Good morning, and thank you for joining ST on our second quarter 2019 earnings call.

Let me start with some opening comments.

First, on Q2 and H1:

- Our Q2 revenues, at $2.17 billion, came in above the midpoint of our guidance. Gross margin, at 38.2%, was slightly below due to product mix. Operating margin was 9.0% and net income was $160 million.
- For the first half, we delivered results in line with our guidance, with revenues of $4.25 billion, gross margin of 38.8%, operating margin of 9.6% and net income of $338 million.

Second, on Q3:

- For the third quarter, we expect strong sequential revenue growth of about 15.3% at the midpoint, driven by engaged customer programs and new products, in a softer than expected legacy automotive and industrial market.
Gross margin is expected to be 37.5% at the midpoint, including 140 basis points of unsaturation charges.

Regarding the full year 2019:

- We now expect net revenues to be in the range of about $9.35 to $9.65 billion.
- This level of revenues takes into account already engaged customer programs and new product introductions.
- It is still assuming improving market conditions in the second half in Automotive, Industrial and Mass Market; however, at a different pace compared with our prior expectations.
- For Industrial and the Mass Market, last quarter we indicated that March and April point-of-sales revenues were showing signs of recovery. That trend continued in May and June. However, this market recovery is taking longer than forecasted, particularly in Europe.
- For Automotive, we continued to see very strong demand in smart mobility applications, driven by car electrification and digitalization. What has changed since Q1 and our Capital Markets Day is a deterioration of market conditions in automotive with lower car registrations, particularly in China, affecting our legacy automotive products.
• We already moderated in April our 2019 Capex plan to a range of $1.1 to $1.2 billion. We are not changing our plan here, as we focus on our strategic programs supporting our future growth over the mid-term.

Now, let’s move to a detailed review of the second quarter.

Net revenues decreased 4.2% year-over-year, on lower sales of Analog, Microcontrollers and Digital ICs. We saw year-over-year growth in Automotive and Power Discrete, MEMS and Sensors.

As planned, we returned to sequential growth in the second quarter with net revenues increasing 4.7%. This performance was driven by specialized imaging sensors, RF products for front-end modules, silicon carbide MOSFETS and digital automotive. Detractors were general purpose analog, microcontrollers and legacy automotive products.

Our gross margin was 38.2%, 30 basis points lower than the mid-point of our guidance, reflecting unfavorable product mix. It included 80 basis points of unsaturation charges.
Our net operating expenses were $632 million, in line with our seasonally higher expectation of about $625 to $635 million for Q2.

From a profitability perspective, operating margin was 9.0%, net income $160 million and diluted earnings per share 18 cents.

Turning to cash generation – our net cash from operating activities was $324 million in the second quarter and $665 million for the first half.

Our Capex in Q2 was $372 million, compared to $390 million in the year-ago period. For H1 we invested $694 million in capital expenditures.

Free cash flow was negative $67 million in Q2.

We paid cash dividends totaling $53 million and share buy-backs of $64 million.

Now, let’s move to our third quarter outlook.

For Q3, we are expecting strong sequential revenue growth of about 15.3% at the mid-point. Our sequential growth will be driven by
engaged customer programs and new products, in a softer than expected legacy automotive and industrial market. All product groups are expected to grow. At the midpoint of our guidance, this means we would be back to about the same revenue level as in Q3 2018.

Our gross margin guidance at the mid-point is 37.5%, with an estimated 140 basis points of unsaturation charges. This represents a decrease of 70 basis points sequentially, mainly due to a higher level of unsaturation charges. On a year-over-year basis, the decrease is 230 basis points.

We expect net operating expenses in Q3 to be between $620 to $630 million.

Let me now share with you some important business, market and product dynamics, starting with Automotive.

In the first half, this part of our business increased about 10% year-over-year.

We operated under two opposing dynamics.
On the one hand, a declining legacy automotive business, in line with the year-over-year decline in the number of car registrations worldwide and worse than expected. In China, specifically, we did not yet see a positive impact from the recent fiscal stimulus policies. And, in Europe, demand for legacy automotive products has been deteriorating during the second quarter.

On the other hand, we continued to see very strong demand in smart mobility applications, driven by car electrification and digitalization. In car electrification, we had a number of significant design-wins during the quarter for electric cars and charging. These included a key component in an EV Inverter application, as well as MOSFETS and power modules. We had a number of designs in On-Board Charging applications at American, Korean and Chinese car makers and Tier1s. For Silicon Carbide products, we continued to increase revenues and the number of design-in activities with multiple customers. We now have 33 ongoing programs; this number includes both automotive and industrial programs, awarded or in production. We are on track for over $200 million of revenues this year.

Car digitalization for us includes applications such as ADAS systems, V2X communications and embedded control units using
powerful microcontrollers. Here we continued to expand our footprint. We won a design with a Japanese Tier1 for our 32-bit MCUs for a new generation of ADAS systems.

Moving now to Industrial, Q2 was another quarter with softened market dynamics. The inventory correction at distributors that has been impacting our Analog portfolio and General Purpose Microcontrollers for some time, is still ongoing and even slightly stronger, reflecting shorter lead times. We expect this correction to be over in the third quarter, based on the positive signs we started to see since March for the point-of-sales at distributors worldwide, except in Europe.

As we already shared with you, Industrial is a key area of focus for ST, where we plan to accelerate our growth.

We target leadership in industrial embedded processing.

Here, we introduced two new STM32 MCU families. The first one, with dedicated features designed for motor control and digital power applications, is already in production at several Chinese industrial OEMs. The second one is a dual-core STM32 with record Cortex-core processing power.
Furthermore, we introduced high-voltage motor-driver ICs with embedded STM32 MCUs – leveraging our system capabilities to strengthen our Analog offer. We won a number of designs across many industrial applications: for example, with metering and digital power solutions for LED lighting and power supply, as well as in industrial power and energy management with numerous design wins for power discretes.

Moving now to Personal Electronics.

The global smartphone market is still forecast to decrease slightly. However, we are seeing an important, positive trend of demand acceleration for 5G smartphones in Asia.

In this end market, we confirm we target leadership in specific high-volume smartphone applications: sensors, secure solutions, power management and RF products for front-end modules. And we also focus on the growing wearable and accessories market.

During Q2 we had at least an Imaging sensor and/or a MEMS device in all of the top 10 smartphones currently on the market. We had multiple wins for motion and pressure sensors in the flagship models
from many of the world’s top smartphone and wearable manufacturers. We also continued to earn design wins and ramp shipments for our time of flight sensors, analog products and RF products for 4G front-end modules.

This last point allows me to transition to communications infrastructure. I would like to conclude with a few words on our objective to capture opportunities in 5G with RF mixed signal technologies and products. During the quarter we won multiple ASIC designs for 5G infrastructure, 5G smartphones and Wi-Fi routers – this thanks to our unique technology portfolio.

To conclude my remarks:

- During the second quarter we executed in line with our expectations, returning to sequential revenue growth.
- For the third quarter, we expect to see a strong increase in sequential revenue growth at the mid-point of our revenue range.
- For the full year 2019:
  - We still plan for strong sequential growth in the second half of the year compared with the first half.
  - Our expected level of revenues takes into account already engaged customer programs and new product introductions.
• It is still assuming improving market conditions in the second half in Automotive, Industrial and Mass Market; however, at a different pace compared with our prior expectations.

• Based upon our plans, we will maintain a solid capital structure, returning to positive free cash flow in the third quarter.

Thank you for your attention. We are now ready to take your questions.