

# Financial Performance and Roadmap



**Carlo Ferro**  
**Executive Vice President**  
**Chief Financial Officer**

Field Trip 2006 - London, May 23rd

# Agenda

- **ST Profitability: Performance and Opportunities**
- Product Segments Financial Return
- Cash Flow and Capital Structure
- Conclusion



# Quarterly Financial Performance:

## Steady Progress = Improved EPS, RONA and Cash Flow

(As reported in US\$M, except EPS amounts)	Q105	Q205	Q305	Q405	Q106
<b>Net Revenues</b>	2,083	2,162	2,247	2,389	2,364
<b>Gross Margin</b>	32.9%	33.0%	34.1%	36.5%	35.4%
<b>Operating Margin (*)</b>	- 3.2%	0.6%	4.5%	8.2%	5.9%
<b>Net Income (*)</b>	- 31	26	89	183	132
<b>EPS Diluted (*)</b>	- 0.03	0.03	0.10	0.20	0.14
<b>RONA (excluding restructuring)</b>	0.5%	1.6%	5.3%	10.2%	7.4%
<b>Net Operating Cash Flow (**)</b>	-216	23	173	290	187
<i>(*) After pre-tax restructuring charges</i>	78	22	12	16	13

(\*\*) Net operating cash flow is defined as net cash from operating activities minus net cash used in investing activities excluding payments for purchase of and proceeds from the sale of marketable securities and short-term deposits.



# Strategic Actions and Profitability Drivers

## RESULTS ACHIEVED

### Q106 vs Q105 Revenues

- ST +13.5% > TAM +7.3%
- ST China +36%, New key accounts +66%

- Redeployed 10% of R&D workforce
- R&D expenses flat in (\$)

R&D Focus

Sales Expansion

EPS  
RONA  
Cash Flow

Cost Reduction

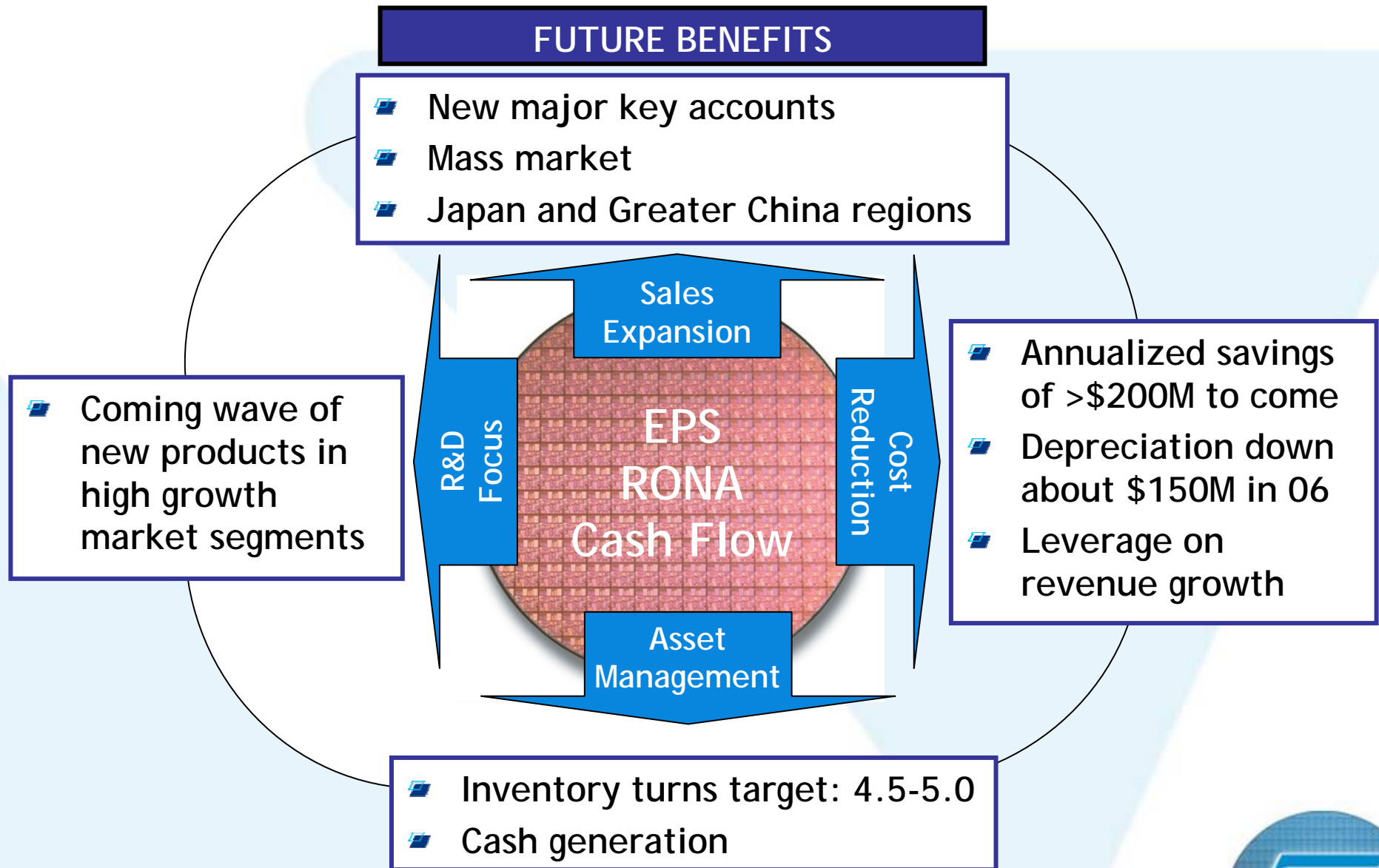
- Annual savings of >\$400M
- Euro exposure reduced

Asset Management

- CapEx / Sales (05-06) ~17%
- NAT accelerated to 1.14

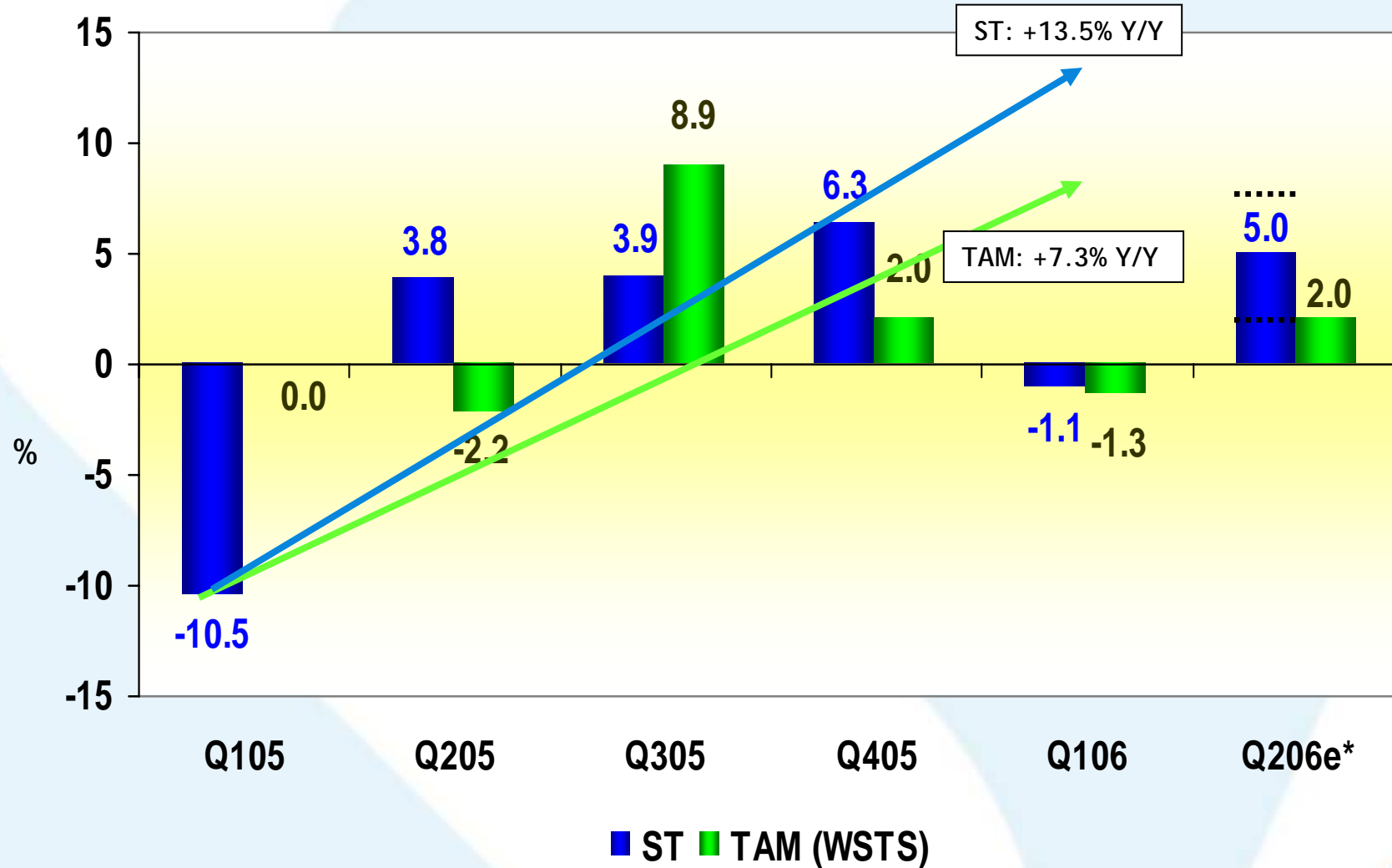


# Strategic Actions and Profitability Drivers



# Financial Performance Starts at the Top Line...

## Sequentially: ST vs Total Available Market (TAM)



\*ST: Midpoint of Q206 revenue guidance (+2%/+8%) provided on April 25, 2006. TAM: ST estimate.



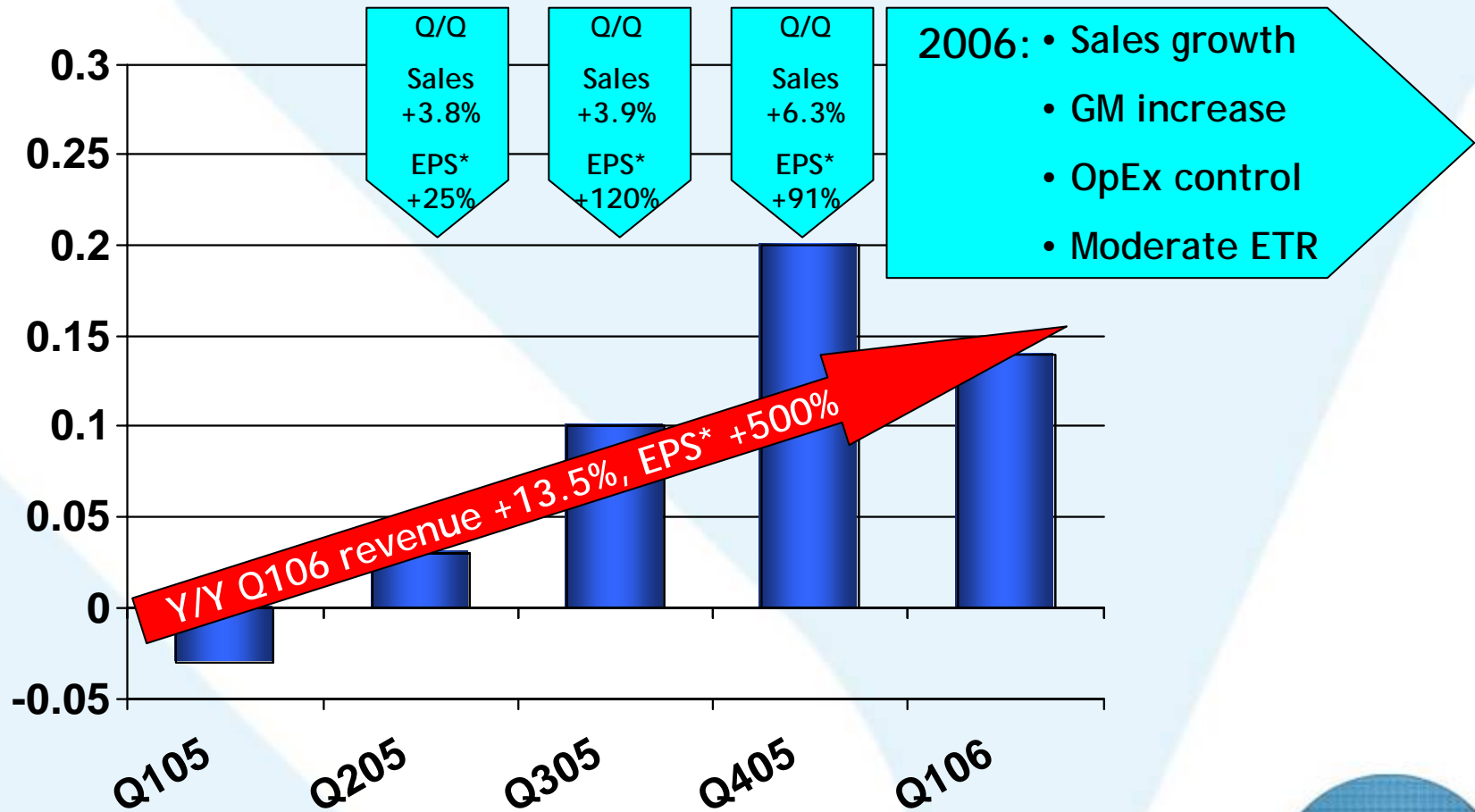
# ...and Falls to the Bottom Line (Quarterly Progression of Net Earnings)



# EPS Leverage

(Diluted EPS as Reported)

**Target: Substantially improve EPS on a Y/Y basis.**



\*Clean EPS excludes estimated impact of restructuring charges

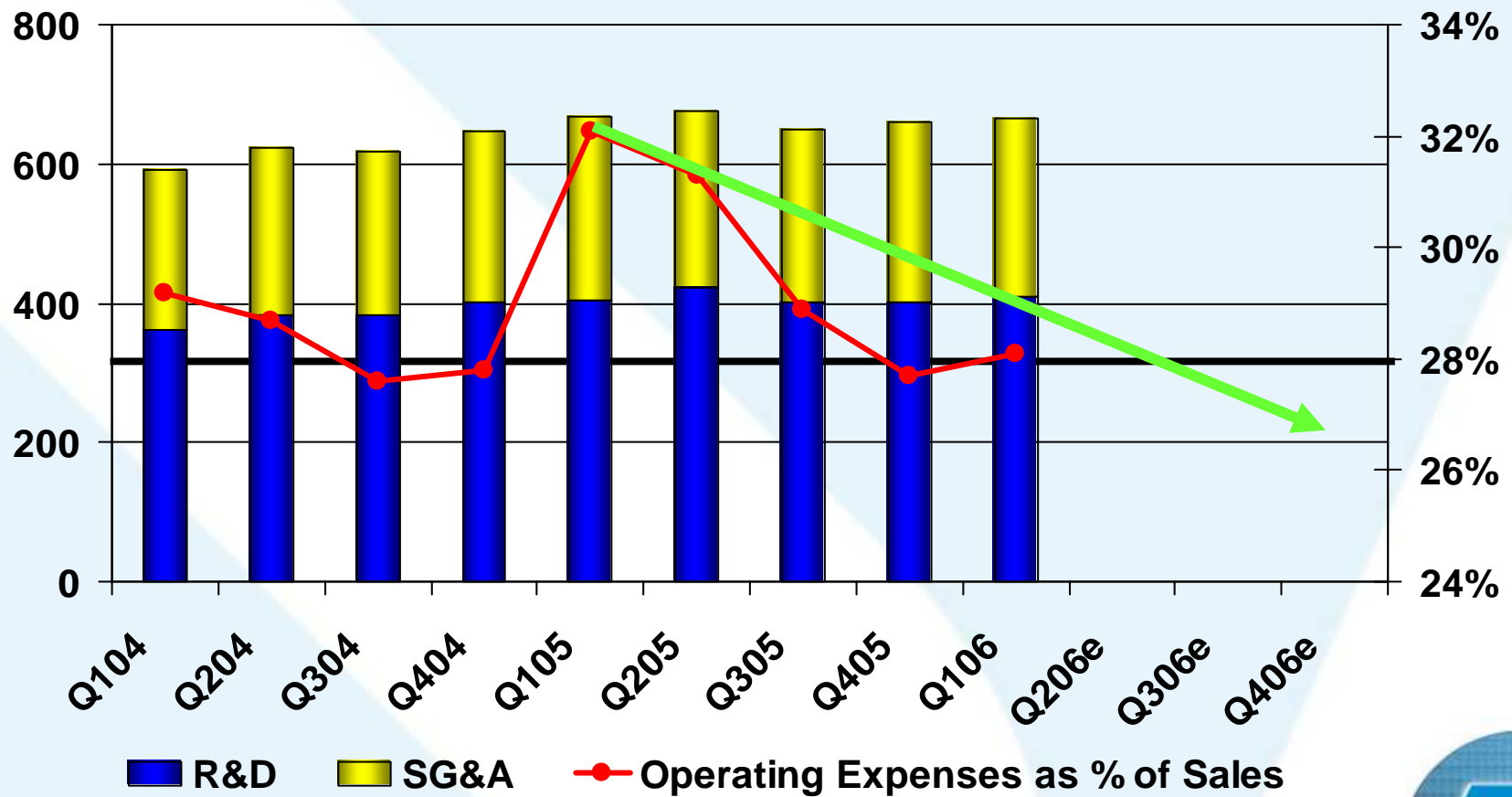




# Operating Expense Control

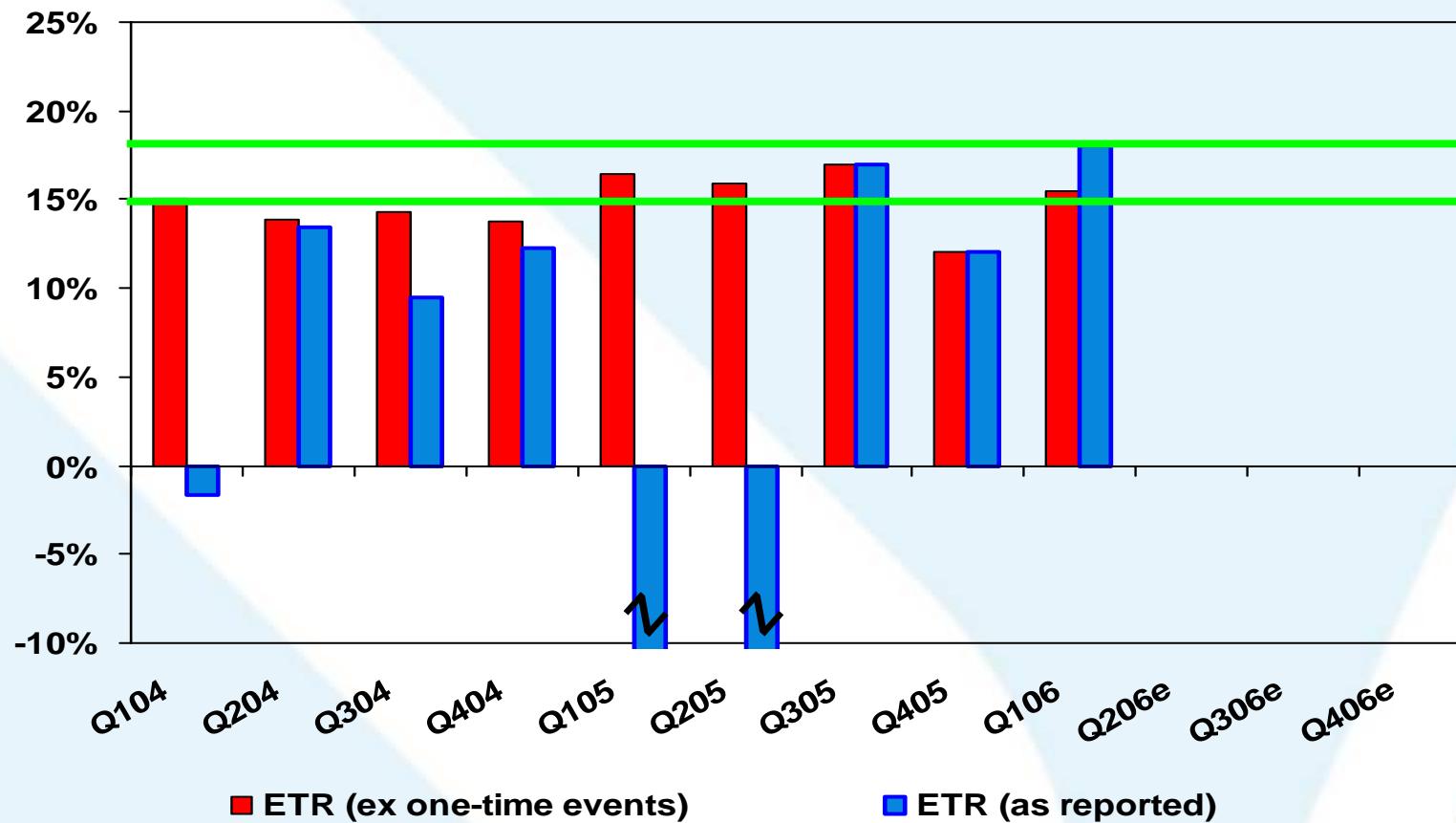
(SG&A and R&D as Reported in US\$M)

**Target: Less than 28% of sales**



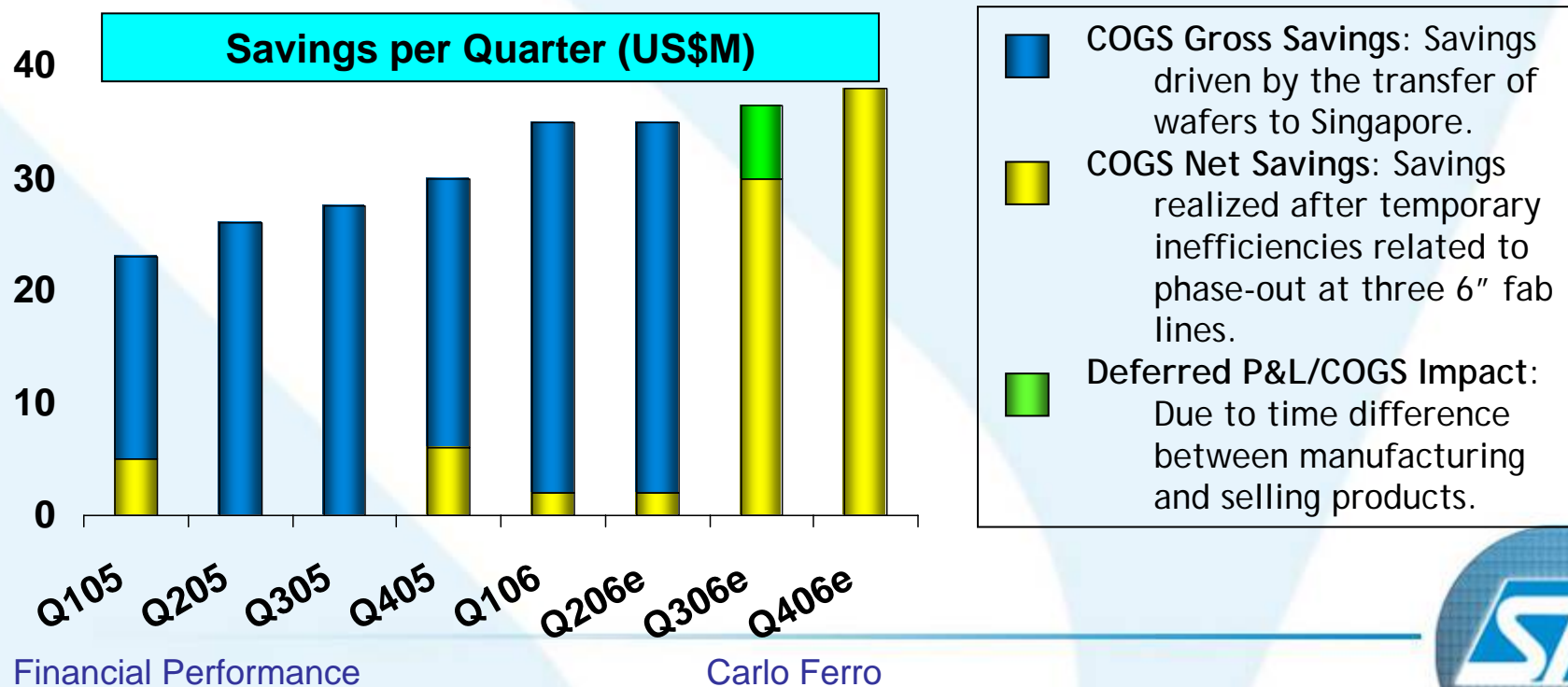
# Efficient Tax Management

**Target: 15% to 18% Effective Tax Rate**



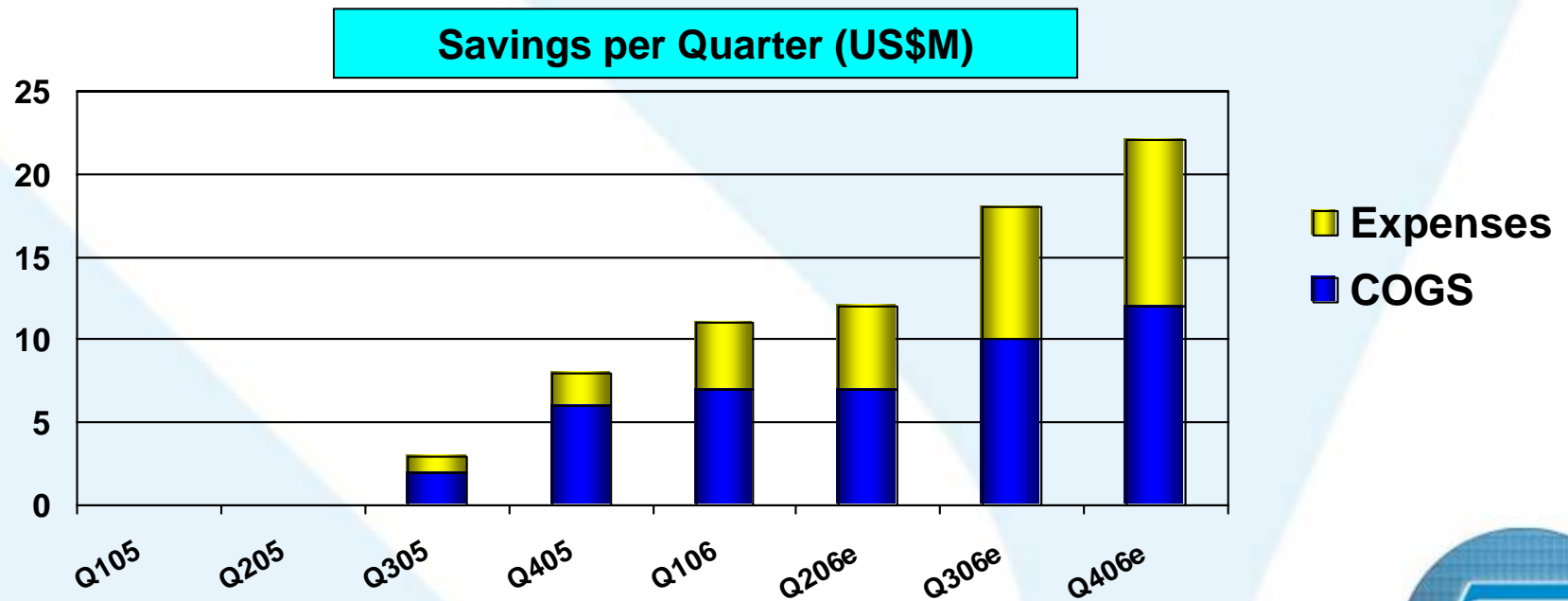
# Cost Reduction Initiatives (6" Restructuring)

- Confirm pre-tax savings of \$150M annualized
  - Wafer transfer to Singapore progressing as planned
- Benefit to GM currently offset by temporary inefficiencies related to phase-out
- Incremental COGS savings from Q106 to Q406 is about \$36M per quarter...  
...or about 150 bps of gross margin evolution from Q106 to Q406



# Cost Reduction Initiatives (Headcount Restructuring)

- Confirm pre-tax savings of about \$90M annualized
  - Approximately 50% savings achieved in Q106
  - Program completion on track for mid-2006
- Restructuring charges managed to be on the low end of the range; about \$100M



# Restructuring Charges Summary

(As of April 1, 2006 in US\$M)

Restructuring Initiative	Estimated Total Charges (approximate)	Charges Incurred	Estimated Remaining Charges (approximate)
6" restructuring	\$350	\$300	\$50
Product pruning	\$73	\$73	\$0
Headcount reduction	\$100 to \$130	\$48	\$52

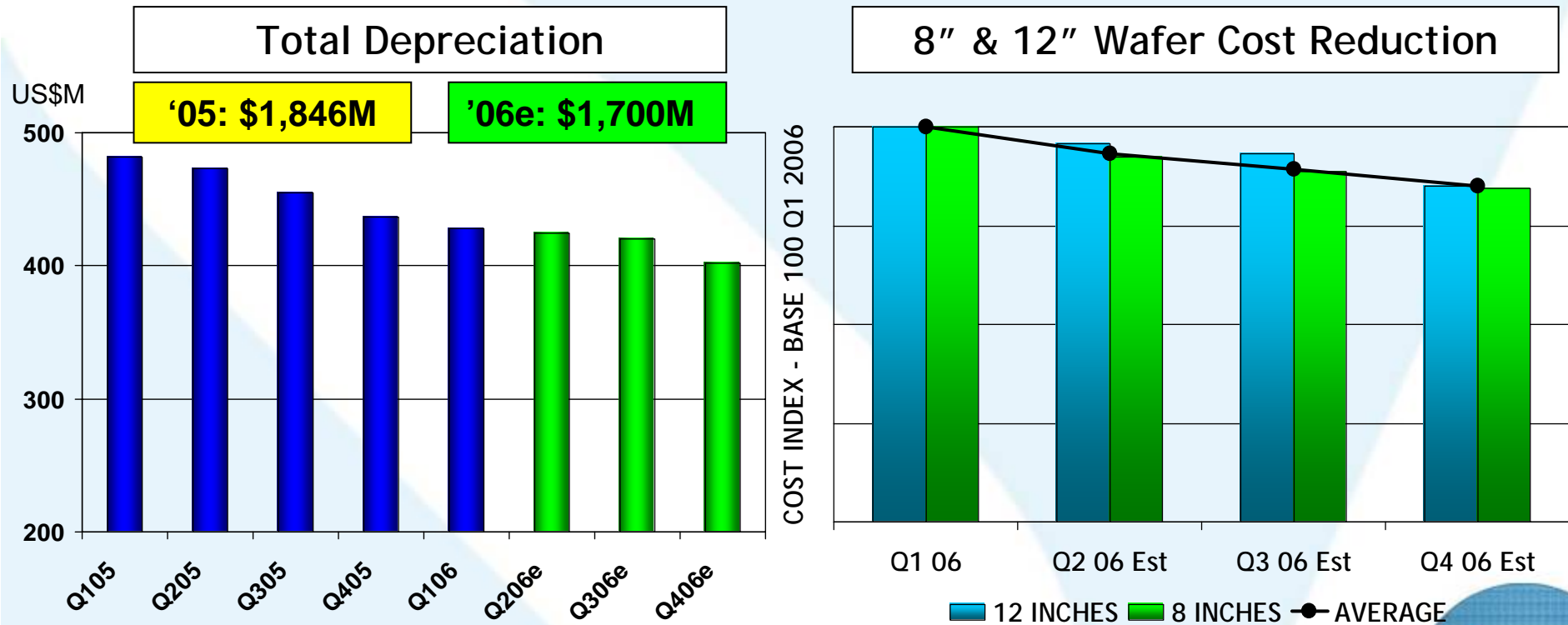
The majority of charges remaining will be taken in Q206 thru Q406



# Cost Reduction Initiatives

## (Depreciation Rollover\* and 8" & 12" Improvements)

- Double-digit wafer cost reduction in 8" and 12" target from Q106 to Q406
  - ◆ Approximately 2/3 of savings due to depreciation rollover
  - ◆ Approximately 1/3 of cash savings from manufacturing efficiencies
- \$100+ million of additional reduction in depreciation in 2007

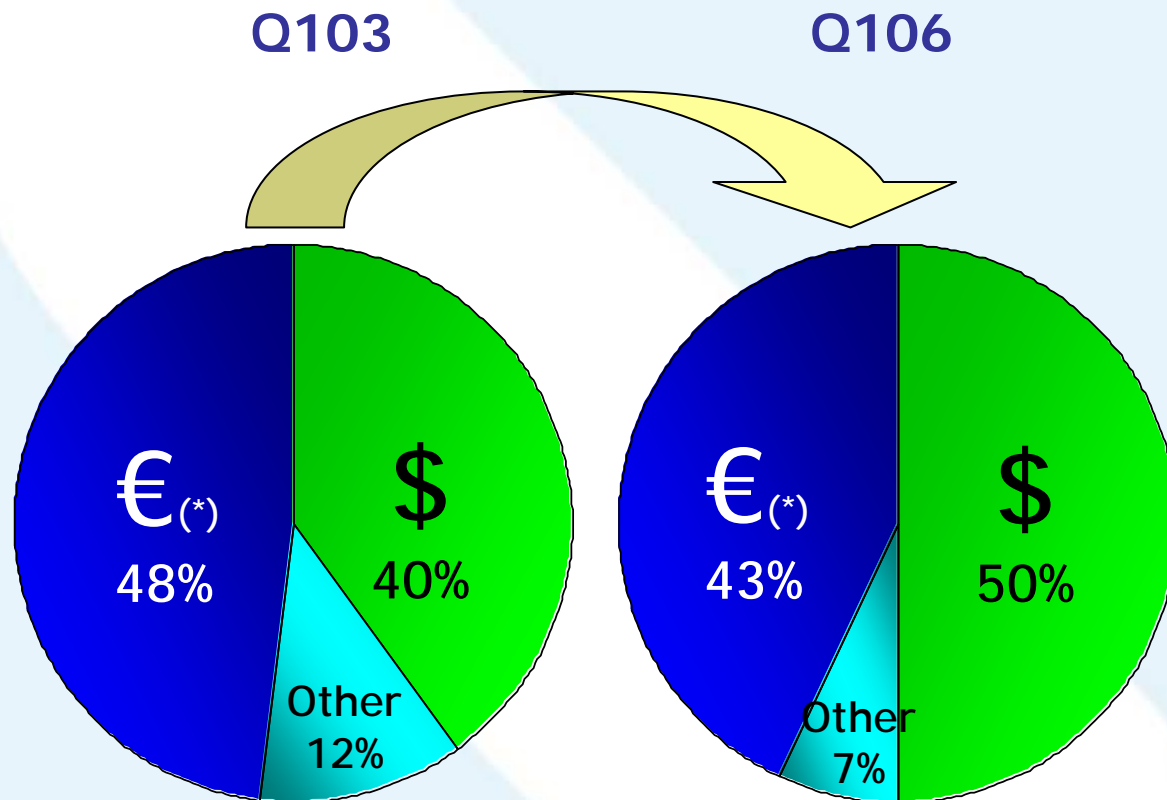


\*Based on approximate 1.25 Euro / \$ rate and does not imply any guidance on 2007 CapEx



# Reducing Currency Exposure

## Total Costs (COGS+OpEx) By Currency(\*)



### Natural Hedging:

- Exposure to the Euro\* mitigated to:
  - ◆ About 1/3 of COGS
  - ◆ <2/3 of OpEx

### Financial Hedging:

- About 50% of Euro / US\$ exposure hedged on a rolling basis up to 6 months

### Accounting:

- Functional currency of manufacturing in Asia and 300mm in Italy shifted to US\$

\*Euro (€) includes currencies such as Maltese Lira (pegged) and GBP, CHF, MAD Morocco.



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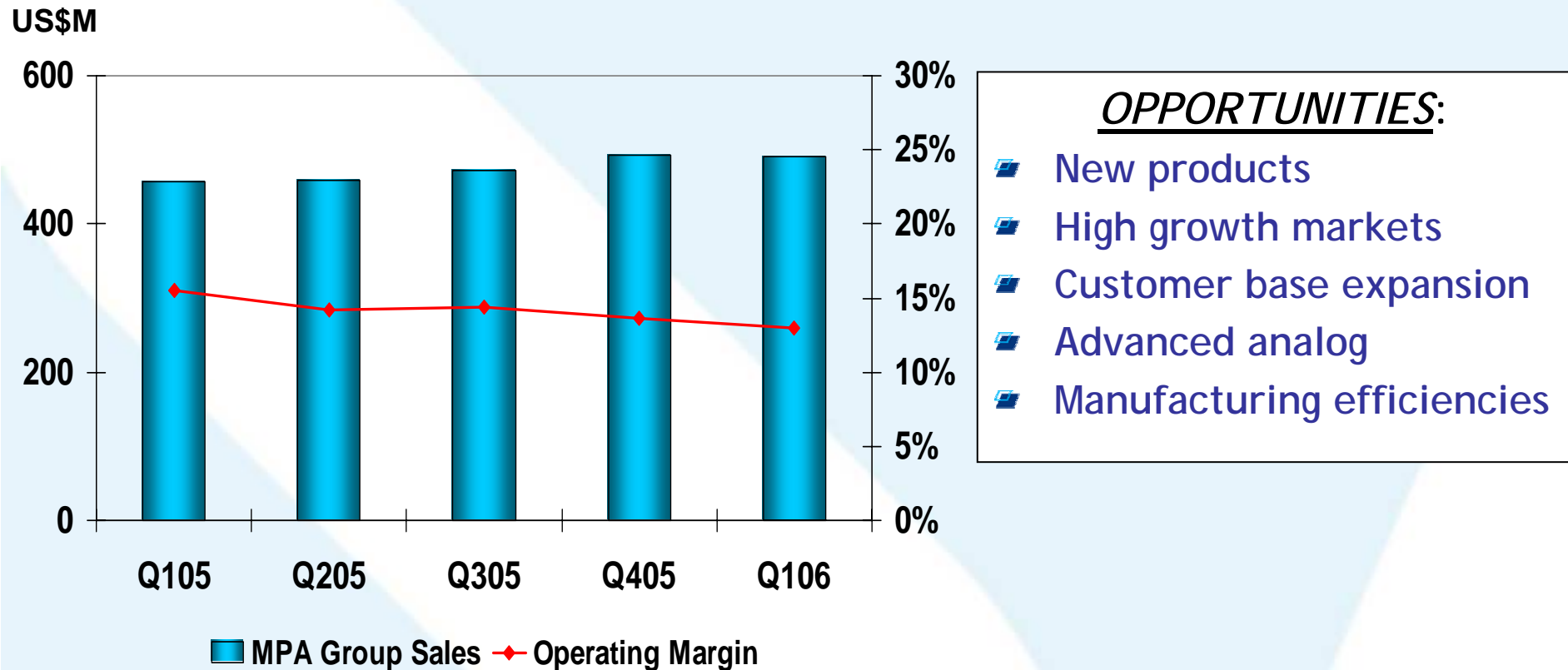
# Product Segments: Application Specific Product Group



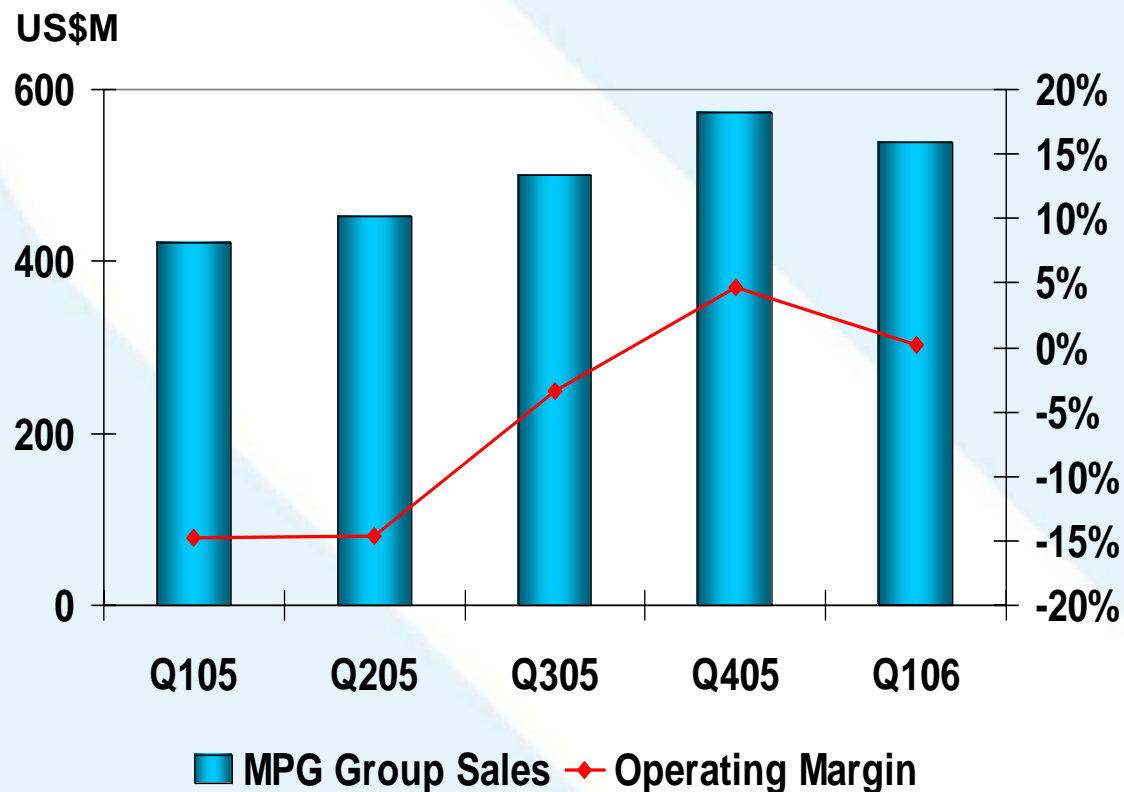
- OPPORTUNITIES:**
- 
**New products**
    - ◆ Market share
    - ◆ Gross margin
  - 
**Strategic partnerships**
  - 
**New key customers**
  - 
**R&D leverage**
  - 
**Foundry in advanced logic**
  - 
**Manufacturing efficiencies**



# Product Segments: Micro, Power and Analog (MPA)



# Product Segments: Memory Products (MPG)

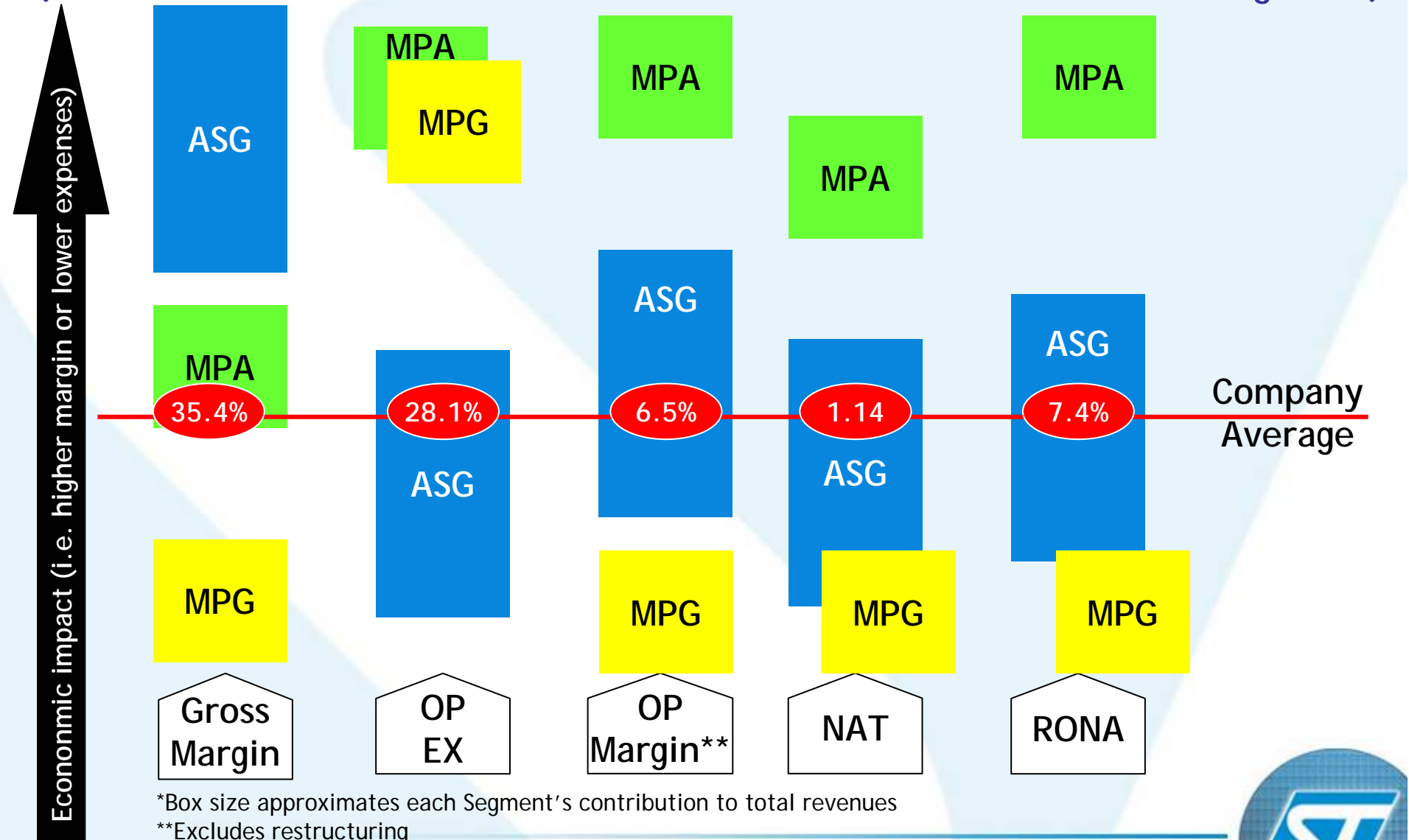


- OPPORTUNITIES:**
- New products:
  - Process Technology
  - New key customers
  - Manufacturing efficiencies
  - Existing strategic partnerships



# Key Metrics by Product Segment\*

(Based on Q106 results; not drawn to scale - see notes on following slide)



\*Box size approximates each Segment's contribution to total revenues

\*\*Excludes restructuring

Financial Performance

Carlo Ferro



# Key Metrics by Product Segment (Continued)

## Important Notes

- Box dimension reflects for each metric the Revenues of each Segment on total ST Sales;
- Ranking is based on economic impact of each Segment: i.e. higher margin, lower expenses, higher NAT or RONA;
- Positioning of each Group is aimed at indicating its ranking among the ST Segments with no intent to indicate in detail the relative performance;
- **ST DISCLOSES REVENUES AND OPERATING PROFIT BY SEGMENT:** It may not be accurate to extrapolate other segment data from the chart.



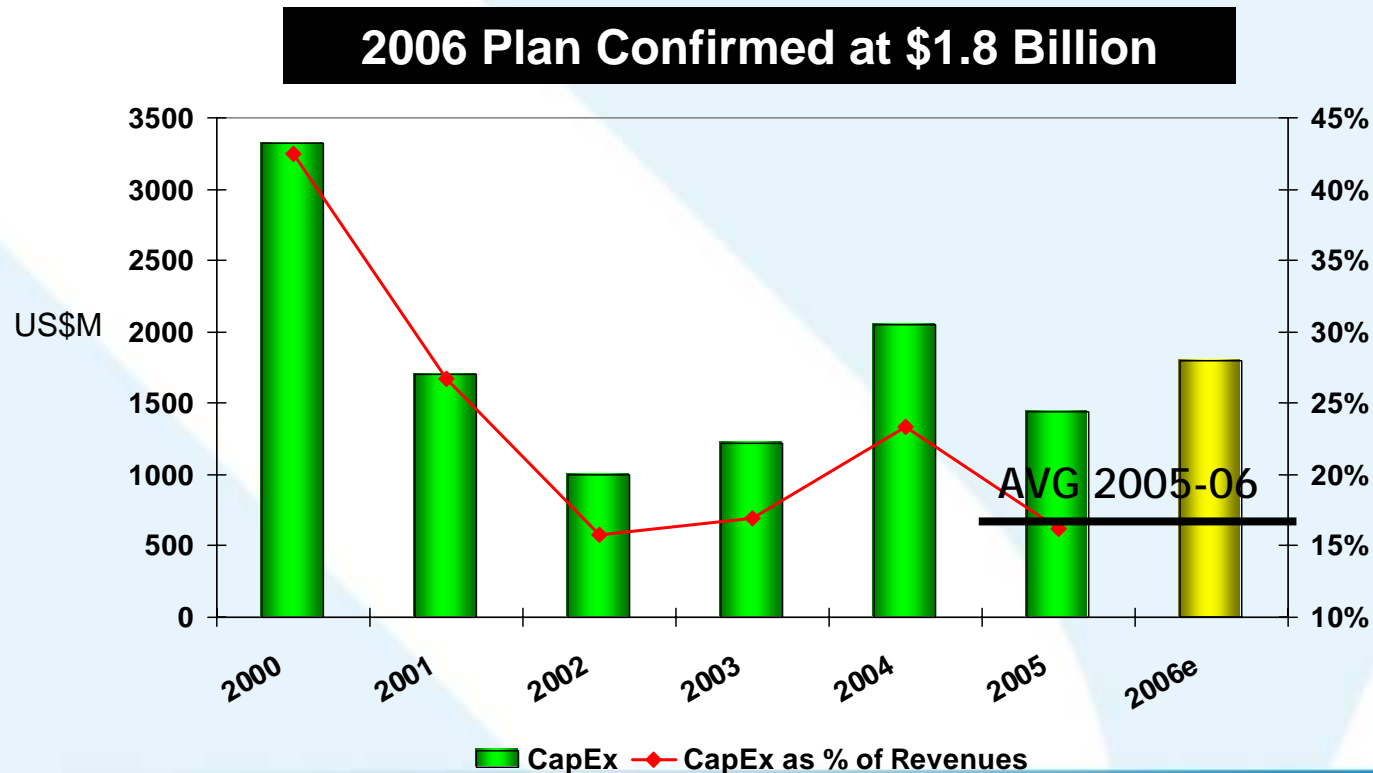
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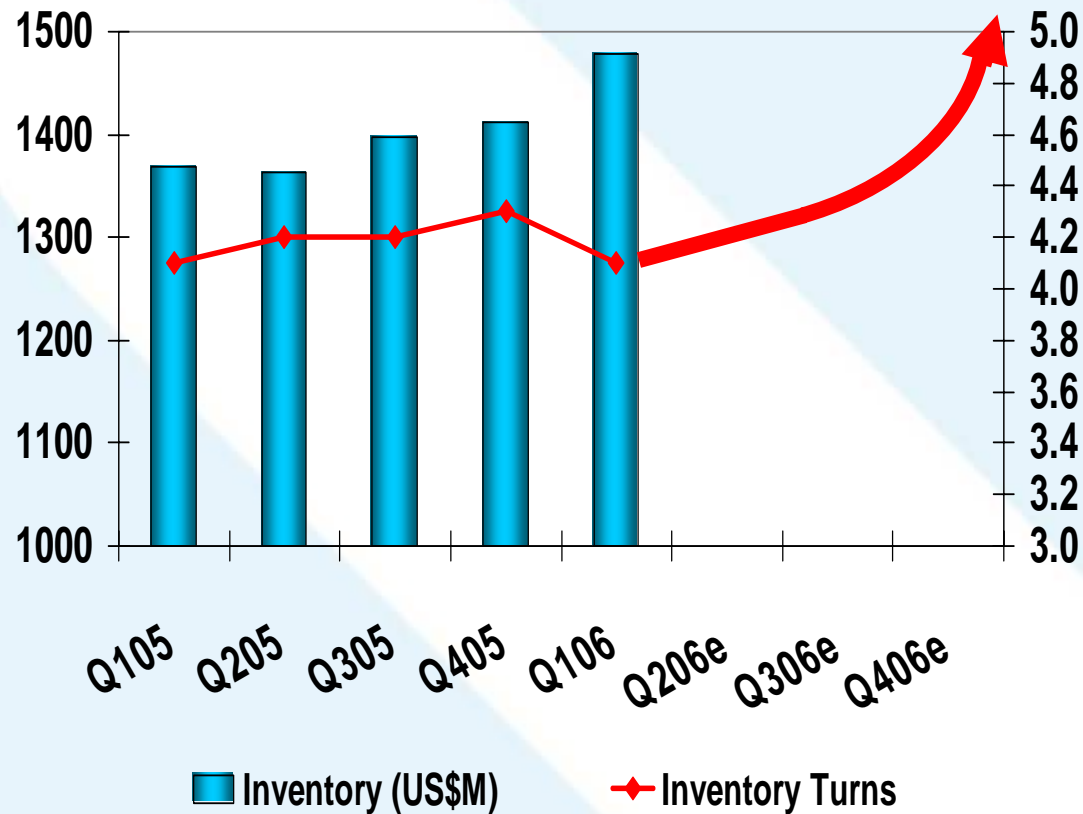
# Reducing Capital Intensity

- ▣ IDM strategy focused on customers is a competitive advantage
- ▣ Opportunistic use of silicon foundry:
  - ◆ Currently about 10% of total silicon
  - ◆ Above 40% in applicable technologies (i.e. advanced CMOS logic)
- ▣ Modular approach to invest driven by demand
- ▣ Partnership and manufacturing joint ventures



# Inventory Management

**Target: Inventory turns of 4.5 to 5.0**



- Inventories up 8% Y/Y vs net revenues up 13.5%

- Backlog**

- Entered Q206 about 9% higher than we had entering Q106
- Solid build for Q306

- Distribution**

- Inventory clean
- About 18% of Q106 net revenues

- OEM**

- On-consignment model

- 6" Restructuring**

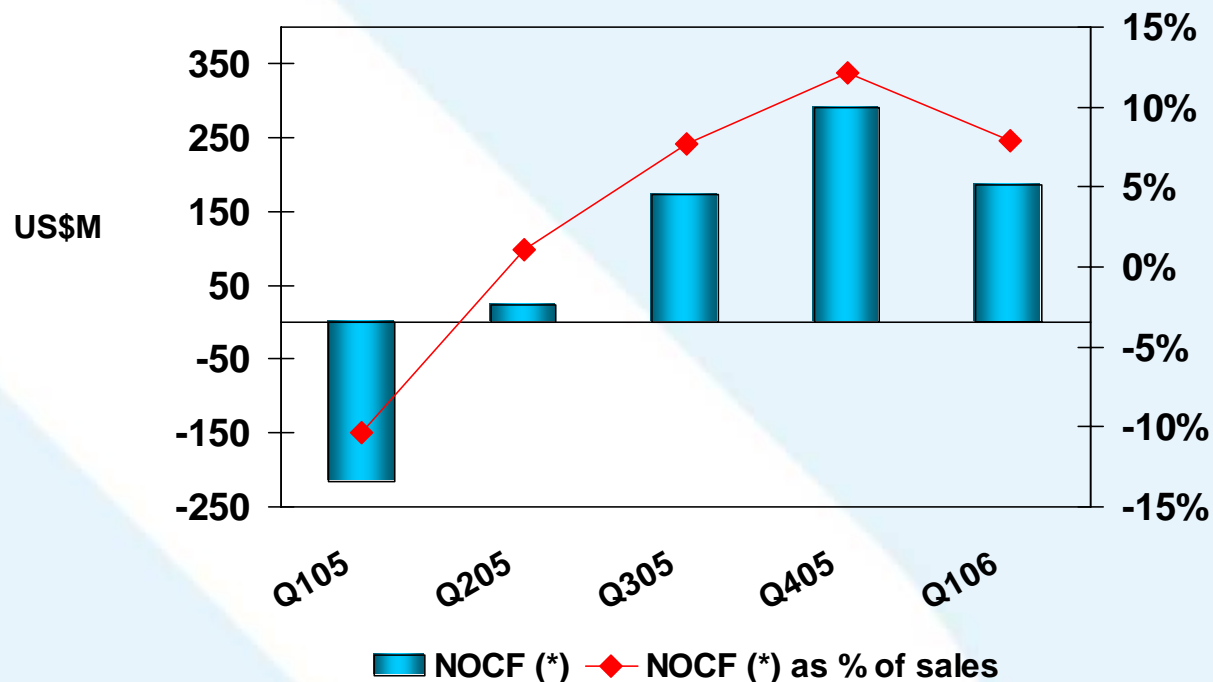
- Temporary buffer inventory





# Net Operating Cash Flow\* Evolution

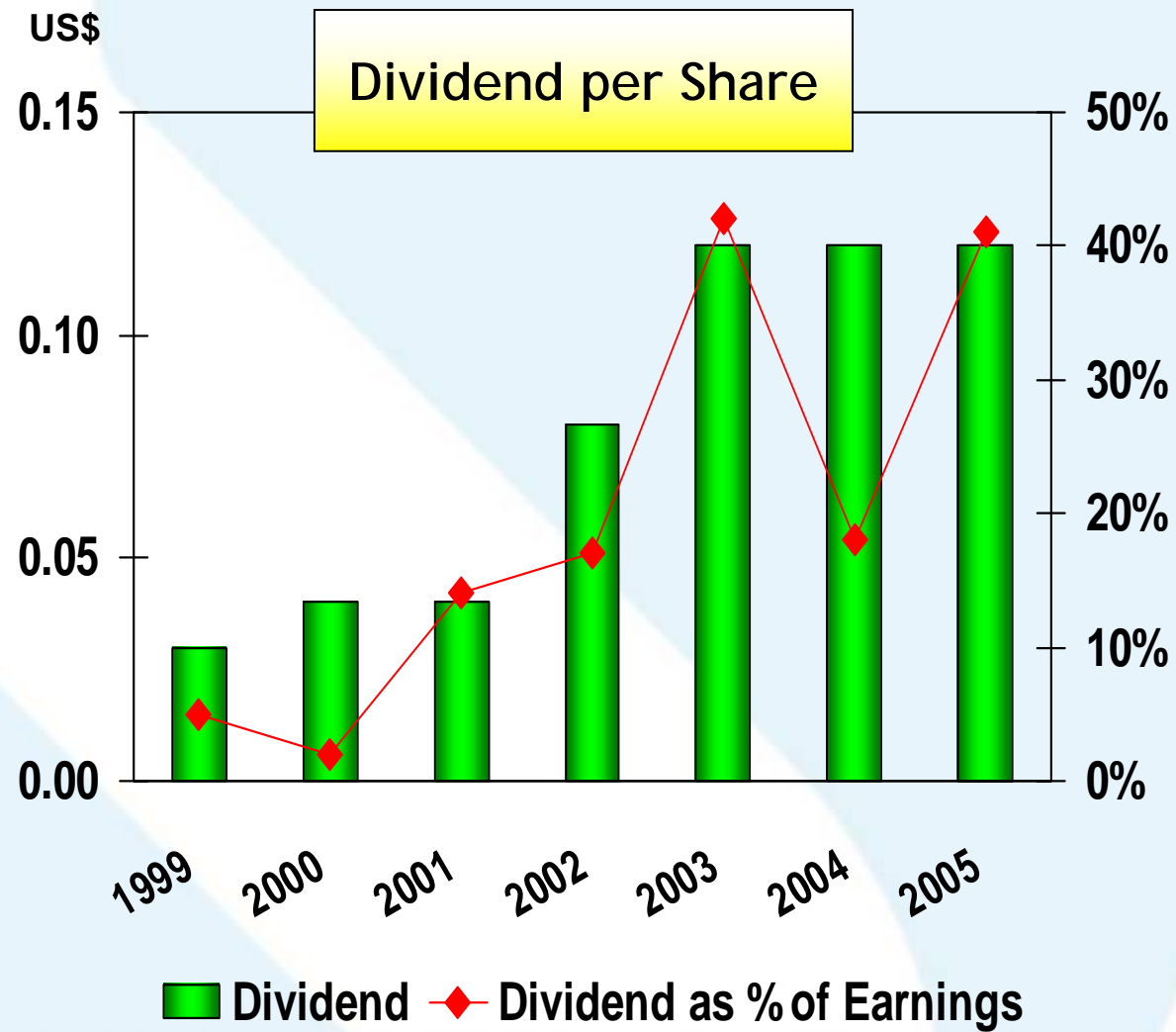
- Consistently improving cash flow
- Five fiscal years in a row, generating positive Net Operating Cash Flow
- \$1.7B NOCF\* in last 20 quarters, after \$7.0B for CapEx and \$0.9B for acquisitions and investments



\*Net operating cash flow (NOCF) is defined as net cash from operating activities minus net cash used in investing activities, excluding payment for purchases of and proceeds from the sale of marketable securities and short term deposits. NOCF is not a U.S. GAAP measure - please see our Form 20-F filed on March 3, 2006 for additional details.



# ...Keeping a Solid Dividend...



# ...and Maintaining a Solid Capital Structure

- ST is one of only three “single A” rated semiconductor companies
- Capital structure strengthened by recent refinancing

US\$M	<u>April 2, 2005</u>	<u>April 1, 2006</u>	<u>Assuming full redemption Convertible Bond 2013**</u>
Total cash	1,687	3,734	2,355
Convertible Bonds 2013 & 2016	(1379)	(2355)	(976)
Floating Rate Note 2013	0	(604)	(604)
Other financial debt	(518)	(375)	(375)
<b>Net financial position*</b>	<b>\$(210)</b>	<b>\$400</b>	<b>\$400</b>
<b>Cash / revenues (1)</b>	<b>20%</b>	<b>39%</b>	<b>25%</b>
<b>Gross debt / EBITDA (1)</b>	<b>0.9</b>	<b>1.4</b>	<b>0.8</b>
<b>Net debt / equity</b>	<b>2.4%</b>	<b>-4.6%</b>	<b>-4.6%</b>

\*Net financial position (cash, cash equivalents, short-term deposits and marketable securities minus bank overdrafts, current portion of long-term debt and long-term debt, including our convertible bonds and floating rate note. Net financial position is not a U.S. GAAP measure - please see our Form 20-F filed on March 3, 2006 for additional details.

\*\*Assumes all noteholders exercise the put option on the 2013 convertible bond in August 2006.

(1) Based on most recent quarter run rate



# Recent Refinancing

- Refinancing of 2013 Convertible Bond, which is likely redeemable in August 06, in the amount of \$1.38 billion, pre-funded to maintain our current liquidity as a factor of:
  - High financial flexibility
  - “Single A” credit rating
- \$1.5 billion+ proceeds raised at an average funding cost of 2.1% as a combination of:
  - \$974 million Zero Coupon Convertible Bond due 2016 at 1.5% yield
  - €500 million Senior Unsecured Bond due 2013 at 3m Euribor + 40 bps (FRN)
- Achieved Objectives:
  - **No incremental dilution to equity holders as underlying share count is the same**
  - Successfully introduced ST to the European Debt Capital Market
  - Extended minimum average life of financing to 5 years and 9 months
  - Optimized the cost of funding and the impact to WACC

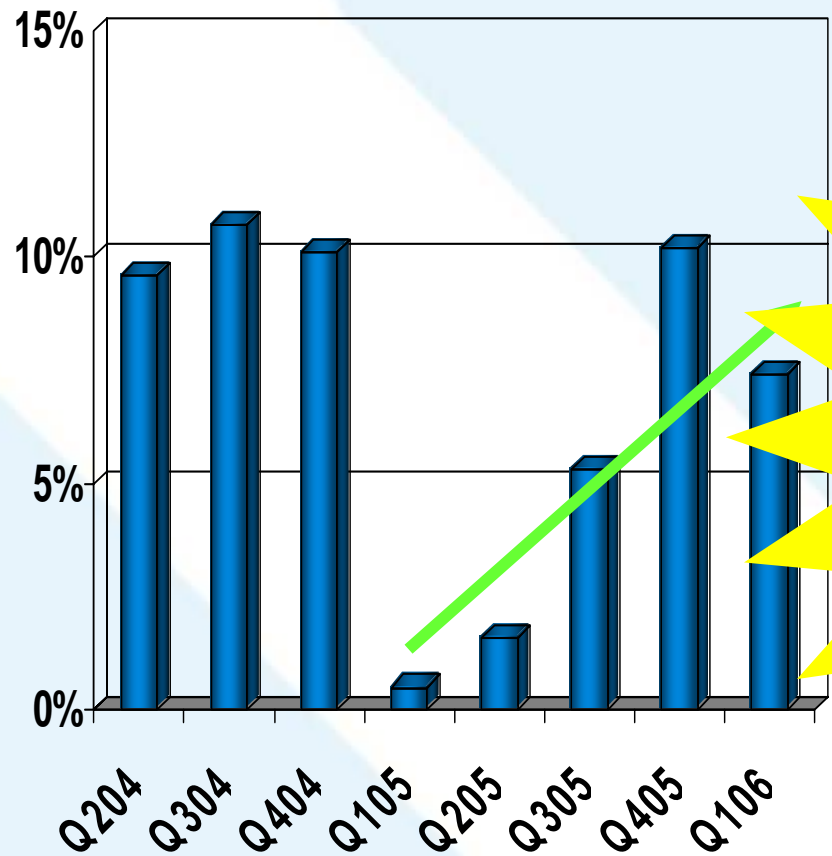


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# Generating Shareholder Wealth: Return on Net Assets (RONA)



**OPERATING MARGIN** 11%-15%

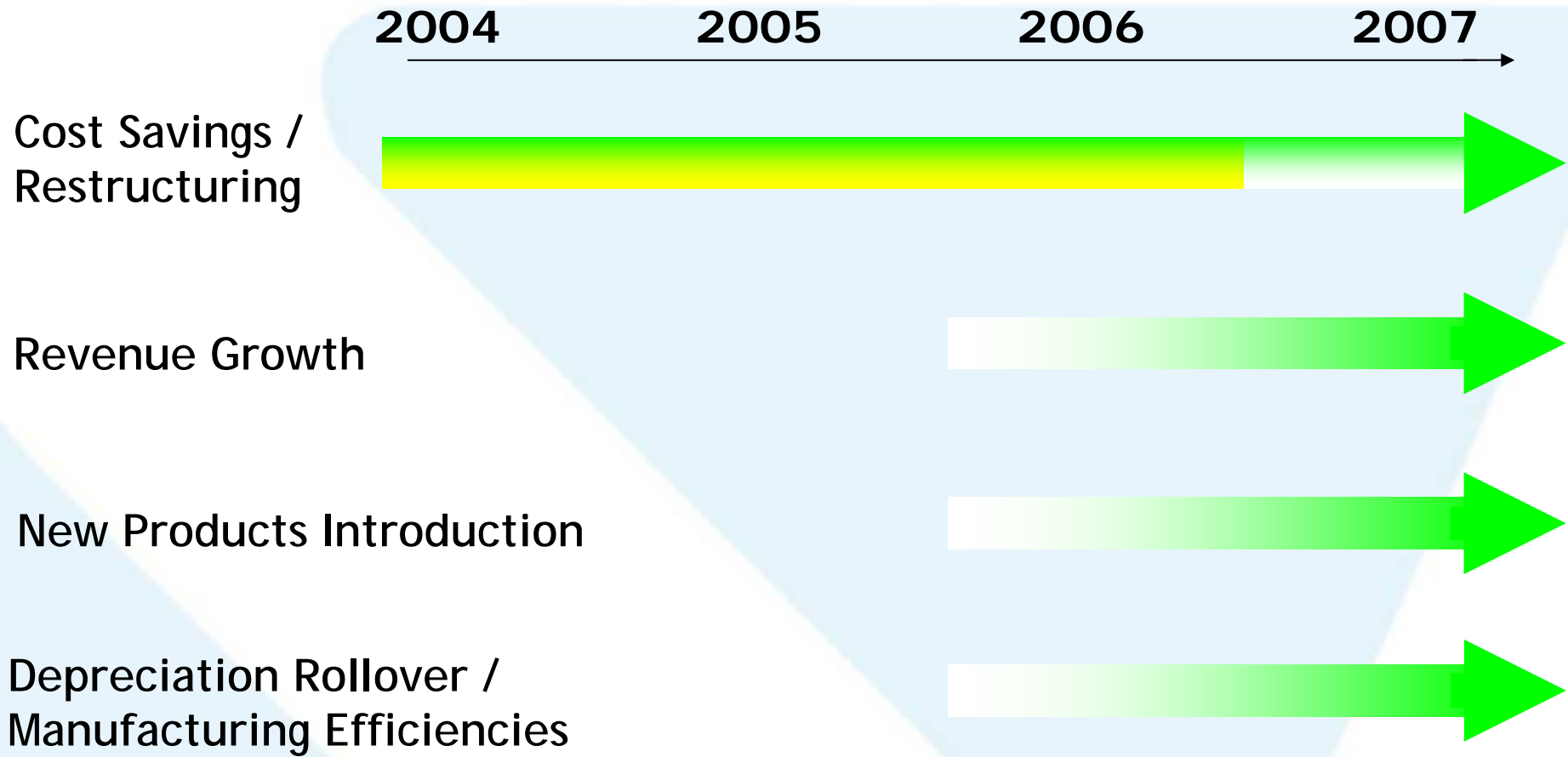
**x NAT (\*)** 1.1 - 1.3

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**= RONA** 12% - 20%



# Committed to our Roadmap...



**...to create Shareholder Value**

