Q215 Earnings Conference Call Remarks
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Thank you for joining us today on our second quarter earnings conference call. As usual, we will start with a financial and business review of the second quarter and then of our two product segments in detail. We will then turn to our third quarter outlook. So let's begin.

Looking across the key financial metrics - revenues, gross margin progression, operating margin and free cash flow generation – all of these were substantially in line with our expectations.

Revenues totaled $1.76 billion, increasing 3.2% from Q1, with most of our product groups contributing to the growth and with DPG flat.

On a year-over-year basis, net revenues decreased 5.6%. When excluding negative currency effects and the mobile legacy products, net revenues decreased instead 1.1% year-over-year, with AMS and MMS registering growth and with APG substantially flat.

As about 15% of our total revenues are Euro-denominated, currency effects negatively impacted net revenues in the second quarter by $14 million on a sequential basis and $66 million on a year-over-year basis. For the first half of 2015, currency effects negatively impacted total net revenues by $108 million.

We continued to diversify our customer base and expand in the mass market, with distribution channel sales at 33% of total revenues in the quarter, driven by the Americas, which achieved double-digit growth in point-of-sales on a year-over-year basis.

Our **gross margin** was on target at 33.8%, improving sequentially by 60 basis points, with several positive contributors including, as anticipated, currency, lower unused capacity charges and product mix.

Moving to **expenses**, we are performing well here. As anticipated, combined R&D and SG&A increased sequentially $8 million to $599 million, with currency benefits essentially offsetting the longer number of days in the quarter. Also, we registered some additional savings from our EPS cost reduction plan which will be completed this month. Net of R&D grants, expenses were at $564 million, so again at the low end of our net operating expense range of $550 million to $600 million.

Restructuring costs in the quarter were $21 million compared to $29 million in the first quarter, largely related to our EPS cost savings program.

Our **operating income** before impairment and restructuring costs increased to $33 million from $10 million in the first quarter, and it improved by $31 million compared to the year-ago quarter excluding the effect of the Nano2017 catch-up. As you may recall, the European Union approved the funding for the Nano2017 R&D program for the period 2013 to 2017 in June 2014; as a consequence, we recorded in the second quarter of last year $116 million for grants related to prior periods.

More importantly, we see further progress both from product and operational improvements as well as currency benefits. Excluding existing hedging contracts, operating margin would have been about 3 points higher than the reported 1.9%.

In the second quarter, **income tax** included a one-time income of $32 million associated with the re-measurement of a local tax provision. Reflecting this benefit, on a sequential basis our net income improved to $35 million for the second quarter.

Finally, we have seen another progressive improvement in our **free cash flow,** which rose to $53 million from $41 million in the first quarter. And on a year-to-date basis, it is a positive swing of $244 million to positive $94 million in the 2015 first half.

Let's now turn to SP&A and EPS performance during the quarter.

Beginning with **SP&A**, net revenues increased to $1.16 billion or 3.6% on a sequential basis, with all product groups contributing to this increase. More specifically, AMS grew in MEMS and microfluidics, IPD in power discrete and power transistor products for mobile and industrial markets, and APG in microcontrollers, infotainment and advanced safety product sales. Currency effects on SP&A's net revenues had a negative impact of $11 million sequentially and $52 million on a year-over-year basis, mostly affecting APG as over 20% of the group's revenues are Euro-denominated.

SP&A's operating margin was 6.6%, improving from 6.4% in the first quarter. Due to hedging, SP&A is not yet benefiting in the quarter from favorable currency effects of about 290 basis points.

Within SP&A, our **Industrial and Power Discrete group** recorded net revenues of $448 million: an increase of 4.2% on a sequential basis, despite softness in components for PC applications and market conditions in China.

During the quarter, we had a number of achievements across the four growing application areas where we are focused.

In power conversion, we won multiple designs for a 16-channel LED driver for panel displays with an important American OEM. We gained several design wins for low-voltage power MOSFETs in DC-DC telecom converter applications with a number of global manufacturers; we also continued to broaden our high voltage portfolio adding 1200V IGBTs that are the industry's best low-frequency performers, and we launched easy-to-configure controllers to simplify digital Power conversion.

In automation, we introduced our powerSTEP driver that delivers compact motor-control design for applications at high power and we continued to gain traction and extend our customer base with SiC rectifier diodes.

In portable applications, we continued the fast expansion of RF baluns within IoT applications using either sub gigahertz or Bluetooth Low Energy connectivity solutions and we ramped production of AMOLED drivers for the latest smartphones of a major Chinese customer.

And in our fourth focus area, energy management, we have been awarded sockets for the new gapDRIVE galvanic isolation family on a platform for the hybrid electrical vehicles of a market-leading US auto maker.

In our Analog, MEMS & Sensors group, revenues in the second quarter totaled $273 million: a sequential increase of 7%, driven by our diversification activities combined with products in our traditional areas of strength.

In motion MEMS, we ramped production of our ultra-low-power 6-axis sensor in some of the latest Samsung Galaxy smartphones, as well as in smart watches from leading global manufacturers.

The product diversification initiatives with key customers allowed us to increase shipments of MEMS microphones, FingerTip touchscreen controllers and pressure sensors.

In terms of new products now generating revenue streams, during the quarter we ramped up shipments of our Bluetooth Smart network processor in devices for fitness applications for leading brands. We also continued to ramp shipments of our micro-mirrors and associated control devices which, as we announced last quarter, were chosen by Intel.

We also saw our automotive sensor business continue to grow. Even if this business is still small today, the contribution of our MEMS technology is another important step in ST’s leadership in smart driving.

Continuing with our positioning in smart driving and turning to our **Automotive product group**, net revenues in the quarter were $438 million, up slightly from the first quarter.

We continued to leverage the strength of our broad-based portfolio to win business in areas of strategic focus.

In active safety, through our partnership with Mobileye we remain positioned as the leading supplier for vision-based active safety systems. During the quarter we added three car makers and 9 car platforms to the design wins obtained with the EyeQ3 system for production start during this year.

In 32-bit microcontrollers, we continued to see solid growth driven by our existing design-win pipeline. In addition, we captured a new design win at a global leader for a body-control module for a European car manufacturer and earned an award from a US manufacturer for a navigation module.

In car infotainment, we gained a socket for our Accordo2 - a fully integrated audio subsystem – for a telematics box with a large Chinese customer and won business from a global automotive parts supply company for a connected radio.

We have also been awarded multiple design wins for our multi-satellite GNSS products in China, in emerging markets, and also in the mass market.

And finally, in Smart Power, we earned an award for body-control modules from a large European tier one with our VIPower technology.

Turning now to **EPS**, second quarter net revenues increased 2.4% on a sequential basis, driven by general purpose microcontrollers in MMS and ASIC products in DPG. By group, MMS increased 3.8% and DPG's revenues were stable on a quarter-to-quarter basis.

EPS' negative operating margin was reduced to a negative 7.0% in the 2015 second quarter from negative 11.1% in the prior quarter driven by product mix, lower unused capacity charges and favorable currency effects, net of hedging.

In addition, the EPS cost savings program which we are completing this month will continue to contribute, with the full benefit to come in the fourth quarter.

In the **Digital Product Group**, revenues in the second quarter were $207 million, representing 12% of total ST revenues. As I mentioned, revenues were stable sequentially thanks to growth in ASICs, offset by the decline of commodity camera module products due to their phase-out. Operating results were still negative, although reduced both on a sequential and year-over-year basis.

We continue to explore options for our Digital Product Group and we expect to give you an interim update on our progress at our Q3 2015 earnings call in October.

During the quarter, we unveiled in France Canal+’s market deployment of Technicolor’s innovative Hybrid Over-the-Top/ HD broadcast set-top box based on our Cannes SoC family.

In our imaging business we captured multiple design-wins for our Time-of-Flight photonic sensors at several leading Asian smartphone manufacturers, with more than 10 phone models with this technology now available on the market.

We were also awarded a 28nm FD-SOI ASIC design with a networking customer and we recorded several wins in mixed process ASICs for optical transmission projects. Moreover, our 100Gb/s silicon photonics technology gained traction in optical transmission projects for large data centers.

Moving now to our Microcontroller, Memories and Secure MCUs Group, net revenues were $388 million, a sequential increase of 3.8%. This was driven by general purpose microcontrollers, where we reached another record during the second quarter shipping our one billionth STM32 device.

In the STM32 family we began delivery of our STM32F7. This is the first microcontroller coming to market featuring the ARM Cortex-M7 Core and a set of advanced peripherals which ensure developers can get maximum performance for their applications. We introduced a new variant of our popular STM32 F4 family, which enables smartphone-like graphics for wearable devices, smart appliances, and other Internet of Things applications. We also captured several design wins for the STM32 ultra-low-power families in mobile phone, fitness, healthcare and industrial markets.

We also had a number of wins with our EEPROM portfolio. We began ramping EEPROM products for a major smartphone OEM and we landed wins for 2Mbit EEPROM in wafer-level chip-scale packages for server modules for a global leader.

Finally, we also earned a win for a secure MCU in a major electronic identification project in Asia.

Now, let me conclude with our third quarter outlook. Based upon our visibility and current assessment of mixed market conditions, specifically in components for PC applications and the overall economic environment in China, we expect revenues to increase sequentially by about 2.5% at the mid-point.

We expect gross margin to increase to about 35% at the mid-point, mainly thanks to manufacturing efficiencies and currency, partially offset by usual price pressure and an amount of unused charges similar to Q2.

All in all, we look to continue to make further sequential improvement in revenues, gross margin, operating margin, free cash flow and to further advance our focused product and technology initiatives.

My colleagues and I would now be happy to take your questions.