STMICROELECTRONICS NV
Form 6-K
April 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated April 30, 2014

Commission File Number: 1-13546

STMicroelectronics N.V.
(Name of Registrant)

WTC Schiphol Airport
Schiphol Boulevard 265
1118 BH Schiphol
The Netherlands

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Q Form 40-F £

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes £ No Q

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes £ No Q

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes £ No Q

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-
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Enclosure: STMicroelectronics’ 2013 Dutch Statutory Annual Report, including the 2013 IFRS Statutory Accounts.

STMicroelectronics N.V.

Annual Report 2013

This statutory annual report for the fiscal year ended on December 31, 2013 has been approved and duly signed on April 28, 2014 for presentation to the STMicroelectronics N.V. 2014 Annual General Meeting of Shareholders by:

THE MANAGING BOARD

Carlo Bozotti (President and Chief Executive Officer)

THE SUPERVISORY BOARD

Didier Lombard (Chairman)

Bruno Steve (Vice Chairman)

Jean d'Arthuys

Janet G. Davidson

Jean-Georges Malcor

Alessandro Ovi

Alessandro Rivera

Martine Verluyten

Tom de Waard

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1. Message from the President and CEO on the financial year 2013

Dear Shareholder,

During 2013, our Company was focused on executing the strategy we announced in December 2012. At the core of our strategy are five key growth drivers — Analog and MEMS, Power and Smart Power, Automotive, Microcontrollers, and Digital Consumer and ASIC — and a financial model targeting an operating margin improvement by mid-2015. While we still have much to accomplish, the steps we took during the year and the results we achieved showed solid progress toward our goals.

First, we completed the announced split-up of ST-Ericsson as planned, at a lower cost than anticipated, and in a socially responsible manner. With that action, we took on key competencies to strengthen product development teams across ST. We are already seeing the benefits of these additional resources in a new wave of products that are being launched in 2014.

Second, we made important progress on our key financial indicators:

- We significantly improved our operating result: from a loss of $2,286 million in 2012 to a loss of $567 million in 2013, and
- ST also maintained a strong cash position and solid capital structure, with a net cash balance exiting the year of $741 million.

During 2013, we also initiated gradual structural changes to our manufacturing footprint to ensure that, complemented by our foundry sourcing, it aligns with our needs. These changes envisage the gradual expansion of 8-inch capacity in Singapore and Catania, Italy, while winding down certain 6-inch manufacturing lines and consolidating our back-end activities in China to Shenzhen.

Also in 2013 we signed with the French government, subject to the approval by the European Union, the key frame agreement for the ‘Nano2017’ program which supports our proprietary R&D activities for CMOS derivative technology. This program will strengthen our leadership in key technologies: FD-SOI for logic and embedded non-volatile memories for microcontrollers.

Over the course of the year, we distributed $0.40 per share, or $356 million, in dividends to shareholders. We consider the dividend an important vehicle to return value to shareholders.

2013 was also a year of market-share gains, although the market did not grow as we had expected at the beginning of the year. In fact, excluding the former ST-Ericsson, ST products grew 3.2% while the market we serve declined by about 1.6%, according to WSTS1.

Almost all of our product groups contributed to our market share gains:

- Our Microcontroller business achieved impressive results, with our general purpose 32-bit products growing 60% year-on-year to around $350 million in revenues. In secure microcontrollers we captured major wins such as our sensor hub at leading smartphone vendors. We strengthened our leading position in Secure Element, shipping 5 times more ST33 secure chips than in 2012, and introduced the second generation of this product family. In Asia, we achieved banking certifications of our secure chips with several major payment smartcard players.
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Our Automotive business made a strong contribution to growth in 2013, with solid performance across all applications thanks to the continuously increasing semiconductor content in cars. Our 32-bit automotive-grade microcontroller family brought in over $100 million in revenues and now has cumulatively achieved more than $2.5 billion in design wins. Our smart power products saw double-digit growth and we also saw major growth in active safety with our radar and vision-processing products. We also won important designs in telematics and navigation and announced our latest satellite-positioning chips.

- In MEMS and Sensors, we consolidated our industry-leading position in motion MEMS with wins at top phone OEMs and proliferation in wearable devices. We also started high-volume production of our iNEMO smart-sensor systems, and launched a new family of Android KitKat-compliant smart motion sensors. In addition, we ramped our MEMS microphones business, shipping over 100 million units, with four times the revenues of 2012. Our environmental sensors captured multiple wins, with our highly accurate pressure sensor and next generation touchscreen controllers starting to ship; finally, we broadened our sales base in the fast-growing Chinese market, doubling our sales to Chinese smartphone OEMs.

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1 WSTS: World Semiconductor Trade statistics — FY13 SAM

- In Power and Smart Power management products, we won significant business with global leaders in appliance and consumer technology. We earned successes in mobile with volume shipments of antenna-tuning products for 4G LTE devices and a new product family for battery management. We also introduced major new products for the growing smart-home and smart-meter markets, including launching the world's first intelligent-gateway solution for metering.

- It has been an important year for our Set-Top-Box and Home-Gateway business as well as our business in digital ASICs, as we put in place certain foundations for a turnaround, though time is still required. Our early transition to ARM-based cores is paying off in allowing us to create truly industry-leading products, such as our new Client/Server portfolio for Ultra HD. We have seen strong traction and early customer adoption for this family with multiple design wins — 5 in the fourth quarter of 2013 alone — including in the US cable market. We also advanced our plans for the US market with DOCSIS 3.0 certification for cable-data gateway and interactive set-top-box products. Our faster, cooler, and simpler FD-SOI technology is well on its way to becoming a significant revenue generator for us in 2015 as we already working on 15 active designs, including multiple design wins for custom chips for networking and consumer applications.

- In Imaging, we have achieved good traction with our repositioned image signal processors and sensors portfolio serving new applications. We have also been highly successful with our BiCMOS and Silicon Photonics businesses, which serve the data and telecom-equipment manufacturers, and where we have won over 30 new custom projects.

Looking into 2014, there are several encouraging signs for market growth this year and we believe that ST is well positioned to capture the opportunities that will enable us to grow — thanks to our focused product portfolio, our strong customer relationships as well as our initiatives to expand our customer base and to address new, promising application areas and business models, including Wearable and Internet of Things.

These revenue growth initiatives, together with gross margin improvement and expense reduction actions, will allow us to continue to progress toward our target financial model which we expect to achieve by mid-2015.

Looking beyond 2014, we believe that our growth strategy will support some crucial global mega-trends: the need for dramatic reduction of CO2 emissions via smart energy usage; more security to protect people's data thanks to embedded intelligence everywhere and the humanization of technology, with more intuitive man-to-machine interfaces for more natural, immersive and intuitive interaction between people and devices.

Leveraging our corporate culture and our 45,000 skilled and engaged employees, ST can and will contribute with sustainable solutions to meet the challenges of society, while benefiting from the increasingly important role of microelectronics in improving the quality of life. This is not just our vision, but the commitment of each of us at ST.

2. Corporate overview

2.1. History and development of STMicroelectronics

STMicroelectronics N.V. ("STMicroelectronics" or "ST") is a global leader in the semiconductor market serving customers across the spectrum of Sense & Power and Automotive products and Embedded Processing Solutions. From energy management and savings to trust and data security, from healthcare and wellness to smart consumer devices, in the home, car and office, at work and at play, ST is found everywhere microelectronics make a positive and innovative contribution to people's life.

STMicroelectronics N.V. was formed and incorporated in 1987 and resulted from the combination of the semiconductor business of SGS Microelettronica (then owned by Società Finanziaria Telefonica (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by the former Thomson-CSF, now Thales, a French corporation). We completed our initial public offering in December 1994 with simultaneous listings on the Bourse de Paris (now known as "Euronext Paris") and the New York Stock Exchange ("NYSE"). In 1998, we listed our shares on the Borsa Italiana S.p.A. ("Borsa Italiana"). Until 1998, we operated as SGS-Thomson Microelectronics N.V. We are organized under the laws of The Netherlands. We have our corporate legal seat in Amsterdam, The Netherlands, and our head offices at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol, The Netherlands. Our telephone number there is +31-20-654-3210. We are registered with the trade register (handelsregister) of the Dutch Chamber of Commerce (Kamer van Koophandel) under no. 33194537. Our headquarters and operational offices are managed through our wholly owned subsidiary, STMicroelectronics International N.V., and are located at 39 Chemin du Champ des Filles, 1228 Plan-Les-Ouates, Geneva, Switzerland. Our main telephone number there is +41-22-929-2929. Our agent for service of process in the United States related to our registration under the U.S. Securities Exchange Act of 1934, as amended, is Corporation Service Company (CSC), 80 State Street, Albany, New York, 12207. Our operations are also conducted through our various subsidiaries, which are organized and operated according to the laws of their country of incorporation, and consolidated by STMicroelectronics N.V.

2.2. Strategy & objectives

Our strategy, which we announced on December 10, 2012, takes into account the evolution of the markets we are in and the environment and opportunities we see in the years to come. It is based on our leadership in our two product segments, which were effective January 1, 2013: (i) Sense & Power and Automotive Products ("SP&A") comprised of Automotive ("APG"), Industrial & Power Discrete ("IPD"), Analog & MEMS ("AMS") and Other SP&A; and (ii) Embedded Processing Solutions ("EPS") comprised of Digital Convergence Group ("DCG"), Imaging, Bi-CMOS ASIC and Silicon Photonics ("IBP"), Microcontrollers, Memory & Security ("MMS"), Wireless ("WPS"), which are former ST-Ericsson legacy products, and Other EPS. Each segment is supported by a Sales & Marketing organization with a particular focus on our major accounts, as well as on expanding our penetration of the mass market.

Furthermore, we focus on five growth drivers: (i) Automotive Products, which make driving safer, greener and more entertaining; (ii) Digital Consumer and ASIC Products, which power the augmented digital lifestyle; (iii) MEMS and Sensors, which augment the consumer experience; (iv) Microcontrollers, which make everything smarter and more secure; and (v) Smart Power, which makes more of our energy resources. These product families are expected to experience solid growth rates driven by secular trends and are aligned with our market leading positions and competitive advantages. Our innovative products in these areas, combined with our competitive technology and flexible and independent manufacturing capabilities, bring us even more opportunities to significantly grow and gain market share.

We continue to advance towards our target financial model, expected by mid-2015, based on a combination of revenue growth, gross margin improvement and reduction of net operating expenses.

2.3. Organizational structure

STMicroelectronics is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits (“ICs”) and discrete devices. The Company 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 Company is focused on developing products that leverage its technological strengths in creating customized, system-level solutions with digital and mixed-signal content. We are organized in a matrix structure with geographic regions interacting with product groups, both supported by shared technology and manufacturing operations and by central functions, designed to enable us to be closer to our customers and to facilitate communication among the R&D, production, marketing and sales organizations. While STMicroelectronics N.V. is the parent company, we also conduct our operations through service activities from our subsidiaries. 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 recover the cost.

2.4. Products and activities

We offer a broad and diversified product portfolio and develop products for a wide range of market applications to reduce 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 with high growth digital and mixed signal content. Our product families are comprised of differentiated application specific products: our dedicated analog, mixed signal and digital application specific integrated circuits ("ASICs") as well as application specific standard products ("ASSP") offerings and semi custom devices, that are organized under our two product segments, which are (i) Sense & Power and Automotive Products ("SP&A") and (ii) Embedded Processing Solutions ("EPS").

Our products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods. We use all of the prevalent function oriented process technologies, including CMOS, bipolar and non-volatile memory technologies. In addition, by combining basic processes, we have developed advanced systems oriented technologies that enable us to produce differentiated and application specific products, including bipolar CMOS technologies ("Bi-CMOS") for mixed signal applications, and diffused metal on silicon oxide semiconductor ("DMOS") technology and bipolar, CMOS and DMOS ("BCD") technologies for intelligent power applications, MEMS and embedded memory technologies. This broad technology portfolio, a cornerstone of our strategy for many years, enables us to meet the increasing demand for System on Chip ("SoC") and System in Package ("SiP") solutions. Complementing this depth and diversity of process and design technology is our broad IP portfolio that we also use to enter into broad patent cross licensing agreements with other major semiconductor companies.

Our principal investment and resource allocation decisions in the semiconductor business area are for expenditures on technology R&D as well as capital investments in front-end and back-end manufacturing facilities, which are planned at the corporate level; therefore, our product segments share common R&D for process technology and manufacturing capacity for some of their products.

2.5. Sales, Marketing and Distribution

In 2012, we reorganized our Sales & Marketing organization with the primary objectives of accelerating sales growth and gaining market share. The changes were designed along three key drivers: strengthening the effectiveness of the development of our global accounts; boosting demand creation through an enhanced focus on geographical coverage; and establishing marketing organizations in our regional sales teams that are fully aligned with the Product Groups.

Following this reorganization, the previous sales organization structured by market segment was replaced by a new sales organization structured as a combination of country/area coverage and key accounts coverage. Our Sales & Marketing organization is now structured into six units: four regional sales organizations and two major accounts units.

The sales and marketing activities performed by our regional sales organizations are supported by product marketing that is carried out by each product group, 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.

2.6. Research & Development

We believe that market driven research and development ("R&D") founded on leading edge products and technologies is critical to our success. The main R&D challenge we face is continually increasing 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 combine front-end manufacturing and technology R&D under the same organization for each of the SP&A and EPS segments to ensure a smooth flow of information between the R&D and manufacturing organizations and we leverage on significant synergies and shared activities between the two segments to cross-fertilize both businesses.

We manage our R&D projects by technology and by product segment. The relevant technology R&D expenses are allocated to the product segments on the basis of the estimated efforts.

We currently own approximately 16,000 patents and pending patent applications, corresponding to over 9,000 patent families (each patent family containing all patents originating from the same invention), including 598 original new patent applications filed in 2013. The Company draws on a rich pool of chip fabrication technologies, including advanced FD-SOI (Fully Depleted Silicon-on-Insulator) CMOS (Complementary Metal Oxide Semiconductor), mixed-signal, analog and power processes, and is a partner in the International Semiconductor Development Alliance (ISDA) for the development of next-generation CMOS technologies.

2.7. Sustainability

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 progressively enlarged our scope of commitments and we now address 22 top sustainability priorities that have been identified as the most significant for our business success and for our stakeholders' satisfaction. Today our approach to sustainability is embedded in our business strategy with objectives in terms of product stewardship, customer satisfaction and innovation management. Over these past 26 years, we have made outstanding progress: we are among the leaders in safety with a 24% decrease in our recordable cases rate in 2013 versus 2012 and a 78% decrease since 2002, we have reduced our water consumption per production unit by 73% compared to 1994, we launched in 2006 a companywide Health Plan program to provide all our employees with the same access to healthcare, we conduct Social and Ethics audits to ensure our major sites' compliance to the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, to name a few initiatives implemented in the field.

STMicroelectronics is included in some of the main Sustainability indices (DJSI Europe, FTSE4Good, FTSE ECPI index series, ASPI, ECPI and Ethibel).

Our approach to sustainability is expressed at a high level in ST's Principles for Sustainable Excellence, our business code of conduct; and in a more operational way, in our Sustainability strategy that is regularly updated to ensure its alignment with our business and stakeholders' priorities.

3. Report of the Managing Board

In accordance with Dutch law, our management is entrusted to the Managing Board under the supervision of the Supervisory Board. Mr. Carlo Bozotti, sole member of the Managing Board and President and Chief Executive Officer, was re-appointed in 2011 for a three-year term to expire at our Annual Shareholders' Meeting in 2014.

3.1. Statement of the Sole Member of the Managing Board

The sole member of the Managing Board hereby declares that, to the best of his knowledge, the statutory financial statements as at December 31, 2013 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 view 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

3.2. Business overview & performance

3.2.1. Results highlights for the year 2013

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 major devices such as Microprocessors ("MPUs"), DRAMs, optoelectronics devices and Flash Memories and, as a consequence of our exit from ST-Ericsson, excludes also the Wireless Application Specific market (Broadband and Application Processor)).

Based on published industry data by WSTS, semiconductor industry revenues increased in 2013 on a year-over-year basis by approximately 5% for the TAM to reach about $306 billion. The SAM declined by approximately 2% to reach about $139 billion.

With reference to our business performance, in 2013, we registered a decline of 4.8% in terms of revenues as a consequence of our exit from ST-Ericsson. Excluding the Wireless product line, our revenues increased 3.2%, a better performance than the SAM, with the main contributions coming from our microcontrollers and automotive products.

Our effective average exchange rate for 2013 and 2012 was $1.31 for €1.00.

Our 2013 gross margin was 25.4% of revenues, increasing by approximately 250 basis points compared to the prior year, primarily due to lower impairment and amortization charges of the capitalized development costs.

Combined selling, general and administrative (SG&A) and research and development (R&D) expenses amounted to $2,714 million, a significant decrease compared to $3,458 million in the prior year, primarily due to the ST-Ericsson wind down and the initial benefits of our ongoing restructuring initiatives.

Restructuring expenses and impairment charges included in the different lines of the consolidated income statement have significantly decreased to $561 million from $1,935 million in 2012, since 2012 included $1,802 million of a non-cash impairment charge on Wireless goodwill and other intangible assets.

Our operating losses were $567 million in 2013, improving compared to the loss of $2,286 million in 2012. The improvement in our operating losses in 2013 was mainly driven by our reduction of operating expenses and lower impairment charges.

3.2.2. 2013 Business overview

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor products used in a wide variety of applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Semiconductors are the basic building blocks used to create an increasing variety of electronic products and systems. Since the invention of the transistor in 1948, continuous improvements in semiconductor process and design technologies have led to smaller, more complex and more reliable devices at a lower cost per function. As performance has increased and size and unitary cost have decreased, semiconductors have expanded beyond their original primary applications (i.e. computer systems) to applications such as telecommunication systems, consumer goods, automotive products and industrial automation and control systems. In addition, system users and designers have demanded systems with more functionality, higher levels of performance, greater reliability and shorter design cycle times, all in smaller packages at lower costs.

Our major customers include Apple, Blackberry, Bosch, Cisco, Conti, Hewlett-Packard, Nokia, Oberthur, Samsung, and Western Digital. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Wintech and Yosun. The semiconductor industry has historically been cyclical and we have responded by emphasizing balance in our product portfolio, in the applications we serve and in the regional markets we address.

Although cyclical changes in production capacity in the semiconductor industry and demand for electronic systems have resulted in pronounced cyclical changes in the level of semiconductor sales and fluctuations in prices and margins for semiconductor products from time to time, the semiconductor industry has experienced substantial growth over the long-term. Factors that contribute to long-term growth include the development of new semiconductor applications, increased semiconductor content as a percentage of total system cost, emerging strategic partnerships and growth in the electronic systems industry.

3.2.2.1. Strategy

Our strategy, which we announced on December 10, 2012, takes into account the evolution of the markets we are in and the environment and opportunities we see in the years to come. It is based on our leadership in our two product segments, SP&A and EPS. Each segment is supported by a Sales & Marketing organization with a particular focus on our major accounts, as well as on expanding our penetration of the mass market. Furthermore, we focus on five growth drivers: (i) Automotive Products, which make driving safer, greener and more entertaining; (ii) Digital Consumer and ASIC Products, which power the augmented digital lifestyle; (iii) MEMS and Sensors, which augment the consumer experience; (iv) Microcontrollers, which make everything smarter and more secure; and (v) Smart Power, which makes more of our energy resources. These product families are expected to experience solid growth rates driven by secular trends and are aligned with our market-leading positions and competitive advantages. Our innovative products in these areas, combined with our competitive technology and flexible and independent manufacturing capabilities, bring us even more opportunities to significantly grow and gain market share.

We continue to advance towards our target financial model, expected by mid-2015, based on a combination of revenue growth, gross margin improvement and reduction of net operating expenses.

3.2.2.2. Employees

The tables below set forth the breakdown of employees by main category of activity and geographic area for the past two years, whereby the 2012 figures included the employees of the consolidated entities of ST-Ericsson JVS.

	2013	2012
France	10,350	10,430
Italy	9,450	8,840
Rest of Europe	950	2,190
United States	1,040	1,280
Mediterranean (Malta, Morocco, Tunisia)	4,490	4,440
Asia	19,110	21,280
Total	45,390	48,460

	2013	2012
Research and Development	8,970	11,490
Marketing and Sales	2,190	2,460
Manufacturing	29,550	29,450
Administration and General Services	2,220	2,520
Divisional Functions	2,460	2,540
Total	45,390	48,460

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.

3.2.2.3. Alliances with Customers and Industry Partnerships

We believe that alliances with customers and industry partnerships are critical to success in the semiconductor industry. Customer alliances provide us with valuable systems and application know-how and access to markets for key products, while allowing our customers to share some of the risks of product development with us and to gain access to our process technologies and manufacturing infrastructure. We are actively working to expand the number of our customer alliances, targeting OEMs in the United States, in Europe and in Asia.

Partnerships with other semiconductor industry manufacturers permit costly R&D and manufacturing resources to be shared to mutual advantage for joint technology development. For example, we belong to the International Semiconductor Development Alliance to co-develop 32/28-nm and below process technologies. In addition, we collaborate closely with the CEA Leti in both process development and design, with recent focus on our FD-SOI derivative technology. Furthermore, we have joint development programs with leading suppliers such as Air Liquide, ASM Lithography, Hewlett-Packard, PACKTEC, JSR, SOITEC, Statchip, Teradyne and with electronic design automation (“EDA”) tool producers, including Cadence, Mentor and Synopsys. We also participate in joint European research programs, such as the ITEA, the Cluster for Application and Technology Research in Europe on NanoElectronics (“CATRENE”), ARTEMIS and the European Nanoelectronics Initiative Advisory (“ENIAC”) programs.

3.2.2.4. Customers and Applications

We design, develop, manufacture and market thousands of products that we sell to thousands of customers. Our major customers include Apple, Blackberry, Bosch, Cisco, Conti, Hewlett-Packard, Nokia, Oberthur, Samsung, and Western Digital. To many of our key customers we provide a wide range of products, including application-specific products, discrete devices, memory products and programmable products. Our broad range portfolio helps foster close relationships with customers, which provides opportunities to supply such customers’ requirements for multiple products, including discrete devices, programmable products and memory products. We also sell our products through distributors and retailers, including Arrow Electronics, Avnet, Wintech and Yosun. The semiconductor industry has historically been cyclical and we have responded by emphasizing balance in our product portfolio, in the applications we serve and in the regional markets we address.

No customer exceeded 10% of our total net revenues in both 2013 and 2012. There can be no assurance that our customers or distributors will continue to place orders with us in the future at the same levels as in prior periods.

3.2.2.5. Sales, Marketing and Distribution

Regional Sales Organizations

Our four regional sales organizations, a description of which follows below, have a similar structure to enhance coordination in the go to market activities. They are also strongly focused on accelerated growth.

i. EMEA — In EMEA, there are seven sales organizations. Four are geographically defined and cover North, Central, West and South & Emerging Markets. Three sales units have worldwide responsibility for global sales of three Global Key Accounts. Marketing is organized to reflect the product groups, representing APG, DCG, MMS and AMS/IPD. Combined, these organizations are collectively responsible for new and existing account development, technical support and logistics and services support. We also have an organization that manages our distribution network and supports EMS customers for manufacturing on behalf of our OEM customers.

ii. Americas — In the Americas region, the sales and marketing team is organized into seven major accounts: Global Key Accounts, Four New Major Accounts, Sales by Geography consisting of the West Coast, Central South, North Central and East Coast Sales. We also have a sales team supporting Latin America based in two centers in Mexico and Brazil. Our Marketing teams that support and promote specific products are organized in line with our product groups, of which there are six: APG, AMS, DCG, IBP, IPD and MMS. We also have an organization that manages our distribution network and supports EMS customers mostly for manufacturing on behalf of our OEM customers.

iii. Greater China-South Asia — The Greater China & South Asia region comprises six geographical sales units with offices covering North China (Beijing), Central China (Shanghai), South China (Hong Kong), Taiwan (Taipei), India (New Delhi) and ASEAN/Australia & New Zealand (Singapore). It is further supported by a centralized Channel coordination function, as well as six key product groups, namely, DCG, IBP, APG, IPD, AMS and MMS, and four new major accounts. In 2013, the company also opened 7 new offices (6 in mainland China and 1 in Taiwan) in the region.

iv. Japan-Korea — The Japan-Korea region comprises three geographical sales units with offices covering East Japan (Tokyo and Nagoya), West Japan (Osaka), Korea (Seoul) and four new major accounts. It is further supported by four key product groups, namely, DCG/IBP, APG, IPD/AMS and MMS plus a comprehensive Sales Channel Management that provides products and sales support for the regional distribution network. Each geographical sales unit sells each product from our portfolio that fits the applications. Marketing and Application organization provides product support and training for standard products for the region. In addition, five central support functions (business management, field quality, human resources, finance and corporate communications) allow the region to run all of the necessary tasks smoothly.

The sales and marketing activities performed by our regional sales organizations are supported by product marketing that is carried out by each product group, 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.

We also engage 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 products. 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.

3.2.2.6. Research and Development in the area of new products

We believe that market driven R&D founded on leading edge products and technologies is critical to our success. The main R&D challenge we face is continually increasing 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 combine front-end manufacturing and technology R&D under the same organization for each of SP&A and EPS to ensure a smooth flow of information between the R&D and manufacturing organizations and we leverage on significant synergies and shared activities between the two segments to cross-fertilize both businesses. We manage our R&D projects by technology and by product segment. The relevant technology R&D expenses are allocated to the product segments on the basis of the estimated efforts. The total amount of R&D expenses in the past three fiscal years was $1,595 million, $1,951 million and $1,890 million in 2013, 2012 and 2011, respectively.

We devote significant effort to R&D because we believe such investment 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. They also enable, through their timely appearance on the market, significant value creation opportunities.

With the core CMOS and analog technologies in our portfolio, we are aggressively proceeding to miniaturization in line with industry requirements. To differentiate our offering for higher value systems, we also seek to combine our core technologies with our specific knowhow and expertise, in particular in the area of System-in-Package.

Our R&D design centers offer a significant advantage for us in quickly and cost effectively introducing products. In addition, we have advanced R&D centers strategically located around the world, including in France, Italy, China, India, Singapore, the United Kingdom and the United States. We have a technology council comprised of fifteen leading experts to review, evaluate and advise us on the competitive landscape. Our R&D center in Greater Noida, India provides necessary support to the Group's design activities worldwide and hosts R&D activities focused on software development and core libraries development, with a strong emphasis on system solutions.

In 2008, we entered into an R&D alliance with the International Semiconductor Development Alliance ("ISDA") led by IBM, whose other core members are Samsung and GlobalFoundries, to develop leading edge core CMOS technologies at 32/28-nm and 22/20-nm nodes. In 2013, we extended our participation in ISDA to cover the next nodes (14/10/7-nm). We are also working with the CEA Leti and IBM to develop in Crolles our FD-SOI derivative technology, which, for the 28-nm node and the next generation, 14-nm, are in development, and for the 10-nm, it is on our roadmap. This FD-SOI technology offers an alternative to the Fin-FET technology proposed by competitors for applications targeting low power dissipation.

In 2009, we also entered into a framework agreement with the French Ministry of Economy, Industry and Employment for the "Nano-2012" Research and Development program. This program expired at the end of 2012. On July 22, 2013, we announced the Nano-2017 Research and Development program.

Furthermore, our manufacturing facility in Crolles, France houses a R&D center, "Centre Commun de Microelectronique de Crolles". The "Laboratoire d'Electronique de Technologie d'Instrumentation", a research laboratory of CEA (one of our indirect shareholders), is our partner in this center. In 2012, a new structure, "Institut de Recherche Technologique" ("IRT"), was set up by CEA in the frame of the French initiative "Investissements d'Avenir". We participate in this program, which takes place on CEA's premises, through investment and by contributing the expertise of some of our researchers.

There can be no assurance that we will be able to generate the necessary funding to support the ongoing costs of our R&D programs, or 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 CMOS or FD-SOI technologies on satisfactory terms and in line with market requirements.

In Italy, our technology R&D development activities occur principally in Agrate and Catania. In Agrate, such activities encompass prototyping, pilot and volume production of 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. In addition, we plan to set up a 300-mm pilot line for manufacturing and R&D for advanced BCD technology. We also run a joint operation under a consortium agreement with Micron Technologies ("Micron") in which we and Micron each manage our respective technology R&D programs. In Catania, we develop new technologies for power discretes, SICs and gallium arsenide.

Our Advanced Systems Technology (“AST”) organization, primarily located in Agrate, creates system knowledge that supports our SoC development. AST’s objective is to develop the advanced architectures that will drive key strategic applications, including health care, wireless and data security. 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.

We play leadership roles in numerous projects running under the European Union's IST (Information Society Technologies) programs. We also participate in joint European research programs, such as the ITEA, the Cluster for Application and Technology Research in Europe on NanoElectronics ("CATRENE"), ARTEMIS and the European Nanoelectronics Initiative Advisory Council ("ENIAC") programs.

3.2.2.7. Property, Plants and Equipment

We currently operate 14 main manufacturing sites around the world.

At the end of 2013, our front-end facilities had a total maximum capacity of approximately 130,000 200-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. Our advanced 300-mm wafer pilot-line fabrication facility in Crolles, France had an installed capacity of 3,600 wafers per week at the end of 2013, and we plan to increase production to up to approximately 6,000 wafers per week as required by market conditions and within the framework of our R&D Nano-2017 program.

We own all of our manufacturing facilities, but certain facilities (Muar-Malaysia, Shenzhen and Longgang-China, Toa Payoh and Ang Mo Kio-Singapore) are built on land, which are the subject of long-term leases.

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. Although our increased manufacturing efficiency has been an important factor in our improved results of operations, we have from time to time experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry.

In the second part of 2013, we experienced demand progressing at a pace lower than expected. Nonetheless we have been able to properly balance our fabs and plants loading versus the inventories evolution to ensure the sound level of their operational performances.

No assurance can be given that we will be able to increase manufacturing efficiencies in the future to the same extent as in the past, or that we will not experience production difficulties and/or unsaturation in the future.

In addition, as is common in the semiconductor industry, we have from time to time experienced difficulty in ramping up production at new facilities or effecting transitions to new manufacturing processes and, consequently, have suffered delays in product deliveries or reduced yields. There can be no assurance that we will not experience manufacturing problems in achieving acceptable yields, product delivery delays or interruptions in production in the future as a result of, among other things, capacity constraints, production bottlenecks, construction delays, equipment failure or maintenance, ramping up production at new facilities, upgrading or expanding existing facilities, changing our process technologies, or contamination or fires, storms, earthquakes or other acts of nature, any of which could result in a loss of future revenues. In addition, the development of larger fabrication facilities that require state-of-the-art sub-micron technology and larger-sized wafers has increased the potential for losses associated with production difficulties, imperfections or other causes of defects. In the event of an incident leading to an interruption of production at a fab, we may not be able to shift production to other facilities on a timely basis, or our customers may decide to purchase products from other suppliers, and, in either case, the loss of revenues and the impact on our relationship with our customers could be significant. Our operating results could also be adversely affected by the increase in our fixed costs and operating expenses related to increases in production capacity if revenues do not

increase commensurately. Finally, in periods of high demand, we increase our reliance on external contractors for foundry and back-end service. Any failure to perform by such subcontractors could impact our relationship with our customers and could materially affect our results of operations.

3.2.2.8. Intellectual property

IP 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. We currently own approximately 16,000 patents and pending patent applications, corresponding to over 9,000 patent families (each patent family containing all patents originating from the same invention), including 598 original new patent applications filed in 2013.

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 have also set up a dedicated team actively seeking to optimize the value from our IP portfolio by the licensing of our design technology and other IP, including patents. 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. As our sales increase compared to those of our competitors, the strength of our patent portfolio may not be sufficient to guarantee the conclusion or renewal of broad patent cross-licenses on terms that do not affect our results of operations. Furthermore, as a result of litigation, or to address our business needs, we may be required to take a license to third party IP rights upon economically unfavorable terms and conditions, and possibly pay damages for prior use, and/or face an injunction or exclusion order, all of which could have a material adverse effect on our results of operations and ability to compete.

From time to time, we are involved in IP litigation and infringement claims. In the event a third party IP claim were to prevail, our operations may be interrupted and we may incur costs and damages, which could have a material adverse effect on our results of operations, cash flow and financial condition.

Finally, we have received from time to time, and may in the future receive communications from competitors or other third parties alleging infringement of certain patents and other IP rights of others, which have been and may in the future be followed by litigation. Regardless of the validity or the successful assertion of such claims, we may incur significant costs with respect to the defense thereof, which could have a material adverse effect on our results of operations, cash flow or financial condition.

3.2.2.9. Backlog

Our sales are made primarily pursuant to standard purchase orders that are generally booked from one to twelve months in advance of delivery. Quantities actually purchased by customers, as well as prices, are subject to variations between booking and delivery and, in some cases, to cancellation due to changes in customer needs or industry conditions. During periods of economic slowdown and/or industry overcapacity and/or declining selling prices, customer orders are not generally made far in advance of the scheduled shipment date. Such reduced lead time can reduce management’s ability to forecast production levels and revenues. When the economy rebounds, our customers may strongly increase their demands, which can result in capacity constraints due to our inability to match manufacturing capacity with such demand.

In addition, our sales are affected by seasonality, with the first quarter generally showing lowest revenue levels in the year, and the third or fourth quarter historically generating higher amounts of revenues.

We also sell certain products to key customers pursuant to frame contracts. Frame contracts are annual contracts with customers setting forth quantities and prices on specific products that may be ordered in the future. These contracts allow us to schedule production capacity in advance and allow customers to manage their inventory levels consistent with just-in-time principles while shortening the cycle times required to produce ordered products. Orders under frame contracts are also subject to a high degree of volatility, because they reflect expected market conditions which may or may not materialize. Thus, they are subject to risks of price reduction, order cancellation and modifications as to

quantities actually ordered resulting in inventory build-ups.

Furthermore, developing industry trends, including customers' use of outsourcing and their deployment of new and revised supply chain models, may reduce our ability to forecast changes in customer demand and may increase our financial requirements in terms of capital expenditures and inventory levels.

We entered 2013 with a backlog lower than we had compared to 2012, as a result of a difficult industry environment. During 2013, our backlog declined, in particular in the second half, mainly reflecting the impact of the wind-down of the ST-Ericsson business. Excluding the Wireless product line, we entered 2014 with a backlog similar to what we had entering 2013.

3.2.2.10. 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 them. 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, InvenSense, Linear Technology, LSI Logic, Marvell, Maxim, MediaTek, Microchip Technology, Mstar, NXP Semiconductors, ON Semiconductor, Qualcomm, Renesas, ROHM Semiconductor, Samsung, Texas Instruments, 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 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.

3.2.2.11. Public Funding

We participate in certain programs established by the EU, individual countries and local authorities in Europe (primarily in 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).

Public funding in France, Italy and in other European countries generally is open to all companies, regardless of their ownership or country of incorporation. The EU has developed model contracts for R&D funding that require beneficiaries to disclose the results to third parties on reasonable terms. As disclosed, 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.

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 and Tours, France and Catania, Italy) contain commitments to maintain a minimum level of employment and/or 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); (ii) EU R&D projects with FP7 (Seventh Frame Program) for Information and Communication Technology; (iii) European Joint Technology Initiatives (JTI) such as ENIAC (European Nanoelectronics Initiative Advisory Committee) and ARTEMIS (Embedded Computing Systems Initiative) operated by Joint Undertakings formed by the European Union, some member states and industry; 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. We were awarded in 2012 two of the first of five projects under the ENIAC “KET (Key Enabling Technologies) Pilot Lines” frame, recently launched in Europe. They are devoted respectively to specific MEMS technologies (based in Italy) and FD-SOI technologies (based in France). At 2013 end, we were awarded 4 new projects in the same “KET Pilot Lines” frame, for embedded non-volatile memories, diversified image sensors, design in FD-SOI technologies (all in France) and again MEMS (in Italy).

In December 2013, the European Commission formalized Horizon 2020, the European Union’s new research and innovation framework for 2014 through 2020, which also includes provisions to continue supporting the public-private partnerships that existed under FP7. In particular, the new ECSEL (Electronic Components and Systems for European Leadership) JTI will be supported to boost Europe’s electronics manufacturing capabilities. ECSEL is a merger of the ARTEMIS initiative and the ENIAC initiative, and it also incorporates research and innovation on smart systems under EPoSS. ECSEL is expected to start in early 2014 and run for 10 years.

In Italy, there are some national funding programs established to support the new FIRST (Fondo per gli Investimenti nella Ricerca Scientifica e Tecnologica) that will group previous funding regulations FIRB (Fondo per gli Investimenti della Ricerca di Base, aimed to fund fundamental research), FAR (Fondo per le Agevolazioni alla Ricerca, to fund industrial research), and FSC (Fondo per lo Sviluppo e la Coesione) the FCS (Fondo per la Competitività e lo Sviluppo). The FRI (Fondo rotativo per il sostegno alle imprese e agli investimenti in ricerca) funds research and innovation activities and the new FIT (Fondo speciale rotativo per l'Innovazione Tecnologica) FCS (Fondo per la Crescita Sostenibile) that is designed to fund precompetitive development in manufacturing. These programs are not limited to microelectronics and are intended to support industry R&D in any segment. Italian programs often cover several years and the approval phase is quite long, up to two or three years. In 2013, within the PON (Programma Operativo Nazionale "Ricerca e competitività 2007 2013"), the Italian Research Ministry finalized the complete ranking of the approved proposals for the DTA (Distretti ad Alta Tecnologia), and seven projects involving the company were formalized and one of our proposals was selected for funding.

In Italy, according to the ARTEMIS and ENIAC Joint Undertaking procedures related to calls for proposals, in 2013 the Italian Research Ministry approved public grants for an additional four ENIAC projects (of which one was under the ENIAC's call for "Key Enabling Technologies — Pilot Lines) and one for ARTEMIS project (under the ARTEMIS Innovation Pilot Program call) involving the company.

Furthermore, there are some regional funding tools for research that can be addressed by local initiatives, primarily in the regions of Puglia, Sicily, Campania and Val d'Aosta, provided that a reasonable regional socio-economic impact could be recognized in terms of industrial exploitation, new professional hiring and/or cooperation with local academia and public laboratories.

In 2006, the EU Commission allowed the modification of the conditions of a grant pertaining to the building, facilitation and equipment of our facility in Catania, Italy (the "M6 Plant"). Following this decision, the authorized timeframe for completion of the project was extended and the Italian government was authorized to allocate €446 million, out of the €542 million grants originally authorized, for the completion of the M6 Plant if we made a further investment of €1,700 million between January 1, 2006 through the end of 2009. On the basis of the investments actually realized during the period, we recorded an amount of approximately €78 million as funding for capital investment of which approximately €44 million has been received to date. On September 13, 2011, the European Commission initiated a review of the M6 investment and related benefits, requesting information from the Italian government about the status and the ownership of the benefits of the M6 investment during the period 2001-2006. The Italian authorities responded to all such requests for information in 2011 and 2012 concerning primarily the history of the investment made, the motivation of the state aid granted, the formal interpretation related to the definition of "investment activation", and its application to the M6 case. To our knowledge, no proceedings are ongoing.

In France, support for R&D is given by public agencies such as ANR (Agence Nationale de la Recherche), or OSEO (the agency taking over the missions and budgets of the AII Agency for Industrial Innovation), generally for consortia of partners grouping universities, public laboratories and private actors (large and small). The agencies operate via calls for project proposals, most often related to the identified "clusters of competitiveness" (Pôles de Compétitivité) throughout the French territory. The most relevant for us are 'Minalogic' around Grenoble, 'SCS' in the south-east area covering Rousset and 'S2E2' in the Tours area. The selected projects receive a support limited to 25% or 35% of the actual R&D expenses, depending on the type of project. The funding is given when technical reports have been accepted by the agencies; all expenses must be documented and financial audits are organized by the agencies to check their eligibility.

Another important contribution is given by the Ministry of Industry ("FCE") and by local public authorities. Specific support for microelectronics is provided through FCE to all the companies with activities in France in the semiconductor industry. The amount of support under French programs is decided annually and subject to budget

appropriation. In 2012, we terminated the execution of the “Nano-2012” Research and Development program, which is designed to promote the development of advanced CMOS (32-nm and below) technologies for system on chip semiconductor products in the Grenoble-Crolles region of France, in cooperation with the ISDA. In this program, STMicroelectronics (Crolles and Grenoble sites) was the leading contributor, with over 30 other partners (universities, public research laboratories, large groups and small companies (SMEs)). Under this frame agreement, an overall funding budget of €340 million (about $450 million) in grants was put in place for us for the period 2008-2012, subject to the conclusion of agreements every year with the public authorities (the French State being represented by the Ministry of Industry, and local authorities), and provided that all technical parameters and objectives are met.

Due to a major change in the taxation regime in France, the local authorities have received lower tax receipts than before. During the "Nano-2012" program, some of the local authorities involved have, as a result of such tax receipts, decided to suspend their funding obligations related to the "Nano-2012" program. Therefore, the benefit for us and the other partners ended up being lower than expected as the French government did not agree to compensate us for the shortfall in support from the local authorities. At the end of 2012, the program ended and a final review was completed in April 2013. The final review concluded that the technical program had been fully executed in line with the plans, helping to further develop the Grenoble ecosystem.

On July 22, 2013, the French Prime Minister announced the Nano-2017 Research and Development program, a five-year public-private strategic R&D program led by us to further advance our leadership in key embedded processing solutions and technologies. The project draws support from a broad coalition of French national, regional and local authorities as well as by the European community through the ENIAC Joint Technology Initiative. Funding for the program is subject to approval by the European Commission. Ultimately, "Nano-2017" will strengthen our leadership in such key technologies as FD-SOI (low-power, high-performance processing), next-generation imaging (sensors and image signal processors), and next-generation embedded non-volatile memories. These technologies are at the core of our embedded processing solutions which include microcontrollers, imaging solutions, digital consumer products, application processors and digital ASICs. The pan-European enlargement of this program (with partners in close to 20 European countries) will also contribute to the strengthening of European cooperation in the micro-nanoelectronics sector, along the entire value chain, from materials and equipment to components and system design. This program relies on leading industry clusters in Europe, such as Dresden (Germany), Leuven-Eindhoven (Belgium-The Netherlands) and Grenoble-Crolles (France). While we expect to receive public funding under the Nano 2017 agreement in the course of the first half of 2014, there is no guarantee that the program will be approved or if it is approved, that there will be no modifications that could negatively affect the R&D program, all of which could have a material adverse effect on our results of operations.

A new type of R&D support program was set up in France in 2011, as part of a global rejuvenation effort aimed at research and industry ("Investissements d'Avenir" or IA). This program is coordinated by the CGI (Commissariat Général aux Investissements d'Avenir) and targets industrial sectors of high relevance. We have been granted three projects under this frame, which started in 2013: one for "Tours 2015" covering three types of technologies developed in cooperation with public laboratories, one for Rousset "MAGE" targeting the development of ultra-low power secure microcontrollers and one in the area of electricity metering: "So-Grid".

We also benefit from tax credits for R&D activities in several countries (notably in France). R&D tax credits consist of tax benefits granted to companies on an open and non-discriminatory base for their research & development activities.

Funding for R&D activities is the most common form of funding that we receive. Public funding for R&D is recorded as "Other Income and Expenses, net" in our Consolidated Statements of Income and booked pro rata in relation to the relevant cost once the agreement with the respective government agency has been signed and all applicable conditions are met.

Government support for capital expenditures funding has been used to support our capital investment. Although receipt of these funds is not directly reflected in our results of operations, the resulting lower amounts recorded in property, plant and equipment costs reduce the level of depreciation recognized by us.

As a third category of government funding, we receive some loans, mainly related to large capital investment projects, at preferential interest rates.

Funding of programs in France and Italy is subject to annual appropriation, and if such governments or local authorities were unable to provide anticipated funding on a timely basis or if existing government or local-authority-funded programs were curtailed or discontinued, or if we were unable to fulfill our eligibility requirements, such an occurrence could have a material adverse effect on our business, operating results and financial condition. Another reason for the delayed funding execution, after national approval, is the obligation European governments have to notify the European Commission DG Competition when their support exceeds €7.5 million. From time to time, we have experienced delays in the receipt of funding under these programs. As the availability of such funding is substantially outside our control, there can be no assurance that we will continue to benefit from such government support, that sufficient alternative funding would be available if necessary, or that any such alternative funding would be provided on terms as favorable to us as those previously committed. 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.

3.2.2.12. Suppliers

We use three main critical types of suppliers in our business: equipment suppliers, raw material suppliers and external silicon foundries and back-end 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 occur 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 due to the specificity of the market. We have therefore adopted a “multiple sourcing strategy” designed to protect us from the risk of price disruption. The same strategy applies to supplies for the raw materials used by us to avoid potential material disruption of essential material when industry demand is ramping up.

Finally, we also use external subcontractors to outsource wafer manufacturing, as well as assembly and testing of finished products. See “3.2.2.7. Property, Plants and Equipment”.

3.2.2.13. Environmental Matters

Our manufacturing operations use many chemicals, gases and other hazardous substances, and we are subject to a variety of evolving environmental, 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 of the 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 Principles of Sustainable Excellence (“PSE”) and Sustainability Strategy, 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, with the technical specification ISO/TS16949:2009; with the environmental standards ISO14001 and the European EMAS (Eco Management and Audit Scheme); and with the energy management standard ISO 50001 for all ST Front-end sites.

Our activities are subject to two directives: Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment (“ROHS” Directive, as amended), which was replaced, with effect from January 3, 2013, by Directive 2011/65/EU of June 8, 2011, entitled “ROHS 2” Directive; and Directive 2002/96/EC on waste electrical and electronic equipment (“WEEE” Directive, as amended), which will be replaced,

with effect from February 15, 2014 by Directive 2012/19/EU of July 4, 2012. Moreover our products, due to their final applications, may be subject to the end of life vehicles Directive 2000/53/EC ("ELV" Directive, as amended) Directive 2006/66/EC (Battery Directive) and Directive 2007/47/EC (Medical Devices as amended). The ROHS Directive aims at banning the use of lead and other metals and of other flame retardant substances in electric and electronic equipment placed on the market, while the new text is also introducing new requirements within the design and manufacturing phases of the products manufacturing electronic components. The WEEE Directive promotes the recovery and recycling of electrical and electronic waste, while not imposing any "take back" activities to our operations, since ST products, being semiconductor components (not equipment) are excluded from the WEEE take back scope. At this stage, only one subsidiary (located in France) participates to a take back consortium for battery products.

Our activities in the EU are also subject to the European Directive 2003/87/EC (as amended) establishing a scheme for greenhouse gas allowance trading and applicable national legislation. Two of our manufacturing sites (Crolles, France, and Agrate, Italy) have been allocated a quota of greenhouse gas for the period 2008-2012. The Crolles site in France was removed from the allocation scheme in 2010 by the French authorities and our site in Agrate, Italy, was removed from the scheme by the Italian authorities in 2012. We were able to complete the allocation period of 2008-2012 without purchasing any allocation.

We have also implemented voluntary reforestation projects in several countries in order to sequester additional CO2 emissions and report our emissions in our annual Corporate Sustainability Report as well as through the Carbon Disclosure Project.

Regulations implementing the registration, evaluation, authorization and restriction of chemicals ("REACH") came into force in 2008, and are required to be fully implemented by 2018. We intend to proactively implement such legislation, in line with our commitment toward environmental protection. The implementation of any such legislation could adversely affect our manufacturing costs or product sales by requiring us to develop new processes, acquire costly equipment or materials, or to incur other significant expenses in adapting our manufacturing processes or waste and emission disposal processes. However, we are currently unable to evaluate such specific expenses and therefore have no specific reserves for environmental risks. Furthermore, environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations and, as with other companies engaged in similar activities, any failure by us to control the use of, or adequately restrict the discharge of hazardous substances could subject us to future liabilities.

3.2.3. 2013 Key announcements

On March 11, 2013, we re-asserted our MEMS technology and patent leadership with the filing, by our U.S. subsidiary, STMicroelectronics, Inc., of a complaint with the United States International Trade Commission (ITC) requesting an investigation into the alleged infringement of five ST patents covering all of InvenSense, Inc.'s MEMS device offerings, as well as products from two of InvenSense's customers, Black and Decker, Inc. and Roku, Inc. As part of the filing, we requested that the ITC issue an order excluding InvenSense's infringing gyroscopes and accelerometers, as well its customers' products that include those InvenSense devices, from importation into the United States. On February 10, 2014, we announced that we have settled all pending proceedings between us and InvenSense and have entered into a patent cross license agreement. Under the terms of the settlement, InvenSense made a one-time $15 million payment in the first quarter of 2014 but neither we nor InvenSense has made any admission of liability. We will collect royalties under the terms of the patent cross license in the future. The expected royalties will not be material to our financial results. Other terms between the parties are confidential.

On March 17, 2013, we repaid with available cash the residual outstanding 2013 Senior Bonds.

On March 26, 2013, we signed a new Euro 350 million loan agreement with the European Investment Bank ("EIB"). The facility, with final maturity eight years after disbursement, was fully drawn by us in the fourth quarter of 2013 in U.S. dollars. This new facility supports our activities in R&D and innovation related to the design and realization of the next generation of technologies and electronic devices.

On May 21, 2013, we announced our leadership of Places2Be, a 3-year, €360 million advanced-technology pilot-line project with the participation of 18 other leading European companies and academic institutions to support the industrialization of Fully-Depleted Silicon-On-Insulator (FD-SOI) microelectronics technology. Places2Be ("Pilot Lines for Advanced CMOS Enhanced by SOI in 2x nodes, Built in Europe") aims to support the deployment of an FD-SOI pilot line at 28-nm and the subsequent node, as well as a dual source that will enable volume manufacturing in Europe. Places2Be will drive the creation of a European microelectronics design ecosystem using this FD-SOI platform and explore the path towards the next step for this technology (14/10-nm).

On May 28, 2013, we announced that ST-Ericsson sold the assets and intellectual property rights associated with its mobile connectivity Global Navigation Satellite System business to a leading semiconductor company. In addition to the assets and intellectual property rights associated with this business, a world class team of 130 industry veterans located in Daventry (UK), Bangalore (India) and Singapore joined the buyer at closing of the transaction which occurred in August 2013. A gain of $66 million has been registered in our consolidated financial statements. On

August 5, 2013, we and Ericsson announced the closing of the split up of ST-Ericsson, less than nine months after we announced our strategic plan. We have taken on some of the existing ST-Ericsson products as well as certain assembly and test facilities. In total, approximately 1,000 employees have joined STMicroelectronics.

On June 17, 2013, we announced that we had signed a comprehensive agreement with Rambus Inc. expanding existing licenses between the two companies, settling all outstanding claims, and committing both organizations to explore additional opportunities for collaboration. The multifaceted agreement gives Rambus access to our Fully-Depleted Silicon On Insulator (FD-SOI) process-technology design environment while giving us secured license terms from the Cryptography Research, Inc. (CRI) division of Rambus that makes it possible for us to expand deployment of security technology for banking, identity, PayTV, video gaming, smartphones, and government, across a wider range of products.

Our Annual General Meeting of Shareholders was held on June 21, 2013 in Amsterdam and, among others, the following decisions were adopted by our Shareholders:

- The adoption of our 2012 Statutory Annual Accounts prepared in accordance with International Financial Reporting Standards (IFRS);

- The distribution of a semi-annual cash dividend of US$0.10 in the second quarter of 2013, and of US$0.10 in the third quarter of 2013, per common share, to be paid in June and September of 2013;

- The approval of the stock-based portion of the compensation of our President and CEO;

- The appointment of Ms. Janet Davidson as a new member of our Supervisory Board for a three-year term;

- The reappointment of Mr. Alessandro Ovi as member of our Supervisory Board for a three-year term;

- The amendment of the compensation scheme for the members of our Supervisory Board;

- The approval of a new four-year Unvested Stock Award Plan for Management and Key Employees; and

- The authorization to our Managing Board, for eighteen months as from our 2013 Annual General Meeting, to repurchase our shares, subject to the approval of our Supervisory Board.

On July 22, 2013, we announced the Nano-2017 Research and Development program, a five-year public-private strategic R&D program led by us to further advance our leadership in key embedded processing solutions and technologies. The project draws support from a broad coalition of French national, regional and local authorities as well as by the European community through the ENIAC Joint Technology Initiative. Funding for the program is subject to approval by the European Commission. Ultimately, Nano-2017 strengthens our leadership in such key technologies as FD-SOI (low-power, high-performance processing), next-generation imaging (sensors and image signal processors), and next-generation embedded non-volatile memories. These technologies are at the core of our embedded processing solutions which include microcontrollers, imaging solutions, digital consumer products, application processors and digital ASICs.

On July 24, 2013, we announced the publication of our 2012 Sustainability Report. Our sixteenth annual Sustainability Report contains comprehensive details of our Sustainability strategy, policies and performance during 2012.

On December 2, 2013, we announced that our Shareholders had adopted all resolutions proposed at the Extraordinary General Meeting (“EGM”) held on December 2, 2013:

- The distribution of a cash dividend of US$0.10 per common share for each of the fourth quarter of 2013 and first quarter of 2014; and

- An amendment of our Articles of Association authorizing our Supervisory Board, in addition to our General Meeting of Shareholders, to resolve upon the distribution of quarterly dividends from the reserves of the Company.

3.2.4. Business and financial outlook for 2014

While the semiconductor market did not perform as expected in 2013, we are encouraged by the positive macro-economic signs and by the market dynamics expected in 2014. We are well positioned to capture opportunities and to continue to grow faster than the market we serve as we focus on product leadership in Sense & Power and Automotive and in Embedded Processing.

In 2014, we plan to advance towards our operating margin target, expected by mid-2015, based on a combination of revenue growth, gross margin improvement and reduction of net operating expenses.

We expect the Nano-2017 R&D grants to become effective in the course of the first half of 2014, subject to the approval by the European Union. There is no guarantee that the program will be approved or if it is approved, that there will be no modifications that could negatively affect the R&D program, all of which could have a material adverse effect on our results of operations.

Our policy is to modulate our capital spending according to the evolution of the semiconductor market. Based on current visibility on demand, we anticipate our capital expenditure to be approximately $510-550 million in 2014, to be adjusted based on demand thereafter. The most important of our 2014 capital expenditure projects are expected to be: (a) for our front-end facilities: (i) in our 300-mm fab in Crolles, technology evolution to consolidate the capability for 20-nm processes and mix evolution to support the production ramp up of new technologies for microcontrollers and automotive advanced products; (ii) a few selective programs of mix evolution, mainly in the area of analog processes; (iii) qualification of technologies in 200-mm in Singapore and Catania; and (iv) quality, safety, maintenance, and productivity and cost savings investments in both 150-mm and 200-mm front-end fabs; (b) for our back-end facilities, capital expenditures will mainly be dedicated to: (i) capacity growth on certain package families, to sustain market demand; (ii) modernization of package lines targeting cost savings benefits; and (iii) specific investments in the areas of factory automation, quality, environment and energy savings; and (c) an overall capacity adjustment in final testing and wafers probing (EWS) according to changes in demand.

We will continue to monitor our level of capital spending by taking into consideration factors such as trends in the semiconductor industry and capacity utilization. We expect to need significant financial resources in the coming years for capital expenditures and for our investments in manufacturing and R&D. We plan to fund our capital requirements from cash provided by operating activities, available funds and 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 issuance 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 prior years to fund our capital expenditure plans for expanding/upgrading our production facilities, our working capital requirements, our R&D and manufacturing costs.

We have an investment in 3Sun. We are currently evaluating our strategy and multiple scenarios are being considered. We currently foresee that there may be a need to provide additional financial resources to 3Sun. In the event of a withdrawal by one of our partners, our financial support could cover up to 50% of the required funding.

Furthermore, as a result of the exit from the ST-Ericsson joint venture, our exposure is limited to covering 50% of ST-Ericsson needs to complete the wind-down, which are estimated in the range of $30 to $40 million for each partner.

We believe that we have the financial resources needed to meet our currently projected business requirements for the next twelve months, including capital expenditures for our manufacturing activities, working capital requirements, approved dividend payments and the repayment of our debts in line with their maturity dates.

3.2.5. Liquidity and financial position

We maintain a significant cash position and a low debt-to-equity ratio, which provide us with adequate financial flexibility. As in the past, our cash management policy is to finance our investment needs mainly with net cash generated from operating activities.

During 2013, our cash and cash equivalents decreased by $414 million, due to the net cash used in investing activities and financing activities exceeding the net cash from operating activities.

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

In millions of USD	2013	2012
Net cash from operating activities	752	1,182
Net cash used in investing activities	(765)	(925)
Net cash from (used in) financing activities	(388)	94
Effect of change in exchange rates	(13)	(13)
Net cash increase (decrease)	(414)	338

Net cash from operating activities

The net cash from operating activities in 2013 was $752 million, decreasing compared to the prior year period. Net cash from operating activities is the sum of (i) net income (loss) adjusted for non-cash items and (ii) changes in net working capital.

Net result adjusted for non-cash items increased to $723 million of cash generated in 2013 compared to $692 million in the prior year period, mainly due to the improved operating results.

Changes in net working capital generated cash for a total amount of $62 million in 2013, compared to $568 million of cash generated in the prior year period, mainly due to a negative change in trade payables ($139 million), trade receivables ($57 million) and inventories ($22 million). In 2012, changes were positive, mainly associated with a favorable variation in inventories ($192 million) and trade payables ($149 million). Furthermore, the negative trend in trade receivables also included an unfavorable net cash impact of $72 million, deriving from the sales, with no recourse, of trade and other receivables, compared to a favorable $26 million in 2012.

Net cash used in investing activities

Investing activities used $765 million of cash in 2013, mainly due to payments for the purchase of tangible assets and for investment in intangible and financial assets, partially offset by the net proceeds from the sale of marketable securities. Payments for purchase of tangible assets, net of proceeds, totaled $531 million, reflecting a significant increase in our capital expenditures in 2013 compared to $451 million registered in 2012.

Net cash from (used in) financing activities

Net cash used in financing activities was $388 million in 2013 is mainly due to the $455 million repayment of the residual outstanding 2013 Senior Bonds and $346 million in dividends paid to stockholders, partially compensated by the proceeds from the increase in interest-bearing loans of $622 million.

Financial position

As at December 31, 2013, our total financial resources amounted to $1,894 million and were comprised mainly of:

- $1,836 million of cash and cash equivalents,
- $57 million invested in senior debt floating rate notes issued by primary financial institutions with a minimum average rating of Baa2/A-/A; both the treasury bills and the Floating Rate Notes are reported at fair value, and
- $1 million in short-term deposits.

At December 31, 2013, the aggregate amount of our interest bearing loans and borrowings, including the current portion, was $1,153 million, which included:

- $1,132 million in European Investment Bank loans (the “EIB Loans”),
- $15 million of other long-term loans,
- $5 million in loans from other funding programs, and
- $1 million of finance leases.

The EIB Loans represent four committed credit facilities as part of R&D funding programs. The first one, for R&D in France, was drawn in U.S. dollars, between December 2006 and February 2008, for a total amount of $341 million, of which $97 million remained outstanding as at December 31, 2013. The second one, for R&D projects in Italy, was drawn in U.S. dollars, between August and October 2008, for a total amount of $380 million, out of which $163

million remained outstanding as of December 31, 2013. The third one, a €350 million multi-currency loan for R&D programs in Europe, was drawn mainly in U.S. dollar and only partially in Euro, between October and December 2012, for a total amount of $453 million, out of which $401 million remained outstanding as of December 31, 2013. The fourth one, a €350 million multi-currency loan for R&D programs in Europe, was drawn in U.S. dollar between October and November 2013, for a total amount of $471 million, all of which remained outstanding as of December 31, 2013. Additionally, we had unutilized committed medium-term credit facilities with core relationship banks of about $730 million. At December 31, 2013, the amounts available under the short-term lines of credit were unutilized.

Our long term debt contains standard conditions, but does not impose minimum financial ratios.

In March 2006, STMicroelectronics Finance B.V. (“ST BV”), a wholly owned subsidiary, issued floating rate senior bonds with a principal amount of €500 million at an issue price of 99.873% (“2013 Senior Bonds”). The notes, which matured on March 17, 2013, were paying a coupon rate of the three-month Euribor plus 0.40% on June 17, September 17, December 17 and March 17 of each year through maturity. The notes have a put for early repayment in case of a change of control. The 2013 Senior Bonds issued by ST BV were guaranteed by ST NV. We repurchased a portion of our 2013 Senior Bonds: (i) for the amount of $98 million in 2010, and (ii) $107 million in 2011. Our 2013 Senior Bonds were entirely repaid as planned in March 2013.

On December 19, 2013, Moody's lowered our senior debt rating from "Baa2" to "Baa3" with stable outlook. On December 18, 2012, S&P lowered our senior debt rating from "BBB+" to "BBB" with negative outlook. We are also rated "BBB-" from Fitch on an unsolicited basis.

3.2.6. 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 7.6.35 of the Consolidated Financial Statements for further information.

Risk management is carried out by a central treasury department (Corporate Treasury). Simultaneously, a Treasury Committee, chaired by the CFO, steers treasury activities and ensures compliance with corporate policies. Treasury activities are thus regulated by the Company'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 Euros 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, or better. 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 Singapore dollar. 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 risk. Borrowings issued at fixed rates, whose amount is currently negligible, expose the Group to fair value 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.

3.3. 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:

- uncertain macro-economic and industry trends;
- customer demand and acceptance for the products which we design, manufacture and sell;
- unanticipated events or circumstances, which may either impact our ability to execute the planned reductions in our net operating expenses and / or meet the objectives of our R&D programs, which benefit from public funding;
- government decisions regarding funding for our R&D programs;
- future events or circumstances, which may have an impact on the timing and final cost of the wind-down of the ST-Ericsson joint venture;
- the loading and the manufacturing performance of our production facilities;
- the functionalities and performance of our IT systems, which support our critical operational activities including manufacturing, finance and sales;
- variations in the foreign exchange markets and, more particularly, in the rate of the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;
- the impact of intellectual property ("IP") claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;
- restructuring charges and associated cost savings that differ in amount or timing from our estimates;
- changes in our overall tax position as a result of changes in tax laws, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;
- the outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;
- natural events such as severe weather, earthquakes, tsunami, volcano eruptions or other acts of nature, health risks and epidemics in locations where we, our customers or our suppliers operate;
- changes in economic, social, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macro-economic or regional events, military conflict, social unrest, or terrorist activities; and
- availability and costs of raw materials, utilities, third-party manufacturing services, or other supplies required by our operations.

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 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 Policies and 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 two 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.

In summary, if our internal risk management and control system cannot provide absolute assurance, it 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: (i) the internal risk management and control systems in place provide a reasonable assurance that STMicroelectronics' financial reporting does not include any errors of material importance as of and for the 2013 financial year; (ii) in relation to STMicroelectronics' financial reporting these systems operated effectively during 2013; and (iii) there are no indications that, in relation to STMicroelectronics' financial reporting, these systems will not operate effectively in 2014.

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 2013 (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 our Managing Board is entrusted to our Supervisory Board, which, in a two-tier corporate structure under Dutch law, is a separate body and fully independent from our Managing Board. In fulfilling their duties under Dutch law, our Supervisory Board members serve the best interests of all of STMicroelectronics' shareholders and other stakeholders, as well as those of STMicroelectronics' business.

Our Supervisory Board supervises and advises our Managing Board in performing its management tasks and setting the direction of STMicroelectronics' affairs and business. The members of our Supervisory Board are carefully selected based on their combined experience, expertise, knowledge of STMicroelectronics and its affairs, as well as the business in which STMicroelectronics operates. Our Supervisory Board is empowered to recommend to the General Meeting of Shareholders people to be appointed as members of our Supervisory Board or of the Managing Board.

Our 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 our Supervisory Board, 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.

Our Supervisory Board has established the following independence criteria for its members, thereby deviating from best practice provision III.2.2 of the Dutch Corporate Governance Code: Supervisory Board members must have no material relationship with STMicroelectronics or any of STMicroelectronics' consolidated subsidiaries, or STMicroelectronics' 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.

Our Supervisory Board also adopted specific bars to independence. On that basis, our 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' shareholders the various activities of the Supervisory Board and the Supervisory Board Committees in 2013.

4.1. Composition of the Supervisory Board

Our Supervisory Board consists of such number of members as is resolved by our General Meeting of Shareholders upon the proposal of our Supervisory Board, with a minimum of six members. Decisions by our General Meeting of Shareholders' 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.

As of December 31, 2013, our Supervisory Board was composed of the following nine members:

Name	Position	Year Appointed	Term Expires	Age
Didier Lombard	Chairman	2004	2014	71
Bruno Steve	Vice-Chairman	1989	2014	72

Jean d'Arthuys	Member	2011	2014	47
Janet G. Davidson	Member	2013(1)	2016	57
Jean-Georges Malcor	Member	2011	2014	57
Alessandro Ovi	Member	2013(2)	2016	69
Alessandro Rivera	Member	2011	2014	43
Martine Verluyten	Member	2012	2015	62
Tom de Waard	Member	1998	2014	67

(1) Ms. Davidson was appointed as a member of our Supervisory Board on June 21, 2013.

(2) Mr. Ovi was also a Supervisory Board member from 1994 to 2005 and from 2007 to 2013.

The mandates of Messrs. Lombard, Steve, d'Arthuys, Malcor, Rivera and de Waard will expire at our 2014 Annual General Meeting of Shareholders.

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 www.st.com.

Pursuant to Dutch law, there is no mandatory retirement age for members of our Supervisory Board. Members of our Supervisory Board may be suspended or dismissed by our General Meeting of Shareholders. Our Supervisory Board may make a proposal to our General Meeting of Shareholders for the suspension or dismissal of one or more of its members. The members of our Supervisory Board receive compensation as authorized by our General Meeting of Shareholders. 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. As mentioned in the Supervisory Board Charter (as well as our Corporate Governance Charter, as approved by our General Meeting of Shareholders, which is also available on our website at www.st.com), we consider that it is not in our best interests to limit the number of terms a member of our Supervisory Board may serve on the Supervisory Board.

Biographies

Didier Lombard has been a member of our Supervisory Board since 2004 and has been its Chairman since May 2011. Mr. Lombard serves on our Supervisory Board's Compensation Committee, Strategic Committee and Nominating and Corporate Governance Committee. He is the Chairman of both the Compensation Committee and the Strategic Committee. Mr. Lombard was appointed Chairman and Chief Executive Officer of Orange (formerly 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 Orange 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 Orange's Senior Executive Vice President in charge of technologies, strategic partnerships and new usages and as a member of Orange's Executive Committee. 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.

Bruno Steve has been a member of our Supervisory Board since 1989 and has been its Vice Chairman since May 2011. He has previously held the positions of Chairman and member. Mr. Steve serves on our Supervisory Board's Compensation Committee, Strategic Committee and Nominating 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 served as Chairman of the Statutory Auditors of Selex Galileo S.p.A. until December 2012. 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. Until December 2012, he was 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.

Jean d'Arthuys has been a member of our Supervisory Board since May 2011. Mr. d'Arthuys serves on our Supervisory Board's Compensation Committee, Strategic Committee and Nominating and Corporate Governance Committee. Mr. d'Arthuys is also the Chairman and CEO of FT1CI. He joined Bpifrance (formerly Fonds Stratégique d'Investissement) in 2010 as Director and member of the Executive Committee. Mr. d'Arthuys was a partner in the fund PAI Partners from 2007 until 2010, in particular in charge of the sectors media, internet and telecom. He was previously Chairman and Chief Executive Officer of television channels Paris Premiere and W9. Mr. d'Arthuys spent the main part of his career at the Executive Board of the Group M6, where he had various functions (from 1996 until 2007). He managed in particular the activities of digital television and the development of the Group. He was a board member of TPS, Sportfive and Newsweb. Mr. d'Arthuys was also Chairman and Chief Executive Officer of the soccer club Girondins de Bordeaux. Mr. d'Arthuys graduated from HEC Business School.

Janet G. Davidson has been a member of our Supervisory Board since June 2013. She serves on our Supervisory Board's Audit Committee and Strategic Committee. She began her career in 1979 as a member of the Technical Staff of Bell Laboratories, Lucent Technologies (as of 2006 Alcatel Lucent), and served from 1979 through 2011 in several key positions, most recently as Chief Strategy Officer (2005 – 2006), Chief Compliance Officer (2006 – 2008) and EVP Quality & Customer Care (2008 – 2011). From 2005 through 2012, Ms. Davidson was a member of the Lehigh University Board of Trustees. In 2007 she served on the Riverside Symphonia Board of Trustees and in 2005 and 2006, Ms. Davidson was a member of the Liberty Science Center Board of Trustees. Ms. Davidson is currently (since 2011) a member of the board of the Alcatel Lucent Foundation. Ms. Davidson is a graduate of the Georgia Institute of Technology (Georgia Tech), Atlanta, GA, USA, and Lehigh University, Bethlehem, PA, USA and holds a Master's degree in Electrical Engineering.

Jean-Georges Malcor has been a member of our Supervisory Board since May 2011. Mr. Malcor serves on our Supervisory Board's Audit Committee. He is the Chief Executive Officer of CGG. He is a graduate of Ecole Centrale de Paris. He also holds a Master of Sciences degree from Stanford University, and a Doctorat from Ecole des Mines. Mr. Malcor began his career at the Thales group as an acoustic engineer in the Underwater Activities division where he was particularly in charge of hydrophone and geophone design and towed streamer programs. He then moved to the Sydney based Thomson Sintra Pacific Australia, becoming Managing Director of the company in 1990. Back in France, he became Director of Marketing and Communications (1991), then Director, Foreign Operations of Thomson Sintra Activités Sous Marines (1993). In 1996, he was appointed Managing Director of Thomson Marconi Sonar Australia which was, in addition to its military activities, the lead developing company for the solid geophysical streamer. In 1999, Mr. Malcor became the first Managing Director of the newly formed joint venture Australian Defense Industry. During this time he operated the Sydney based Woolloomooloo Shipyard (the largest dry dock in the southern hemisphere). In 2002, he became Senior Vice President, International Operations of Thales International. From 2004 to 2009, he was Senior Vice President in charge of the Naval Division, supervising all naval activities in Thales including ship design, building and maintenance. In January 2009, he became Senior Vice President, in charge of the Aerospace Division. In June 2009, he moved to the position of Senior Vice President, Continental Europe, Turkey, Russia, Asia, Africa, Middle East, and Latin America. Mr. Malcor joined CGG in January 2010 as President and became CEO on June 30, 2010. Since June 2013, Mr. Malcor has been a member of the Supervisory Board (as well as its Appointment and Compensation Committee) of the Fives Group.

Alessandro Ovi was a member of our Supervisory Board from 1994 until his term expired at our Annual General Meeting of Shareholders in March 2005. He was reappointed to our Supervisory Board at the 2007 Annual General Meeting of Shareholders and served on the Strategic Committee and the Audit Committee until his term expired. He was reappointed to our Supervisory Board on June 21, 2013. Mr. Ovi serves on our Supervisory Board's Audit Committee and Strategic Committee. 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 LandiRenzo S.p.A and Almaviva S.p.A. 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.

Alessandro Rivera has been a member of our Supervisory Board since May 2011. Mr. Rivera serves on our Supervisory Board's Compensation Committee and Nominating and Corporate Governance Committee. He has been the Head of Directorate IV "Financial Sector Policy and Regulation Legal Affairs" at the Department of the Treasury, Ministry of Economy and Finance, since 2008. He served as Head of Unit in the Department of the Treasury from 2000 to 2008 and was responsible for a variety of policy matters: financial services and markets, banking foundations, accounting, finance, corporate governance and auditing. Since 2008, Mr. Rivera has been a Government

representative in the “Consiglio Superiore” of the Bank of Italy as well as serving on the board of directors and Compensation Committee of Cassa Depositi e Prestiti S.p.A. and Posta Italiana S.p.A., the Financial Services Committee and the European Securities Committee. He was a member of the Accounting Regulatory Committee from 2002 to 2008 and a member of the Audit Regulatory Committee from 2005 to 2008. He served on the board of Italia Lavoro S.p.A. from 2005 to 2008 and was a member of the Audit Committee and the Compensation Committee. Mr. Rivera was also the Chairman of the Audit Committee of the “Fondo nazionale di garanzia degli intermediari finanziari” (Italian investor compensation scheme) from 2003 to 2008. From 2001 to 2010, he was the Project Leader and Deputy Project Leader in several twinning projects with Eastern European Countries (the Russian Federation, the Czech Republic, Lithuania, and Bulgaria). He also served on the board of Mediocredito del Friuli — Venezia Giulia S.p.A from 2001 to 2003.

Martine Verluyten has been a member of our Supervisory Board since May 2012. Ms. Verluyten serves on our Supervisory Board's Audit Committee and has been its Chair since April 22, 2013. Until 2011, Ms. Verluyten acted as CFO of Umicore N.V. based in Brussels. Previously she was CFO of Mobistar N.V. (2001-2006), having initially joined Mobistar in 2000 as Group Controller. She had earlier worked at Raychem since 1976, holding various management positions during her 23 year tenure, from Manager European Consolidations (1976-1979), to General Accounting Manager based in the US (1979-1983). She was then promoted to Division Controller Telecom Division Europe from 1983 to 1990. In 1990, she was appointed Finance & Administration Director back in Europe, then in 1995, Europe Controller Finance & Administration Director until 1999. Ms. Verluyten is also member of the board of directors of Thomas Cook plc, 3i plc and GBL ("group Bruxelles Lambert"). Ms. Verluyten began her career in 1973 at KPMG as an Auditor.

Tom de Waard has been a member of our Supervisory Board since 1998. Mr. de Waard serves on our Supervisory Board's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. He was Chairman of the Audit Committee from 1999 until 2013 and is also Chairman of the Nominating and Corporate Governance Committee. Mr. de Waard was a partner at Clifford Chance, a leading international law firm, until October 2011. 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 is Chairman of the Board of Stichting Administratiekantoor aandelen Telegraaf Media Groep N.V.

4.2. Meetings and activities of the Supervisory Board

Activities of the Supervisory Board.

Our Supervisory Board held 10 meetings in 2013, of which all were held in the presence of the sole member of the Managing Board, the Chief Financial Officer and the Corporate Strategy Officer, with the exception of the evaluation of the functioning of the sole member of our Managing Board and the functioning of our Supervisory Board, its Committees and its individual members as described below.

The items discussed in those meetings included recurring subjects such as the Annual Budget, STMicroelectronics' financial performance, STMicroelectronics' 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 our Supervisory Board, the convocation of our Annual General Meeting of Shareholders, the risks of STMicroelectronics' business and the assessment by our Managing Board of the structure of our internal risk management and control systems, as well as any significant changes thereto, corporate governance requirements and developments, compensation of the sole member of our Managing Board and the performance of our Supervisory Board, its members and its Committees and of the sole member of our Managing Board. Certain Supervisory Board meetings also included presentations by senior executive management.

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

At one of our Supervisory Board meetings and in accordance with best practice provision III.1.8 of the Dutch Corporate Governance Code, our Supervisory Board discussed the corporate strategy and the main risks of the business, the results of the assessment by our Managing Board of the design and effectiveness of the internal risk management and control systems, as well as any significant changes thereto.

At one of our Supervisory Board meetings and in accordance with best practice provision III.1.7 of the Dutch Corporate Governance Code, our Supervisory Board evaluated outside the presence of the sole member of our Managing Board and other executive officers, the performance of the sole member of our Managing Board as well as of its own functioning, its members and its Committees. In doing so, the Chairman of our Supervisory Board had invited each member of our Supervisory Board to provide his/her 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 our Supervisory Board unanimously concluded that the sole member of our Managing Board, the full Supervisory Board, its members and its Committees are functioning adequately.

Membership and Attendance.

As of December 31, 2013, the composition of our Supervisory Board's committees was as follows:

Detailed information on attendance at full Supervisory Board and Supervisory Board Committee meetings during 2013 is as follows:

Number of meetings attended in 2013	Full Board	Audit Committee	Compensation Committee	Strategic Committee	Nominating and Corporate Governance Committee
Didier Lombard	10	n/a	3	1	5
Bruno Steve	9	n/a	3	1	4
Jean d'Arthuys	8	n/a	2	1	5
Janet Davidson(1)	6	5	n/a	1	n/a
Jean-Georges Malcor	10	10	n/a	n/a	n/a
Alessandro Ovi	10	10	n/a	1	n/a
Alessandro Rivera	10	n/a	3	n/a	4
Martine Verluyten	8	9	n/a	n/a	n/a
Tom de Waard	10	9	3	n/a	5
Raymond Bingham(2)	4	5	n/a	n/a	n/a

(1) Ms. Davidson was appointed as a member of our Supervisory Board on June 21, 2013.

(2) The mandate of Mr. Bingham as member of our Supervisory Board expired on June 21, 2013.

4.3. Audit Committee

The Audit Committee was established in 1996 to assist our 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 2013. 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, Compliance Officer and 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 the internal audit function. The Audit Committee reviewed the annual Consolidated Financial Statements in U.S. GAAP for the year ended December 31, 2013, and the results press release was published on January 27, 2014.

The Audit Committee approved the compensation of the external auditors for 2013 and discussed the scope of their audit, audit related and non-audit related services for 2014. At the end of each quarter, prior to each Supervisory Board meeting to approve the quarterly results and earnings press release, the Audit Committee reviewed the 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 furnished to 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 this Form 20-F, prior to its approval by our Supervisory Board. 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 General Meeting of Shareholders, which was held on June 21, 2013.

Also in 2013, the 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, the 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.

4.4. Compensation Committee

The Compensation Committee was established to advise our Supervisory Board in relation to the compensation of our President and Chief Executive Officer and sole member of our Managing Board, including the variable portion of such compensation based on performance criteria recommended by the Compensation Committee. The Compensation Committee also reviews the stock based compensation plans for our senior managers and key employees. The Compensation Committee met 3 times in 2013.

Among its main activities, in 2013 the Compensation Committee: (i) reviewed the objectives met as compared to the performance criteria relating to the CEO bonus for the fiscal year ended on December 31, 2012; (ii) reviewed the performance criteria relating to the CEO bonus for the fiscal year ending on December 31, 2013; (iii) reviewed the compensation scheme for members of our Supervisory Board, as proposed by our Supervisory Board at the Annual General Meeting of Shareholders held on June 21, 2013; and (iv) established, on behalf and with the approval of the entire Supervisory Board, the applicable performance criteria, which must be met by senior managers and selected key employees participating in the employees stock award plans to benefit from such awards. In particular, our Compensation Committee recommended that the performance targets for the bonus of our CEO be based on, among other factors, the Company's share price evolution versus SOXX, new major accounts revenues as well as certain financial targets and special programs.

For the 2013 unvested 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 evolution, as compared against a panel of semiconductor companies, and cash flow targets.

4.5. Strategic Committee

The Strategic Committee was established to advise our Supervisory Board on and monitor key developments within the semiconductor industry and our overall strategy, and is, in particular, involved in supervising the execution of

corporate strategies and in reviewing long-term planning and budgeting. The Strategic Committee met once in 2013. In addition, there were strategic discussions, many of which occurred at extended Supervisory Board meetings and involved all Supervisory Board members. 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.

4.6. Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee was created to advise our Supervisory Board on the selection criteria and procedures relating to the appointment of members to our Supervisory Board and Managing Board, and to review principles relating to corporate governance. The Nominating and Corporate Governance Committee met 5 times during 2013 to discuss the selection of candidate members to our Supervisory Board, changes to the Dutch Corporate Governance Code, recent developments in U.S. law regarding corporate governance and preparations for our annual general meeting.

4.7. Secretariat and Controllers

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

Our Supervisory Board appoints 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. Nicolas Manardo and Andrea Novelli.

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

4.8. Remuneration report

The aggregate compensation for the members and former member of our Supervisory Board in respect of service in 2013 was €979,500 before any withholding taxes and applicable mandatory social contributions, as set forth in the following table.

In Euros	2013 (1)	
Didier Lombard	164,625	
Bruno Steve	160,500	
Jean d’Arthuys	0	(2)
Janet Davidson(3)	94,625	
Raymond Bingham(4)	6,750	
Jean-Georges Malcor	95,875	
Alessandro Ovi	102,875	
Alessandro Rivera	93,000	
Martine Verluyten	145,875	
Tom de Waard	115,375	
Total	979,500	

(1) These amounts include a fixed annual compensation for the directors' mandate, together with attendance fees from January 1, 2013 until December 31, 2013.
(2) Mr. d'Arthuys would have been entitled to receive €99,000 in 2013, but he waived his right to receive any compensation from the Company in relation to his mandate as a member of our Supervisory Board.
(3) Ms. Davidson was appointed as a member of our Supervisory Board on June 21, 2013.
(4) Mr. Bingham was a member of our Supervisory Board until June 21, 2013.

We do not have any service agreements with members of our Supervisory Board. At our Annual General Meeting of Shareholders held in June 2013, it was resolved to abolish and terminate the stock-based compensation for members of our Supervisory Board. Through the termination of the stock-based compensation of the members of our Supervisory Board, the total compensation members of our Supervisory Board may receive has been decreased. The information included in the above table reflects the changes as adopted by our Annual General Meeting of Shareholders in June 2013.

For further details on the compensation of the members of our Supervisory Board we refer to Note 7.6.33 to our consolidated financial statements.

The total amount paid as compensation in 2013 to our senior management on duty on December 31, 2013, including Mr. Carlo Bozotti, the sole member of our Managing Board and our President and CEO, was approximately $17.4 million before any withholding taxes. Such amount also includes the amounts of EIP paid to the senior management 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 $10.9 million. Within such amount, the remuneration of the current sole member of our Managing Board and President and CEO in 2013 was:

Sole Member of our Managing Board and President and CEO	Salary	Bonus (1)	Non-cash Benefits(2)	Total
Carlo Bozotti	$ 1,059,559	$ 1,165,514	$ 1,181,232	$ 3,406,305

(1) The bonus paid to the sole member of our Managing Board and President and CEO during the 2013 financial year was approved by the Compensation Committee, and approved by our Supervisory Board in respect of the 2012 financial year, based on fulfillment of a number of pre-defined objectives for 2012.

(2) Including stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances. In accordance with the resolutions adopted at our Annual General Meeting of Shareholders held on May 30, 2012, the bonus of the sole member of our Managing Board and our President and CEO during the 2013 financial year included a portion of a bonus payable in stock awards and corresponding to 33,621 shares based on fulfillment of a number of pre-defined objectives.

The remuneration of the sole member of our Managing Board is determined by our Supervisory Board on the advice of the Compensation Committee and within the scope of the remuneration policy as adopted by our 2005 Annual General Meeting of Shareholders. For further details on the compensation of the Sole Members of our Managing Board and President and CEO we also refer to Note 7.6.33 to our consolidated financial statements.

Mr. Bozotti was re-appointed as sole member of our Managing Board and President and Chief Executive Officer of our Company by our Annual General Meeting of Shareholders on May 3, 2011 for a three year period expiring at the end of our 2014 Annual General Meeting of Shareholders. In each of the years 2010, 2011 and 2012, Mr. Bozotti was granted, in accordance with the compensation policy approved by our General Meeting of Shareholders, up to 100,000 unvested 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 for our Managing Board approved by our 2005 Annual General Meeting of Shareholders.

Effective May 1, 2011, the terms of Mr. Bozotti's employment were further modified and reviewed by our Supervisory Board.

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 approved by our shareholders.

As of January 1, 2013, the relationship between a member of the managing board and a listed Dutch company can no longer be treated as an employment agreement. In practice, it will be treated as a mandate agreement. However, existing employment agreements, including the employment agreement between us and our sole member of the Managing Board, will remain in effect. Consistent with this compensation policy, our Supervisory Board, upon the recommendation of its compensation committee, set the criteria to be met for Mr. Bozotti for attribution of his 2013 bonus (based on new product introductions, market share and budget targets, as well as corporate governance initiatives). Our Supervisory Board, however, has not yet determined the amount of the CEO bonus for 2013.

With regard to Mr. Bozotti's 2010 stock awards, our Supervisory Board, upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. Our 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).

With regard to Mr. Bozotti's 2011 stock awards, our Supervisory Board, upon recommendation of the Compensation Committee, noted that none 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 not entitled to any stock award.

With regard to Mr. Bozotti's 2012 stock awards, our Supervisory Board, upon recommendation of the Compensation Committee, 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).

During 2013, 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.

With regard to Mr. Bozotti's 2013 stock awards, our Supervisory Board, upon recommendation of the Compensation Committee, set the criteria for the attribution of the 100,000 stock awards permitted. Our Supervisory Board also assessed the achievement of such criteria based on the following predetermined and quantifiable metrics: the evolution of our sales as compared to the published sales data of a benchmark of selected semiconductor companies over a 12-month period, the evolution of our operating margin as compared to the published operating margin of a benchmark of selected semiconductor companies over a 12-month period, and our net operating cash flow as compared to the Company's predetermined annual budget over a 12-month period.

Our Supervisory Board has approved the establishment of a complementary pension plan for our top executive management, comprising the CEO, and other key executives to be selected by the CEO, according to the general criteria of eligibility and service set up by our Supervisory Board upon the proposal of its Compensation Committee. With 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 2013 we made a contribution of $0.3 million to the plan of our current President and Chief Executive Officer and $0.6 million to the plan for all other beneficiaries. The amount of pension plan payments made for other beneficiaries, such as former employees retired in 2013 and no longer salaried in 2013, was $0.8 million.

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.

For information regarding stock options and other stock based compensation granted to members of our Supervisory Board, the Managing Board and our senior management, please refer to "4.8.2. Stock Awards and Options" below.

The current members of our Executive Committee and the Managing Board were covered in 2013 under certain group life and medical insurance programs provided by us. The aggregate additional amount set aside by us in 2013 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 $5.2 million, which includes statutory employer contributions for state run retirement, similar benefit programs and other miscellaneous allowances.

4.8.1. Share ownership

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

4.8.2. Stock awards and options

Our stock-based compensation 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 unvested stock awards for our senior management as well as key employees. Upon the proposal of our Supervisory Board, our Annual General Meeting of Shareholders held on June 21, 2013 resolved to abolish and terminate the stock-based compensation for members and professionals of our Supervisory Board as (previously) included in the three-year stock-based compensation plans for members and professionals of our Supervisory Board.

Pursuant to the shareholders' resolutions adopted by our General Meetings of Shareholders, 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 unvested 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 2009 unvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance;

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

- approved conditions relating to our 2011 unvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance; and

- approved conditions relating to our 2012 unvested stock award allocation under the 2008 Stock Award Plan, including restriction criteria linked to our performance.

At our Annual General Meeting of Shareholders held on June 21, 2013, it was resolved to approve a new four-year Unvested Stock Award Plan for the Management and Key Employees, which provides that stock awards may be granted under restricted criteria to selected employees.

We use our treasury shares to cover the stock awards granted under the unvested stock award plans. In the year ended as of December 31, 2013, 2,507,616 stock awards granted in relation to 2010 and 2012 had vested, leaving 20,096,542 treasury shares outstanding. The stock award allocation for 2013 generated an additional charge of $13 million in the consolidated statement of income for 2013, 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 or professionals 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.

4.8.3. Employee and Managing Board stock-based compensation plans

4.8.3.1. 2001 Stock Option Plan.

Our 2001 Annual General Meeting of Shareholders approved resolutions authorizing our 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 General Meeting of Shareholders. 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, our 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 General Meeting of Shareholders approved a modification to our 2001 Stock Option Plan so as to provide the grant of up to four million unvested 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 unvested stock awards instead of stock options to our President and CEO. A total of 4,159,915 unvested stock awards have been granted pursuant to the modification of such plan, which includes unvested stock awards that were granted to employees who subsequently left our Company thereby forfeiting their awards. Certain forfeited unvested stock 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 unvested stock awards at the defined vesting dates in 2006, 2007 and 2008. Of the shares awarded, none remain outstanding and unvested as of December 31, 2013.

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

	Tranche 10	Tranche 11	Tranche 12	Tranche 13	Tranche 14	Tranche 15	Tranche 16	Tranche 17
Date of the grant	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	11,533,960	306,850	135,500	86,400	12,103,490	175,390	29,200	13,000
Vesting Date	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	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	$19.18	$22.83	$25.90	$27.21	$22.71	$17.08	$16.73	$17.31
Terms of Exercise	32% on 14-Mar-05 32% on 14-Mar-06 36% on 14-Mar-07	32% on 3-Jun-05 32% on 3-Jun-06 36% on 3-Jun-07	32% on 24-Oct-05 32% on 24-Oct-06 36% on 24-Oct-07	32% on 2-Jan-06 32% on 2-Jan-07 36% on 2-Jan-08	32% on 26-Apr-06 32% on 26-Apr-07 36% on 14-Mar-08	32% on 1-Sep-06 32% on 1-Sep-07 36% on 1-Sep-08	32% on 31-Jan-07 32% on 31-Jan-08 36% on 31-Jan-09	32% on 17-Mar-07 32% on 17-Mar-08 36% on 17-Mar-09
Number of Shares to be acquired with Outstanding Options as of December 31, 2013	0	0	0	1,900	8,056,365	86,786	13,200	0
Held by Managing Board/ Executive Officers	0	0	0	0	408,200	0	0	0

4.8.3.1. 2008 Unvested Stock Award Plan — 2010 Allocation

In accordance with the Employee Unvested Share Award Plan, as approved by our 2008 Annual General Meeting of Shareholders and further approved by our 2010 Annual General Meeting of Shareholders, up to 6,516,460 unvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our Annual General Meeting of Shareholders in 2010 approved the grant of up to 100,000 unvested stock awards to our President and CEO. 6,566,375 unvested stock awards have been granted under such allocation as of December 31, 2013 out of which none remain outstanding and unvested as of December 31, 2013.

4.8.3.2. 2008 Unvested Stock Award Plan — 2011 Allocation

In accordance with the Employee Unvested Share Award Plan, as approved by our 2008 Annual General Meeting of Shareholders and further approved by our 2011 Annual General Meeting of Shareholders, up to 6,150,000 unvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our Annual General Meeting of Shareholders in 2011 approved the grant of up to 100,000 unvested stock awards to our

President and CEO. 5,976,630 unvested stock awards have been granted under such allocation as of December 31, 2013, out of which none remain outstanding and unvested as of December 31, 2013.

4.8.3.3. 2008 Unvested Stock Award Plan — 2012 Allocation

In accordance with the Employee Unvested Share Award Plan, as approved by our 2008 Annual General Meeting of Shareholders and further approved by our 2012 Annual General Meeting of Shareholders, up to 6,500,000 unvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our Annual General Meeting of Shareholders in 2012 approved the grant of up to 100,000 unvested Stock Awards to our President and CEO. 6,520,765 unvested stock awards have been granted under such allocation as of December 31, 2013, out of which 3,152,539 remain outstanding but unvested as of December 31, 2013.

4.8.3.4. 2013 Unvested Stock Award Plan — 2013 Allocation

In accordance with the Employee Unvested Share Award Plan, as approved by our 2013 Annual General Meeting of Shareholders, up to 6,900,000 unvested stock awards could be granted to our senior executives and certain of our key employees. Our shareholders at our Annual General Meeting of Shareholders in 2013 approved the grant of up to 100,000 unvested stock awards to our President and CEO. 6,412,045 unvested stock awards have been granted under such allocation as of December 31, 2013, out of which 6,379,320 remain outstanding but unvested as of December 31, 2013.

Pursuant to such approval, the Compensation Committee, upon delegation from our Supervisory Board, has approved the conditions which shall apply (when applicable) to the vesting of such awards. These conditions relate both to our financial performance meeting certain defined criteria in 2013, and to the continued presence at the defined vesting dates in 2014, 2015 and 2016 of the beneficiaries of the unvested stock awards.

Furthermore, the Compensation Committee, on behalf of our 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 6,900,000 for 2013.

4.8.4. Supervisory Board stock option plans

The members of our Supervisory Board used to receive stock-based compensation until the year 2012. The termination of stock-based compensation for members (and professionals) of our Supervisory Board was adopted by our 2013 Annual General Meeting of Shareholders. We are therefore in compliance with best practice provision III.7.1 of the Dutch Corporate Governance Code from the 2013 financial year.

4.8.4.1. 2002 Stock Option Plan for members and professionals of the Supervisory Board.

Our 2002 Annual General Meeting of Shareholders approved the adoption of a stock option plan for members and professionals of our Supervisory Board (the "2002 Stock Option Plan"). The 2002 Stock Option Plan provided for the grant of 12,000 options per year to each member of our Supervisory Board and 6,000 options per year to the professionals of our Supervisory Board. Pursuant to the 2002 Stock Option Plan, stock options for the subscription of 396,000 shares were granted to the members and professionals of our Supervisory Board, as shown in the table below:

2002 Plan (for Supervisory Board members and professionals)
(outstanding grants)

	March 27, 2002		
Date of Annual General Meeting of Shareholders	Tranche 1	Tranche 2	Tranche 3
Date of the grant	25-Apr-02	14-Mar-03	26-Apr-04
Total Number of Shares which may be purchased	132,000	132,000	132,000
Vesting Date	25-May-02	14-Apr-03	26-May-04
Expiration Date	25-Apr-12	14-Mar-13	26-Apr-14
Exercise Price	$31.11	$19.18	$22.71
Terms of Exercise	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, 2013	0	0	132,000

4.8.4.2. 2005, 2006 and 2007 Stock-based Compensation for members and professionals of the Supervisory Board.

Our 2005 Annual General Meeting of Shareholders 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 stock awards per year for each member of our Supervisory Board and 3,000 stock awards for each of the professionals of our Supervisory Board at an exercise price of