	1	(152)
Other	(68)	5	(11)	(74)	(12)	-	7	(79)
Total deferred tax liabilities	(319)	6	20	(293)	(10)	-	(11)	(314)
Net deferred tax	303	(7)	142	438	18	(3)	(112)	341

As at December 31, 2010, the Group has gross deferred tax assets on tax loss carry forwards and investment credits that expire starting 2011, as follows:

Year	In millions of USD
2011	29
2012	53
2013	13
2014	21
2015	14
Thereafter	196
Total	**326**

As at December 31, 2010, deferred tax assets not recognized in the statement of financial position amounted to $1,396 million (2009: $1,337 million) and are detailed as follows:

- $1,113 million (2009: $1,096 million) relating to an agreement granting the Group certain tax credits for capital investments purchased through the year ended December 31, 2006. Any unused tax credits granted under the agreement will continue to increase yearly by a legal inflationary index of 1.45% (2009: 1.45%). The credits may be utilized through 2020 or later depending on the Group meeting certain program criteria. In addition to this agreement, from 2007 onwards, the Group has continued and will continue to receive tax credits on the yearly capital investments, which may be used to offset that year's tax liabilities and increases by the legal inflationary rate. However, pursuant to the inability to use these credits currently and in future years, the Group did not recognize in 2010 these deferred tax assets in the statement of financial position (2009: nil).
- $283 million (2009: $241 million) of tax loss carry forwards corresponding to net operating losses acquired in business combinations, or generated in on-going operations and that will more likely than not, not be utilized against future profits.

7.6.33. Earnings per share

For the year ended December 31, 2010 and December 31, 2009, earnings (losses) per share ("EPS") were calculated as follows:

In millions of USD	December 31, 2010	December 31, 2009
Basic EPS		
Net result attributable to the equity holder of the parent	867	(1,003)
Weighted average shares outstanding	880,375,234	876,928,190
Basic EPS	**0.98**	**(1.14)**
Diluted EPS		
Net result	867	(1,003)
Net result adjusted	893	(1,003)
Weighted average shares outstanding	880,375,234	876,928,190
Dilutive effect of stock options	-	-
Dilutive effect of non-vested shares	4,045,068	-
Dilutive effect of convertible debt	27,180,653	-
Number of shares used for diluted EPS	911,600,955	876,928,190
Diluted EPS	**0.98**	**(1.14)**

As at December 31, 2010, common shares issued were 910,420,305 shares, of which 28,734,002 shares were owned by the Group as treasury shares.

As at December 31, 2010, there were outstanding stock options exercisable into the equivalent of 35,296,895 common shares. There was also the equivalent of 21,491,061 common shares outstanding for convertible debt, out of which 5,624 for 2013 bonds and 21,486,061 for the 2016 bonds. None of these bonds have been converted into shares during the year ended December 31, 2010.

7.6.34. Related party

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

In millions of USD	December 31, 2010	December 31, 2009
Sales and other services	322	356
Research and development expenses	(206)	(201)
Other purchases	(94)	(167)
Other income and expenses	-	-
Accounts receivable	53	58
Accounts payable	63	60
Other assets (liabilities)	-	-

For the years ended December 31, 2010 and 2009, the related party transactions were primarily with significant shareholders of the Group, or their subsidiaries and companies in which management of the Group perform similar policymaking functions. These include, but are not limited to: Areva, France Telecom Orange, Finmeccanica, Cassa Depositi e Prestiti, Flextronics, Oracle and Technicolor. The related party transactions presented in the table above also include transactions between the Group and its associates and jointly controlled entities as listed in Note 7.6.10.

As described in Note 7.6.10, on February 10, 2010, the Group, together with its partners Intel Corporation and Francisco Partners, entered into a definitive agreement with Micron Technology Inc., in which Micron would acquire Numonyx Holdings B.V. in an all-stock transaction. On May 7, 2010, this transaction closed. Since that date, Numonyx is no longer a related party to the Group.

Since the formation of ST-Ericsson, the Group purchases R&D services from ST-Ericsson AT ("JVD"), a significant associate of the Group. For the year ended December 31, 2010, the total R&D services purchased from ST-Ericsson AT amounted to $136 million (2009: $150 million) and outstanding trade payables amounted to $21 million (2009: $30 million).

Besides, the Group participates in an Economic Interest Group ("E.I.G.") in France with Areva and France Telecom to share the costs of certain research and development activities, which are not included in the table above. The share of income (expense) recorded by the Group as research and development expenses incurred by E.I.G was not material in 2010 and 2009. As at December 31, 2010 and 2009, the Group had no receivable or payable amount.

The Group contributed cash amounts totaling $1 million for the year ended December 31, 2010 (2009: nil) to the ST Foundation, a non-profit organization established to deliver and coordinate independent programs in line with its mission. Certain members of the Foundation's Board are senior members of the Group's management.

The individual remuneration paid to the Sole member of the Managing Board was as follows:

In millions of USD	December 31, 2010	December 31, 2009
Wages and salaries	1	1
Bonus	1	1

The total amount paid as compensation in 2010 and 2009 to the 25 executive officers of the Group, including the Sole Member of the Managing Board were as follows:

In millions of USD	December 31, 2010	December 31, 2009
Wages and salaries	12	11
Bonus	7	7
Other benefits	3	3
Termination benefits	2	2
Social charges	4	3
Total compensation	**28**	**26**

The Group's 25 executive officers, including the sole Member of the Managing Board, were granted in 2010 for free 1,135,000 non-vested shares subject to the achievement of performance objectives. The weighted average grant date fair value of non-vested shares granted to employees under the 2010 Employee Plan was $8.69.

The Group's 25 executive officers, including the sole Member of the Managing Board, were granted in 2009 for free 1,067,000 non-vested shares subject to the achievement of performance objectives. The weighted average grant date fair value of non-vested shares granted to employees under the 2009 Employee Plan was $7.54.

The bonus paid to the executive officers corresponds to a Corporate Executive Incentive Program (the "EIP") that entitles selected executives to a yearly bonus based upon the individual performance of such executives. The maximum bonus awarded under the EIP is based upon a percentage of the executives' salary and is adjusted to reflect the Groups' overall performance. The participants in the EIP must satisfy certain personal objectives that are focused on return on net assets, customer service, profit, cash and market share.

The executive officers and the Managing Board were covered in 2010 and 2009 under certain Group life and medical insurance programs, pension, state-run retirement and other similar benefit programs and other miscellaneous allowances that are included in the $7 million (2009: $6 million) of social charges and other benefits.

At the end of the year 2005, the Compensation Committee recommended and the Supervisory Board decided to grant an additional pension benefit plan to the Group's sole member of the Managing Board and a limited number of senior executives that have made key contributions to the Group's success. Pursuant to this plan, the Group will make annual contributions of $200,000 to both its former and current sole members of the Managing Board, $150,000 to its Chief Operating Officer and up to $100,000 to each other beneficiary per year. In order to meet the Group's future payment obligations under this plan or to insure for them, the Group paid an amount of $1 million in 2010 (2009: $1 million).

Individual remuneration paid to Supervisory Board Members in 2010 and 2009 was recorded as follows:

In Euros	2010	2009
Bruno Steve	95,125	97,375
Didier Lamouche	79,125	86,250
Alessandro Ovi	73,250	75,875
Tom de Waard[2]	148,250	157,250
Gerald Arbola	146,125	146,875
Didier Lombard	84,750	88,125
Douglas Dunn	86,375	96,875
Raymond Bingham	83,750	98,375
Antonio Turicchi	146,125	146,875
Total	**942,875**	**993,875**

Share awards granted to Supervisory Board members and Professionals in 2010 and 2009 were as follows:

	2010		2009	
	Number of share awards granted	Grant price	Number of share awards granted	Grant price
B.Steve	15,000	€1.04	15,000	€1.04
R.Bingham	15,000	€1.04	15,000	€1.04
A.Turicchi	15,000	€1.04	15,000	€1.04
D.Lamouche	15,000	€1.04	15,000	€1.04
T.de Waard	15,000	€1.04	15,000	€1.04
G.Arbola	15,000	€1.04	15,000	€1.04
D.Lombard	15,000	€1.04	15,000	€1.04
D.Dunn	15,000	€1.04	15,000	€1.04
A.Ovi	15,000	€1.04	15,000	€1.04
L.Chessa	7,500	€1.04	7,500	€1.04
C.Duval	7,500	€1.04	7,500	€1.04
B.Loubert	7,500	€1.04	7,500	€1.04
A.Novelli(1)	7,500	€1.04	7,500	€1.04
W. Toussaint	7,500	€1.04		

[1] Compensation, including attendance fees of $1,500 per meeting of our Supervisory Board or committee thereof, was paid to Clifford Chance LLP

7.6.35. Commitments, contingencies claims and legal proceedings

Commitments

The Group's commitments as at December 31, 2010 were as follows:

In millions of USD	Total	2011	2012	2013	2014	2015	There-after
Operating leases	**307**	**74**	**49**	**35**	**29**	**26**	**94**
Purchase obligations	**1,115**	**1,003**	**74**	**23**	**14**	**-**	**1**
Of which:							
Equipment purchase	632	632	-	-	-	-	-
Foundry purchase	224	224	-	-	-	-	-
Software, technology licenses and design	259	147	74	23	14	-	1
Other obligations	**373**	**158**	**174**	**30**	**7**	**1**	**3**
Total	**1,795**	**1,235**	**297**	**88**	**50**	**27**	**98**

As a consequence of the Group's planned closures of certain of its manufacturing facilities, some of the contracts as reported above have been terminated. The termination fees for the sites still in operation have not been taken into account.

Operating leases are mainly related to building and equipment leases. The amount disclosed is composed of minimum payments for future leases from 2011 to 2015 and thereafter. The Group leases land, buildings, plants and equipment under operating leases that expire at various dates under non-cancellable lease agreements. For the year ended December 31, 2010, the operating lease expense was $109 million (2009: $148 million)

Purchase obligations are primarily comprised of purchase commitments for equipment, for outsourced foundry wafers and for software licenses.

Other obligations primarily relate to firm contractual commitments with respect to partnership and cooperation agreements.

Contingencies

The Group is subject to the possibility of loss contingencies arising in the ordinary course of business. These include but are not limited to: warranty cost on the products of the Group, breach of contract claims, claims for unauthorized use of third-party intellectual property, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. In determining loss contingencies, the Group considers the likelihood of a loss of an asset or the incurrence of a liability as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is probable that a liability has been incurred and when the amount of the loss can be reasonably estimated. The Group regularly re-evaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Group. Changes in these evaluations could result in an adverse material impact on the Group's results of operations, cash flows or its financial position for the period in which they occur.

Claims and legal proceedings

The Group has received and may in the future receive communications alleging possible infringements, in particular in the case of patents and similar intellectual property rights of others. Furthermore, the Group periodically conducts broad patent cross license discussions with other industry participants which may or not be successfully concluded. The Group may become involved in costly litigation brought against the Group regarding patents, mask works, copy-rights, trade-marks or trade secrets. In the event that the outcome of any litigation would be unfavorable to the Group, the Group may be required to license patents and/or other intellectual property rights at economically unfavorable terms and conditions, and possibly pay damages for prior use and/or face an injunction, all of which individually or in the aggregate could have a material adverse effect on the Group's results of operations, cash flows, financial position and/or ability to compete.

The Group is otherwise also involved in various lawsuits, claims, investigations and proceedings incidental to its business and operations.

On April 17, 2007, Tessera Technologies, Inc. filed a complaint against STMicroelectronics NV, Freescale Inc., ATI Technologies, Inc., Motorola, Inc., Qualcomm, Inc., Spansion, Inc., Spansion LLC, in the International Trade Commission (ITC) requesting the ITC to enter an injunction barring the importation of any product containing a device that infringes two identified patents related to ball grid array (BGA) packaging technology. On December 1, 2008, the administrative law judge issued his initial determination finding in favor of the respondents and recommended that no injunction barring importation of the respondents' products be entered. In accordance with their rights, Tessera petitioned the ITC to review the administrative law judge's initial determination on December 15, 2008. On May 20, 2009 the ITC issued a final order finding that all the respondents infringe on Tessera's asserted patents, and granted Tessera's request for a Limited Exclusion Order prohibiting the importation of respondents' infringing products. On December 21, 2010, the Federal Circuit Court of Appeals, issued an opinion upholding the ITC's final order. Respondents have requested that the Federal Circuit re-hear the appeal before the entire panel of justices. In September 2010, the asserted patents expired, thus nullifying the Limited Exclusion Order. The filing of the ITC proceedings on April 17, 2007 resulted in the stay of an earlier lawsuit filed by Tessera in January 2006 against STMicroelectronics and STMicroelectronics Inc along with Spansion Inc and Spansion LLC in the US District court for the Northern District of California, pursuant to which Tessera was claiming an injunction as well as an unspecified amount of monetary damages for breach of a 1997 License Agreement by STMicroelectronics Inc. We expect that once the appellate process concerning the ITC ruling is completed, Tessera will seek to lift the stay on the pending proceedings in the Federal Court for the Northern District of California. The asserted Tessera patents have all now expired. We continue to assess the merits of all ongoing litigation with Tessera.

On December 1, 2010, Rambus, Inc. filed a complaint in the ITC against STMicroelectronics NV, STMicroelectronics Inc., along with other semiconductor respondents: Broadcom Corporation, Freescale Inc., LSI Corporation, Nvidia Corporation, and Mediatek Inc. and 22 customer respondents, alleging, among other things, that certain semiconductor parts and customer products incorporating such semiconductor parts, infringe patents owned by Rambus relating to standard technologies in the field of double data rate memory controller and peripheral interfaces. The ITC complaint seeks an exclusion order barring the importation of accused products into the United States. On December 29, 2010 the ITC voted to institute an investigation based on Rambus' complaint and on February 15 2011 the Administrative Law Judge at the ITC issued a procedural order pursuant to which a hearing is currently scheduled to be held in October 2011, an Initial Determination to be rendered no later than January 4, 2012, with a final determination expected for May 2012. Also on December 1, 2010, Rambus filed related lawsuits in the Northern District of California against STMicroelectronics NV, STMicroelectronics Inc. and certain other semiconductor respondents alleging, among other things, that certain of semiconductor products infringe on 19 Rambus patents including the same patents involved in the ITC matter as well as other patents owned by Rambus in relation to memory controller and high speed interface technologies. Rambus seeks unspecified monetary damages, enhanced damages, and injunctive relief. Respondents have requested that the proceedings in US District Court be stayed pending the outcome of the ITC proceedings. We continue to assess the merits of the ITC complaint and the Northern District of California lawsuit.

On December 4, 2009 the Group received from the International Chamber of Commerce the notification of a request for arbitration filed by NXP Semiconductors Netherlands BV "NXP" against STMicroelectronics NV, and ST-Ericsson, claiming compensation for so called underloading costs, pursuant to a Manufacturing Services Agreement entered into between NXP and ST-NXP Wireless, at the time of the creation of ST-NXP Wireless, the Group's wireless semiconductor products joint venture with NXP, in August 2008. The claim is currently evaluated by NXP at approximately $59 million. In January 2009, NXP agreed upon our request to withdraw its claim against ST-Ericsson. The Group is contesting the NXP claim vigorously. An arbitration hearing is currently planned to occur in Paris as from May 23 2011.

The Group is also the beneficiary of a FINRA arbitration award of US$406 million rendered in February 2005 in the Group's dispute against Credit Suisse Securities. Such award was confirmed in March and August 2010 by the US District Court for the Southern District of New York. The decision of the New York District Court is at the request of Credit Suisse which has posted a bond, currently under appeal before the Court of Appeal for the Second Circuit.

The pending proceedings which the Group faces involve complex questions of fact and law. The results of legal proceedings are uncertain and material adverse outcomes are possible.

The Group accrues loss contingencies when a loss is probable and can be estimated. The Group regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they need to be adjusted based on the current information available to the Group. Legal costs associated with claims are expensed as incurred. In the event of litigation which is adversely determined with respect to the Group's interests, or in the event the Group needs to change its evaluation of a potential third-party claim, based on new evidence or communications, a material adverse effect could impact its operations or financial condition at the time it were to materialize. As of December 31, 2010 provisions were recorded by the Group with respect to legal proceedings when the Group considered both that it was probable that a liability had been incurred and the associated amount could be reasonably estimated. The amount of such reserves is not considered material. Additionally, subject to future unfavorable developments which cannot be predicted with reasonable certainty at this time, the Group does not believe that the range of loss for reasonably possible loss contingencies in aggregate ,as they can be reasonably estimated, is a material amount to the financial statements as a whole, including results of operations, cash flows and financial position.

7.6.36. Financial risk management objectives and policies

The Group is exposed to changes in financial market conditions in the normal course of business due to its operations in different foreign currencies and its ongoing investing and financing activities. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury) reporting to the Chief Financial Officer. Simultaneously, a Treasury Committee, chaired by the CFO, steers treasury activities and ensures compliance with corporate policies approved by the Supervisory Board. Treasury activities are thus regulated by the Group's policies, which define procedures, objectives and controls. The policies focus on the management of financial risk in terms of exposure to market risk, credit risk and liquidity risk. Treasury controls are subject to internal audits. Most treasury activities are centralized, with any local treasury activities subject to oversight from head treasury office. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. It provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, price risk, credit risk, use of derivative financial instruments, and investments of excess liquidity. The majority of cash and cash equivalents is held in U.S. dollars and Euro and is placed with financial institutions rated at least a single "A" long term rating from two of the major rating agencies, meaning at least A3 from Moody's Investor Service and A- from Standard & Poor's and Fitch Ratings. Marginal amounts are held in other currencies. Hedging transactions are performed only to hedge exposures deriving from operating, investing and financing activities conducted in the normal course of business.

Market risk

Foreign exchange risk

The Group conducts its business on a global basis in various major international currencies. As a result, the Group is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities at the Group's subsidiaries.

Management has set up a policy to require the Group's subsidiaries to hedge their entire foreign exchange risk exposure with the Group through financial instruments transacted by Corporate Treasury. To manage their foreign exchange risk arising from foreign-currency-denominated assets and liabilities, entities in the Group use forward contracts and purchased currency options, transacted by Corporate Treasury. Foreign exchange risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. These instruments do not qualify as hedging instruments for accounting purposes. In addition, forward contracts and currency options, including collars, are also used by the Group to reduce its exposure to U.S. dollar fluctuations in Euro-denominated or Swedish-Krona forecasted intercompany transactions that cover a large part of its research and development, selling general and administrative expenses as well as a portion of its front-end manufacturing production costs of semi-finished goods. The derivative instruments used to hedge the forecasted transactions relating to front-end manufacturing production costs, meet the criteria for designation as cash flow hedge. The hedged forecasted transactions are all highly probable of occurrence for hedge accounting purposes.

It is the Group's policy to keep the foreign exchange exposures in all the currencies hedged month by month against the monthly standard rate. Each month end, the forecasted flows for the coming month are hedged together with the fixing of the new standard rate. For this reason the hedging transactions will have an exchange rate very close to the standard rate at which the forecasted flows will be recorded on the following month. As such, the foreign exchange exposure of the Group, which consists of the balance sheet positions and other contractually agreed transactions, is always equivalent to zero and any movement of the foreign exchange rates will not therefore influence the exchange effect on consolidated income statement items. Any discrepancy from the forecasted values and the actual results is constantly monitored and prompt actions are taken, if needed.

The hedging activity of the Group and the impact on the financial statements is described in details in note 7.6.14.4.

The following sensitivity analysis was based on recognized assets and liabilities, including non-monetary items, of STMicroelectronics and its subsidiaries. At December 31, 2010 if the Euro had strengthened by 300 pips against the US dollar with all other variables held constant, net result for the year would have been $15 million higher (2009: $33 million higher), mainly as a result of foreign exchange gains on derivative instruments not designated as cash flow hedge. If the Euro had weakened by 300 pips against the US dollar with all other variables held constant, impact in net income would have been $10 million lower (2009: $4 million lower), mainly due to foreign exchange losses on derivative instruments not designated as cash flow hedge but also as a result of not exercised currency options. Equity would have been approximately $79 million higher/lower (2009: $115 million higher/lower) if the Euro strengthened/weakened, arising mainly from translation of net assets from subsidiaries which functional currency is the Euro.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Since all the liquidity of the Group is invested in floating rate instruments, the Group's interest rate risk arises from the mismatch of fixed rate liabilities and floating rate assets.

At December 31, 2009, if interest rates had been 20 basis points higher/lower with all other variables held constant, net income for the year would have been $1 million higher/lower respectively, mainly as a result of a high level of liquid assets in relation to debt. At December 31, 2010, if interest rates had been 20 basis points higher/lower with all other variables held constant, net income for the year would have been $2 million higher/lower respectively, mainly as a result of a high level of liquid assets in relation to debt.

During 2010 and 2009, the Group's borrowings at variable rate were denominated in Euros and in US dollars.

Price risk

As part of its ongoing investing activities, the Group may be exposed to equity security price risk for investments in public entities classified as available-for-sale, as described in Note 7.6.14.1. In order to hedge the exposure to this market risk, the Group may enter into certain derivative hedging transactions.

The hedging activity of the Group on price risk and the impact on the financial statements is described in details in note 7.6.14.3.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables and loan notes) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group selects banks and/or financial institutions that operate with the Group based on the criteria of long term rating from at least two major Rating Agencies and keeping a maximum outstanding amount per instrument with each bank group not to exceed 20% of the total.

Due to the credit market turmoil, the Group has decided to further tighten the counterparty concentration and credit risk profile. The maximum outstanding counterparty risk has been reduced and currently does not exceed 15% for major international banks with large market capitalization.

The Group monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. If certain customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and external ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored. Sales to customers are primarily settled in cash. At December 31, 2010 and 2009, one customer, the Nokia Group of companies, represented 23.8% and 20.8% of trade accounts receivable, net respectively. Any remaining concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their dispersion across many geographic areas.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, short-term deposits and marketable securities, the availability of funding from committed credit facilities and the ability to close out market positions. The Group's objective is to maintain a significant cash position and a low debt to equity ratio, which ensure adequate financial flexibility. Liquidity management policy is to finance the Group's investments with net cash provided from operating activities.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

A maturity analysis of interest-bearing loans and borrowings is shown is note 7.6.14.3.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as the net financial position of the Group, defined as the difference between total cash position (cash and cash equivalents, marketable securities — current and non-current-, short-term deposits and restricted cash) net of total financial debt (bank overdrafts, current portion of long-term debt and long-term debt), divided by total equity attributable to the equity holders of the parent, as presented in the consolidated statement of financial position.

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8.1. STMicroelectronics N.V Company Balance Sheet

In millions of USD (Before proposed appropriation of income)	Notes	December 31, 2010	December 31, 2009
Assets			
Non-current assets			
Goodwill	**8.3.4**	234	227
Intangible assets	**8.3.4**	867	742
Property, plant and equipment	**8.3.5**	10	14
Investments in subsidiaries	**8.3.6**	6,534	6,472
Investments in associates and jointly controlled entities	**8.3.7**	136	303
Restricted cash		-	250
Available-for-sale financial assets	**8.3.8**	103	243
Long-term loans and receivables		5	8
Deferred tax assets	**8.3.15**	20	31
Other non-current assets		-	19
Total non-current assets		**7,909**	**8,309**
Current assets			
Inventories	**8.3.9**	48	42
Trade accounts receivable	**8.3.10**	162	173
Group companies short-term loans	**8.3.11**	147	289
Other group companies receivables	**8.3.12**	714	742
Other receivables and current assets		113	76
Available for sale financial assets — current portion	**8.3.8**	711	660
Cash and cash equivalents		1,617	894
Total current assets		**3,512**	**2,876**
Total assets		**11,421**	**11,185**

In millions of USD (Before proposed appropriation of income)	Notes	December 31, 2010	December 31, 2009
Shareholders' equity and liabilities			
Shareholders' equity	8.3.13		
Issued and paid-in capital		1,265	1,364
Additional paid-in capital		2,037	2,037
Retained earnings		2,321	3,755
Legal reserve		1,105	1,255
Other reserves		1,155	958
Result for the year		867	(1,003)
Total shareholders' equity		**8,750**	**8,366**
Non-current liabilities			
Retirement benefits obligations		19	8
Deferred tax liabilities	8.3.15	111	85
Long-term debt	8.3.14	466	1,326
Other non-current liabilities	8.3.16	99	136
Total non-current liabilities		**695**	**1,555**
Current liabilities			
Current portion of long-term debt	8.3.14	547	103
Trade accounts payable		34	16
Group companies short-term notes payable	8.3.12	48	24
Other group companies payable	8.3.12	1,212	984
Other payables and accrued liabilities		130	127
Accrued income tax payable		5	10
Total current liabilities		**1,976**	**1,264**
Total shareholders' equity and liabilities		**11,421**	**11,185**

The accompanying notes are an integral part of these Company's financial statements

8.2. STMicroelectronics N.V. Company Statement of Income

In millions of USD	Year Ended December 31, 2010	December 31, 2009
Result after taxes	421	(400)
Result from subsidiaries	446	(603)
Total comprehensive income, net of tax	**867**	**(1,003)**

The accompanying notes are an integral part of these Company's financial statements

8.3. STMicroelectronics N.V. Notes to STMicroelectronics' Financial Statements

8.3.1. General

A description of STMicroelectronics N.V. ("STMicroelectronics"), its activities and group structure are included in the Consolidated Financial Statements, prepared on the basis of accounting policies that conform to International Financial Reporting Standards ("IFRS") as endorsed by European Union. STMicroelectronics holds investments in subsidiaries operating in the semiconductor manufacturing industry. Additionally, STMicroelectronics operates through a branch in Switzerland, which markets a broad range of semiconductor integrated circuits and devices used in a wide variety of microelectronic applications.

8.3.2. Basis of Presentation

In accordance with article 2:362 Part 8 of the Netherlands Civil Code, STMicroelectronics N.V. ("STMicroelectronics") has prepared its company financial statements in accordance with accounting principles generally accepted in the Netherlands applying the accounting principles as adopted in the consolidated financial statements and further described in details in the consolidated financial statements (Note 7.6.7).

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

All balances and values are in millions of U.S. dollars, except as otherwise noted.

8.3.3. Summary of Significant Accounting Policies

8.3.3.1. Subsidiaries

Subsidiaries are all entities over which STMicroelectronics has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether STMicroelectronics controls another entity.

Subsidiaries are accounted for under the equity method from the date of acquisition, being the date on which the Company obtains control and continue to be accounted for under the equity method until the date that such control ceases.

Valuation of Subsidiaries

Investments in subsidiaries are stated at net asset value as STMicroelectronics effectively controls the operational and financial activities of these investments. The net asset value is determined on the basis of the IFRS accounting principles applied by STMicroelectronics in its consolidated financial statements.

Guarantees given by STMicroelectronics to its subsidiaries are further described in note 8.3.18 and 8.3.20.

8.3.3.2. Associates

Associates include all entities over which STMicroelectronics has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. These investments are accounted for by the equity method of accounting and are initially recognized at cost. They are presented on the face of the balance sheet as "Investments in associates".

The Company's share in its associates' profit and losses is recognized in the income statement and in the balance sheet as an adjustment against the carrying amount of the associate, and its share of post acquisition movement in reserves is recognized in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When STMicroelectronics's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivable, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between STMicroelectronics and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are consistent with the policies adopted by STMicroelectronics.

8.3.4. Intangible Assets

In millions of USD	Goodwill	Technologies and licenses, internally developed software and purchase software	Capitalized development costs	Total
Historical cost				
Balance at January 1, 2010	**227**	**645**	**899**	**1,771**
Additions	7	88	315	410
Disposal	-	-	-	-
Impairments / Write-offs	-	(6)	(144)	(150)
Balance at December 31, 2010	**234**	**727**	**1,070**	**2,031**
Accumulated amortization				
Balance at January 1, 2010	-	**(468)**	**(334)**	**(802)**
Disposal	-	-	-	-
Charge for the year	-	(72)	(145)	(217)
Impairments / Write-offs	-	4	85	89
Balance at December 31, 2010	-	**(536)**	**(394)**	**(930)**
Net book value				
At December 31 , 2010	234	191	676	1,101
At December 31, 2009	227	177	565	969

8.3.5. Property, plant and equipment

In millions of USD	Furniture and fixtures	Computer and R&D equipment	Other	Total
Historical cost				
Balance at January 1, 2010	**2**	**37**	**4**	**43**
Additions	-	2	-	2
Disposal	-	-	-	-
Impairments	-	-	-	-
Balance at December 31, 2010	**2**	**39**	**4**	**45**
Accumulated amortization				
Balance at January 1, 2010	**(1)**	**(25)**	**(3)**	**(29)**
Disposal	-	-	-	-
Charge for the year	-	(5)	(1)	(6)
Impairments	-	-	-	-
Balance at December 31, 2010	**(1)**	**(30)**	**(4)**	**(35)**
Net book value				
At December 31 , 2010	1	9	-	10
At December 31, 2009	1	12	1	14

8.3.6. Investments in Subsidiaries

In millions of USD	2010	2009
Beginning of the year	**6,472**	**8,035**
Result from subsidiaries	445	(603)
Changes in other reserves of subsidiaries	(2)	310
Dividends paid	(179)	(657)
Capital increase (net of capital decreases)	72	(677)
Translation effect of exchange rates	(274)	64
End of the year	**6,534**	**6,472**

The investments in significant subsidiaries as at December 31, 2010 are presented below:

Legal Seat	Name	Percentage ownership (direct or indirect)
Australia – Sydney	STMicroelectronics PTY Ltd	100
Belgium – Zaventem	ST-Ericsson Belgium N.V.	50
Belgium – Zaventem	Proton World International N.V.	100
Brazil – Sao Paolo	STMicroelectronics Ltda	100
Brazil – Sao Paulo	Incard do Brazil Ltda	50
Canada – Ottawa	STMicroelectronics (Canada), Inc.	100
China – Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
China – Beijing	ST-Ericsson Semiconductor (Beijing) Co. Ltd	50
China – Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China – Shanghai	STMicroelectronics (Shanghai) R&D Co. Ltd	100
China – Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China – Shanghai	Shanghai NF Trading Ltd	50
China – Shanghai	Shanghai NF Semiconductors Technology Ltd	50
China – Shenzhen	Shenzhen STS Microelectronics Co. Ltd	60
China – Shenzhen	STMicroelectronics (Shenzhen) Co. Ltd	100
China – Shenzhen	STMicroelectronics (Shenzhen) Manufacturing Co. Ltd	100
China – Shenzhen	STMicroelectronics (Shenzhen) R&D Co. Ltd	100
Czech Republic – Prague	STMicroelectronics Design and Application s.r.o.	100
Czech Republic – Prague	ST-Ericsson s.r.o.	50
Finland – Lohja	ST-Ericsson OY	50
France – Crolles	STMicroelectronics (Crolles 2) SAS	100
France – Grenoble	STMicroelectronics (Grenoble 2) SAS	100
France – Grenoble	ST-Ericsson (Grenoble) SAS	50
France – Montrouge	STMicroelectronics S.A.	100
France – Paris	ST-Ericsson (France) SAS	50
France – Rousset	STMicroelectronics (Rousset) SAS	100
France – Tours	STMicroelectronics (Tours) SAS	100
Germany – Grasbrunn	STMicroelectronics GmbH	100
Germany – Grasbrunn	STMicroelectronics Design and Application GmbH	100
Germany – Grasbrunn	ST-NXP Wireless GmbH i.L.	50
The Netherlands – Amsterdam	STMicroelectronics Finance B.V.	100
The Netherlands – Amsterdam Luchthaven	ST-Ericsson Wireless N.V.	50
The Netherlands – Eindhoven	ST-Ericsson B.V.	50
The Netherlands – Eindhoven	ST-Ericsson Holding B.V.	50
Hong Kong – Hong Kong	STMicroelectronics LTD	100
India – Bangalore	NF Wireless India Pvt Ltd	50
India – New Delhi	STMicroelectronics Marketing Pvt Ltd	100
India – Noida	STMicroelectronics Pvt Ltd	100
India – Noida	ST-Ericsson India Pvt Ltd	50
Ireland – Dublin	NXP Falcon Ireland Ltd	50
Israel – Netanya	STMicroelectronics Ltd	100
Italy – Agrate Brianza	ST Incard S.r.l. (merged into ST S.r.l.)	100
Italy – Agrate Brianza	ST-Ericsson Srl	50
Italy – Agrate Brianza	STMicroelectronics S.r.l.	100
Italy – Aosta	DORA S.p.a.	100
Italy – Catania	CO.RI.M.ME.	100

Legal Seat	Name	Percentage ownership (direct or indirect)
Italy – Naples	STMicroelectronics Services S.r.l.	100
Japan – Tokyo	STMicroelectronics KK	100
Japan – Tokyo	ST-Ericsson KK	50
Korea – Seoul	ST-Ericsson (Korea) Ltd	50
Malaysia – Kuala Lumpur	STMicroelectronics Marketing SDN BHD	100
Malaysia – Muar	STMicroelectronics SDN BHD	100
Malaysia – Muar	ST-Ericsson SDN.BHD	50
Malta – Kirkop	STMicroelectronics (Malta) Ltd	100
Mexico – Guadalajara	STMicroelectronics Marketing, S. de R.L. de C.V.	100
Morocco – Casablanca	STMicroelectronics S.A.S. (Maroc)	100
Morocco – Rabat	Electronic Holding S.A.	100
Morocco – Rabat	ST-Ericsson (Maroc) SAS	50
Norway – Grimstad	ST-Ericsson A.S.	50
Philippines – Calamba	STMicroelectronics, Inc.	100
Philippines – Calamba	ST-Ericsson (Philippines) Inc.	50
Philippines – Calamba	Mountain Drive Property, Inc.	20
Singapore – Ang Mo Kio	STMicroelectronics ASIA PACIFIC Pte Ltd	100
Singapore – Ang Mo Kio	STMicroelectronics Pte Ltd	100
Singapore – Ang Mo Kio	ST-Ericsson Asia Pacific Pte Ltd	50
Spain – Madrid	STMicroelectronics Iberia S.A.	100
Sweden – Kista	STMicroelectronics A.B.	100
Sweden – Kista	STMicroelectronics Wireless A.B.	50
Sweden – Stockholm	ST-Ericsson A.B.	50
Switzerland – Geneva	STMicroelectronics S.A.	100
Switzerland – Geneva	INCARD S.A. (merged into ST NV)	100
Switzerland – Geneva	INCARD Sales and Marketing S.A.	100
Switzerland – Geneva	ST-Ericsson S.A.	50
Taiwan – Taipei	ST-Ericsson (Taiwan) Ltd	50
Thailand – Bangkok	STMicroelectronics (Thailand) Ltd	100
United Kingdom – Bristol	Inmos Limited	100
United Kingdom – Bristol	ST-Ericsson (UK) Ltd	50
United Kingdom – Marlow	STMicroelectronics Limited	100
United Kingdom – Marlow	STMicroelectronics (Research & Development) Limited	100
United Kingdom – Reading	Synad Technologies Limited	100
United Kingdom – Southampton	NF UK, Ltd	50
United States – Carrollton	STMicroelectronics Inc.	100
United States – Carrollton	ST-Ericsson Inc.	50
United States – Carrollton	Genesis Microchip Inc.,	100
United States – Carrollton	Genesis Microchip (Del) Inc.	100
United States – Carrollton	Genesis Microchip LLC	100
United States – Carrollton	Genesis Microchip Limited Partnership	100
United States – Carrollton	Sage Inc.	100
United States – Carrollton	Faroudja Inc.	100
United States – Carrollton	Faroudja Laboratories Inc.	100
United States – Wilmington	STMicroelectronics (North America) Holding, Inc.	100
United States – Wilsonville	The Portland Group, Inc.	100

8.3.7. Investments in associates and jointly controlled entities

In millions of USD	December 31, 2010	December 31, 2009
Beginning of the year	**303**	**510**
Sale of investments:		
Numonyx Holdings B.V.	(223)	-
Acquisition of investments:		
ST-Ericsson AT Holding AG.	-	99
3Sun Srl	78	
Share of gain/ (loss) of associates and jointly controlled entities	(22)	(306)
End of the year	**136**	**303**

As of December 31, 2010, STMicroelectronics owns 49.9% of ST-Ericsson AT Holding and 33.33% of 3Sun Srl and accounts for these investments in associates using the equity method. As of December 31, 2009, STMicroelectronics owned 48.6% of Numonyx Holdings B.V. and 49.9% of ST-Ericsson AT Holding.

Numonyx

In 2007, the Company entered into an agreement with Intel Corporation and Francisco Partners L.P. to create a new independent semiconductor company from the key assets of the Group's Flash Memory Group and Intel's flash memory business ("FMG deconsolidation").

The Numonyx transaction closed on March 30, 2008. At closing, through a series of steps, the Group contributed its flash memory assets and businesses for 109,254,191 common shares of Numonyx, representing a 48.6% equity ownership stake valued at $966 million, and $156 million in long-term subordinated notes.

Upon creation, Numonyx entered into financing arrangements for a $450 million term loan and a $100 million committed revolving credit facility from two primary financial institutions. The loans have a four-year term. Intel and the Group have each granted in favor of Numonyx a 50% debt guarantee not joint and several. In the event of default, the banks will exercise the Group's rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the assets. The debt guarantee was recognized as a $69 million liability, corresponding to the fair value of the guarantee at inception of the transaction. The same amount was also added to the value of the equity investment.

On February 10, 2010, the Company announced that, together with its partners Intel Corporation and Francisco Partners, it had entered into a definitive agreement with Micron Technology Inc., in which Micron would acquire Numonyx Holdings B.V. in an all-stock transaction. As soon as the Company considered that it was highly probable that the sale would be completed within 12 months, the investment in Numonyx was reclassified as an asset held for sale and measured at fair value less costs to sell. Immediately before this reclassification, the Company reversed partially the impairment recorded in the previous years for an amount of $162 million.

On May 7, 2010, the transaction with Micron effectively closed. In exchange for its 48.6% stake in Numonyx, the Company received approximately 66.88 million shares of Micron common stock. At the opening of the US financial market on May 7, 2010, the price of Micron's shares was $8.75 per share. Hence, the value of the shares at closing date was $583 million taking into account a discount of $2 million to reflect the lock-up period restriction applicable to these shares. As described in Note 7.6.14.4 of the consolidated Financial Statements, around 40 million Micron shares have been hedged and as described in note 7.6.14.1., around 47 million Micron shares were sold after the end of the lock-up period.

In connection with this transaction, the Company also paid $78 million due to Francisco Partners at the end of the shares' six month lock-up period. Also, at the closing of this transaction the senior credit facility that was supported by our guarantee of $225 million has been repaid in full by Numonyx. The overall transaction resulted in a gain after tax of $18 million.

ST-Ericsson AT Holding

On February 3, 2009, the Company announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms ("EMP") and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Company received an interest in ST-Ericsson AT Holding AG ("JVD") that was valued at $99 million. JVD, in which the Company owns 50% less a controlling share held by Ericsson, is the parent company of a group of entities that perform fundamental R&D activities for the ST-Ericsson venture. The Company has a significant influence and therefore accounts for JVD under the equity method.

3Sun Srl

3Sun is a joint initiative between Enel Green Power, Sharp and the Company for the manufacture of triple-junction thin film photovoltaic panels in Catania, Italy. Each partner owns a third of the common shares of the entity. The Group exercises joint-control over 3Sun and consequently accounts for its investment in 3Sun under the equity method.

As part of the transaction with Micron, the Group exercised its right to indirectly purchase the Numonyx M6 facility in Catania, Italy. On July 1, 2010, Numonyx contributed the M6 going concern and facility to 3Sun and immediately transferred the newly issued shares of 3Sun to the Group against the redemption of the $78 million subordinated notes due by Numonyx to the Group. Since the investment in 3Sun is denominated in euro, the investment is revalued at each reporting date closing, the exchange difference being recorded as currency translation adjustment in other comprehensive income. The Group's current maximum exposure to loss as a result of its involvement with 3Sun is limited to its equity investment that amounted to $83 million as at December 31, 2010.

8.3.8. Available-for-Sale Financial Assets

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

In millions of USD	December 31, 2010	December 31, 2009
Beginning of the year	**903**	**796**
Long term subordinated notes	(183)	16
Sale of listed debt securities (floating rate notes)	(164)	-
Purchase of quoted equity securities	585	-
Sale of quoted equity securities	(412)	-
Change in faire value of quoted equity securities	(8)	-
Impairment on unlisted equity securities	-	(2)
Purchase of marketable securities	50	300
Change in fair value of listed debt securities (floating rate notes)	4	4
Change in fair value of long term subordinate notes	10	(11)
Net gain (losses) on auction rate notes recognized in statements of income	29	(200)
End of the year	**814**	**903**
Less: non-current portion	(103)	(243)
Current portion	**711**	**660**

Long-term subordinated notes

The Company received upon the creation of Numonyx long-term subordinated notes amounting to $156 million at inception, bearing interest at market rates and with a maturity as at March 30, 2038. These long-term notes yield 9.5% interest, generally payable in kind for seven years and in cash thereafter. These notes were partially repaid as a result of the transaction with Micron as described in Note 8.3.7. The remaining amount of $78 million was repaid by Numonyx with the contribution of the M6 facility in Catania, Italy to a company called 3Sun Srl.

Investments in debt securities

As at December 31, 2010, the Company had investments in quoted marketable debt instruments for an aggregate value of $789 million (2009: $702 million). Government bonds have a Aaa rating and the floating rate notes excluding impaired debt securities have a minimum rating of A2.

Available-for-sale financial assets include the following:

In millions of USD	December 31, 2010	December 31, 2009
Listed securities:		
Floating-rate Notes in U.S. dollars	200	360
Debt securities	350	300
Listed equity securities:		
Shares in U.S. dollars	167	-
Unlisted securities:		
Auction rate Securities in U.S. dollars	72	42
Unlisted equity securities: 4		
Equity securities – Euro zone countries	10	10
Equity securities – US	15	191
Total	**814**	**903**

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

In millions of USD	December 31, 2010	December 31, 2009
Euro	10	10
US dollar	804	893
Total	**814**	**903**

For further details on STMicroelectronics's available-for-sale financial assets, see the consolidated financial statements of STMicroelectronics.

8.3.9. Inventories

The balance for inventories contains only finished goods.

8.3.10. Trade Accounts Receivable

Trade accounts receivable consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Trade accounts receivable	164	175
Provision	(2)	(2)
Total	**162**	**173**

Trade receivables are expected to be recovered within one year.

8.3.11. Group Companies Short-term Loans

Group companies short-term loans consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
ST Incard SA (Switzerland)		
Loan due 2011 bearing interest at 3-month EURIBOR + 0.50%	41	45
STMicroelectronics Ltd. (Israel)		
Loan due 2011 bearing interest at 3-month LIBOR	4	4
STMicroelecronics Finance B.V (Netherlands)		
Loan due 2010 bearing interest at 1-month EURIBOR – 0.40%	-	59
STMicroelectronics Inc. (USA)		
Loan due 2011 bearing interest at 3-month LIBOR + 0.375%	27	179
STMicroelectronics Design & Application s.r.o. (Czech Republic)		
Loan due 2010 bearing interest at 3-month PRIBOR + 0.0625%	-	2
ST-Ericsson S.A. (Switzerland)		
Loan due 2011 bearing interest at 3-month LIBOR plus 2.50%	75	-
Total short-term intercompany loans	**147**	**289**

8.3.12. Other group companies receivables and payables

In millions of USD	December 31, 2010	December 31, 2009
Trade receivables	628	631
Other receivables (advances)	86	111
Total group companies Receivables	**714**	**742**
Trade payables	914	542
Other payables	298	442
Other group companies payables	1,212	984
Short-term notes payable	48	24
Total group companies Payables	**1,260**	**1,008**

Group companies short-term notes payable consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
STMicroelectronis A.B (Sweden)		
Note due 2010 bearing interest at 3-month STIBOR + 0.50%	-	1
STMicroelectronics Finance B.V. (Netherlands)		
Note due 2011 bearing interest at 1.842% fixed rate	42	-
Proton World International N.V. (Belgium)		
Note due 2011 bearing interest at 3-month EURIBOR + 0.00625%	6	23
Total short-term intercompany notes payable	**48**	**24**

8.3.13. Shareholder's equity

In millions of USD	Issued and paid-in capital	Additional paid-in capital	Retained earnings	Treasury shares	Other reserves	Legal reserves	Result for the year	Total
Balance January 1, 2010	**1,364**	**2,037**	**3,755**	**(377)**	**1,335**	**1,255**	**(1,003)**	**8,366**
Net Result			(1,003)				1,003	-
Rights acquired on vested stock awards				72				72
Stock-based compensation			(72)		34			(38)
Other transactions			-		-			-
Dividends paid			(247)					(247)
Net result							867	867
Unrealized gain (loss) on debt securities					30			30
Development expenditures			(111)			111		-
Unrealized gain (loss) on derivatives, net of tax						25		25
Convertible debt equity component					(39)			(39)
Translation adjustment*	(99)		(1)	1	99	(286)		(286)
Balance December 31, 2010	**1,265**	**2,037**	**2,321**	**(304)**	**1,459**	**1,105**	**867**	**8,750**

* The share capital of STMicroelectronics is denominated in euros and the period-end balance is translated into U.S. dollars at the year-end exchange rate (Euro/USD 1.3362). The translation differences are taken to Other reserves.

The authorized share capital of STMicroelectronics is EUR 1,810 million consisting of 1,200,000,000 common shares and 540,000,000 preference shares, each with a nominal value of EUR 1.04. As at December 31, 2010 the number of shares of common stock issued was 910,420,305 shares (910,319,305 at December 31, 2009).

As of December 31, 2010 the number of shares of common stock outstanding was 881,686,303 (878,333,566 at December 31, 2009).

The Euros equivalent of the issued share capital at December 31, 2010 amounts to Euros 946,837,117 (2009: Euros 946,731,917). For the changes in issued and paid in capital, additional paid in capital and other reserves, see the consolidated financial statements of STMicroelectronics.

Other reserves and legal reserve consist of fair value of services provided under share award schemes, unrealized gains or losses on marketable securities classified as available-for-sale and foreign currency translation adjustments, all net of tax.

Treasury stock

Following the authorization by the Supervisory Board, announced on April 2, 2008, to repurchase up to 30 million shares of its common stock, STMicroelectronics acquired 29,520,220 shares as at December 31, 2008, for a total amount of approximately $313 million, also reflected at cost as a reduction of the shareholders' equity. This repurchase intents to cover the transfer of shares to employees upon vesting of future share based remuneration programs.

The treasury shares have been designated for allocation under STMicroelectronics's share based remuneration programs on non-vested shares including such plans as approved by the 2005, 2006, 2007, 2008, 2009 and 2010 Annual General Meeting of Shareholders. As of December 31, 2010, 14,186,218 of these treasury shares were transferred to employees under STMicroelectronics's share based remuneration programs of which 3,251,737 in the year ended December 31, 2010, following the full vesting of the 2007 stock-award plan, the vesting of the first and second tranches of the 2008 stock-award plan, the vesting of the first tranche of the 2009 stock-award plan together with the acceleration of the vesting of a limited number of stock-awards.

As of December 31, 2010, STMicroelectronics owned a number of treasury shares equivalent to 28,734,002.

Non Distributable Reserve

The amount of the non distributable reserve was $2,370 million and $2,619 million in the year 2010 and 2009, respectively and it represents the amount of issued and paid-in capital and legal reserve of STMicroelectronics.

8.3.14. Long-term debt

Long-term debt consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Long-term portion of convertible debt 2016	-	753
Long-term credit facilities	466	573
Total long-term debt	**466**	**1326**
Current portion of convertible debt 2016	444	-
Current portion of credit facilities	103	103
Total current portion of long-term debt	**547**	**103**

Convertible debt

In February 2006, the Company issued $1,131 million principal amount at maturity of zero coupon senior convertible bonds due in February 2016. The bonds were issued at 100% of principal with a yield to maturity of 1.5% and resulted in net proceeds to the Company of $974 million less transaction fees. The bonds are convertible by the holder at any time prior to maturity at the adjusted conversion rate of 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. The holders can redeem the convertible bonds upon a change of control or on February 23, 2012 at a price of $1,093.81 and on February 24, 2014 at a price of $1,126.99 per one thousand dollar face value of the bonds. On February 23, 2011, the holders redeemed 41,123 convertible bonds at a price of $1,077.58, out of the total of 490,170 outstanding bonds, or about 8%.

In December 2009 and during 2010, the Company repurchased for an aggregated amount of $484 million principal amount for a total cash consideration of $513 million. The Company allocated the consideration paid to the separate components of the convertible bonds using a method consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible instrument was issued. The result of these transactions is summarized as follows:

In millions of USD	2009 Repurchase	2010 Repurchase
Principal amount repurchased	98	386
Decrease in value of liability component of 2016 convertible bonds	85	339
Decrease in value of equity component of 2016 convertible bonds	11	39
Loss on repurchase of 2016 convertible bonds	7	32
Cash consideration	103	410

In respect to the 2016 convertible bond and its share conversion option, the Company classified the share conversion option as equity rather than in other non-current liability, based on the fact that the Company will, under no circumstances, settle the share conversion option in cash or other assets.

Credit facilities

The Company had unutilized committed medium term credit facilities with core relationship banks totaling $492 million. In addition, the aggregate amount of the Company's and its subsidiaries' total available short-term credit facilities, excluding foreign exchange credit facilities, was approximately $664 million as at December 31, 2010. In addition, ST-Ericsson had $100 million of committed line from Ericsson as parent company, of which $75 was withdrawn and reported as "Short-term borrowings" at December 31, 2010. The Company also has three committed credit facilities with the European Investment Bank as part of R&D funding programs. The first one, for a total of €245 million for R&D in France was fully drawn in U.S. dollars for a total amount of $341 million, of which $98 million were paid back as at December 31, 2010. The second one, signed on July 21, 2008, for a total amount of €250 million for R&D projects in Italy, was fully drawn in U.S. dollars for $380 million, of which $54 million was paid back as at December 31, 2010. The third one, signed in September 2010, for a total of €350 million for R&D projects in France was undrawn as at December 31, 2010.

Long-term debt credit facilities

In millions of USD	December 31, 2010	December 31, 2009
Balance at beginning of the year	**672**	**701**
Credit facilities increase	-	-
Credit facilities repayment	(103)	(29)
Balance at end of the year	**569**	**672**
Out of which short-term	103	103
Out of which long-term	466	569

8.3.15. Deferred tax assets and liabilities

Deferred tax assets and liabilities consisted of the following:

In millions of USD	December 31, 2010	December 31, 2009
Tax loss carry forward	16	28
Other temporary differences	4	3
Deferred tax assets	20	31
Development costs capitalization	(89)	(76)
Other temporary differences	(22)	(9)
Deferred tax liabilities	(111)	(85)
Net deferred income tax asset / (liability)	**(91)**	**(54)**

8.3.16. Other non-current liabilities

Other non-current liabilities consist of the following:

In millions of USD	December 31, 2010	December 31, 2009
Debt financial guarantee in favor of Hynix	-	17
Debt guarantee in favor of Numonyx	-	39
Numonyx capacity rights (non-current portion)	33	47
Other non-current liabilities	66	33
Total	**99**	**136**

The obligations for capacity rights are mainly due to the terms of the agreement for the inception of Numonyx that included rights granted to Numonyx to use certain assets retained by the Company. This capacity rights have been transferred to the acquirer of Numonyx. As at December 31, 2010, the value of such rights totaled $44 million (2009: $65 million) of which $33 million (2009: $47 million) was classified as a non-current liability.

8.3.17. Loans and banks

STMicroelectronics has revolving lines of credit agreements with several financial institutions totaling $492 million at December 31, 2010 (2009: $500 million). At December 31, 2010 and 2009 no amounts were drawn on these available lines of credit.

STMicroelectronics maintains also uncommitted foreign exchange facilities of $709 million.

8.3.18. Guarantees and contingencies

Guarantees given by STMicroelectronics to its affiliates for the benefit of third parties amounted to approximately $1,650 million at December 31, 2010 as detailed in Note 8.3.20 (2009: $1,640 million).

There is no other type of contingencies as of December 31, 2010 and 2009.

8.3.19. Wages, salaries and social charges

In millions of USD	December 31, 2010	December 31, 2009
Wages and salaries	50	37
Social charges	5	4
Pension service costs	5	6
Complementary pension scheme for executives	4	1
Other employee benefits	2	2
Total	**66**	**50**

The average number of persons employed by STMicroelectronics during the year ended December 31, 2010 was 231 out of which 218 outside The Netherlands (2009: 198 out of which 186 outside The Netherlands).

8.3.20. Commitments

STMicroelectronics's commitments as of December 31, 2010 were as follows:

In millions of USD	Total	2011	2012	2013	2014	2015	There-after
Operating leases	65	5	5	5	4	4	42
Purchase obligations	514	281	194	26	13	-	-
Of which:							
Software, technology licenses and design	253	145	72	22	13	-	-
Other purchases	261	136	122	4	-	-	-
Long term debt obligations (including current portion)	1,103	637	103	103	103	83	74
Pension obligations	19	1	1	2	2	2	11
Other non-current liabilities	98	27	22	7	4	3	35
Total	**1,799**	**951**	**325**	**143**	**126**	**92**	**162**

Other commitments

STMicroelectronics has issued guarantees totaling $1,650 million related to its subsidiaries debt and other obligations. Out of this, $1,037 million related to STMicroelectronics Finance B.V.'s obligation under the EUR500 million floating rate senior bond due in 2013 and the EUR350 million EIB credit facilities.

8.3.21. Related party transactions

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

In millions of USD	December 31, 2010	December 31, 2009
Sales & other services	69	68
Other purchases	(63)	(66)
Accounts receivable	10	13
Accounts payable	(24)	(8)

Remuneration to managing board and supervisory board members

For details on the remuneration to Managing Board and Supervisory Board members, see the consolidated financial statements of STMicroelectronics (Note 7.6.34).

Auditors' fees

The following audit fees were expensed in the income statement in the reporting period:

In USD	December 31, 2010	December 31, 2009
Audit of the financial statements	7,571,718	7,494,914
Other audit procedures	24,590	155,867
Tax services	74,728	3,883
Total	**7,671,036**	**7,654,664**

The fees listed above relate only to the procedures applied to STMicroelectronics and its consolidated group entities by PricewaterhouseCoopers.

March 11, 2011

Carlo Bozotti (President and Chief Executive Officer)

Antonino Turicchi (Chairman)

Gérald Arbola (Vice Chairman)

Raymond Bingham

Douglas Dunn

Didier Lamouche

Didier Lombard

Alessandro Ovi

Bruno Steve

Tom de Waard

9. Other information

9.1. Auditors' report

The report of the auditors, PricewaterhouseCoopers Accountants N.V., is presented on the pages 166 and 167 of this annual report.

9.2. Appropriation of results – provisions in company's articles of association

The Managing Directors, with the approval of the Supervisory Board, are allowed to allocate net profit to a reserve fund. The Articles of Association provide that the net result for the year, after deduction of (i) any amount to set up and maintain reserves required by Dutch law and the Articles of Association, (ii) if any of our preference shares are issued and outstanding, the dividend to be paid to the holders of preference shares and (iii) the aforementioned allocation to the reserve fund, is subject to the disposition by the AGM.

In the case that a net loss for the year exceeds the retained earnings, no dividend payments are allowed until the loss has been recovered from the net profit(s) in future years.

Proposed 2010 cash dividend and retained earnings and dividend policy

Upon the proposal of the Managing Board, the Supervisory Board decided only to retain a certain part of the net profit and to propose to the 2010 AGM a cash dividend of US $0.40 per common share, to be paid in four equal instalments as further described in the AGM agenda and explanatory notes thereto.

This proposal is consistent with STMicroelectronics's dividend policy as communicated and discussed at the 2005 AGM whereby:

a. STMicroelectronics seeks to use its available cash in order to develop and enhance its position in the very capital-intensive semiconductor market while at the same time managing its cash resources to reward its shareholders for their investment and trust in STMicroelectronics.

b. Based on its annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes each year to the Supervisory Board the allocation of its earnings involving whenever deemed possible and desirable in line with STMicroelectronics's objectives and financial situation, the distribution of a cash dividend, and

c. The Supervisory Board, upon the proposal of the Managing Board, decides each year, in accordance with this policy, which portion of the profits shall be retained in reserves to fund future growth or for other purposes and makes a proposal to the shareholders concerning the amount, if any, of the annual cash dividend.

9.3. Branches

The company has a branch in Geneva, Switzerland.

Independent auditor's report

To: the General Meeting of Shareholders of STMicroelectronics N.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of STMicroelectronics N.V., Amsterdam as set out on pages 63 to 164. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Managing Board's responsibility

Managing Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, Managing Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Managing Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of STMicroelectronics N.V. as at 31 December 2010, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of STMicroelectronics N.V. as at 31 December 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Managing Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Report of the Managing Board, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 11 March 2011
PricewaterhouseCoopers Accountants N.V.

Originally signed by: Paul R. Baart RA

10. Important dates

April 26, 2011: Q1 Earnings Release

April 27, 2011: Q1 2011 Earnings Conference Call

May 3, 2011: 2011 Annual General Meeting of Shareholders

Please consult our website www.st.com for the latest important dates.