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 March 27, 2019

Commission File Number: 1-13546

STMicroelectronics N.V.

(Name of Registrant)

WTC Schiphol Airport

Schiphol Boulevard 265

1118 BH Schiphol Airport

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 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

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

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

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

Enclosure: STMicroelectronics 2018 Dutch Statutory Annual Report, including the 2018 IFRS Statutory Accounts.

Table of Contents

Table of Contents

Contents

Table of Contents

Table of Contents

4

Table of Contents

1. Message from the President and CEO on the financial year 2018

Dear Shareholder,

After the strong business and financial performances of 2017, 2018 was another solid step forward for ST. We delivered significant revenue growth across our product groups and a strong expansion of operating profitability, net income and free cash flow. We achieved this while continuing to invest to increase growth opportunities and operating efficiency over the mid-term. 2018 was also a year of leadership change for our Company, with the retirement of Carlo Bozotti and my appointment on May 31 as ST s President and CEO, supported by a strong and experienced Executive Committee.

Solid performance in 2018

2018 net revenues grew 15.8% compared to 2017, reaching $9.66 billion and outpacing the growth of the markets we serve. ADG revenues increased 16.2%, with double-digit growth for both Automotive and Power Discrete. And, with all ST products addressing the automotive market, we grew about 18%. AMS revenues increased 19.9%, on sharply higher Imaging sales and double-digit growth in Analog. MDG revenues increased 11.1% in 2018 with double-digit growth for Microcontrollers and Memories, and Digital ICs.

We achieved this significant growth while maintaining a good balance between our large OEM customers, for whom we ramped key new technologies and products, and our more than 100,000 small and mid-sized customers, well supported by our global network of distributors.

We also improved our operating profitability, increasing gross margin to 36.9% from 36.3% in 2017 and remaining disciplined on operating expenses. In 2018, our operating margin was 14.0% compared to 12.9% in 2017 and net income was $1,635 million, including the accounting impact of the convertible bonds, which is different from our primary reporting standard (US-GAAP).

Our free cash flow increased 73% to $533 million with capex of $1.26 billion, and we exited 2018 with a higher net cash position compared to 2017 at $686 million compared to $489 million.

These solid results enabled us to keep returning value to our shareholders. During 2018, shareholders received cash dividends of $216 million. As part of the share buy back program launched in November 2018, we spent an additional $62 million during the fourth quarter. This program is still ongoing.

Keeping our focus on long-term growth prospects

In 2018, we continued to invest for growth with significant initiatives in both R&D and manufacturing operations to support the ramp of major new programs, diversifying the technology capabilities of our plants to increase overall flexibility and resilience and targeting improved operating efficiency.

In front-end manufacturing and R&D, we increased the flexibility and the ability to ramp new technologies in our Crolles 300mm fab; we continued the ongoing mix evolution to more advanced BCD in Agrate while preparing for future 300mm operations; we increased capacity in 200mm advanced BCD and 150mm silicon carbide in Catania, and in 200mm for Power Discrete and BCD in Singapore, broadening the fab s technology capability. In back-end operations, we increased the overall pace of equipment modernization, and expanded capacity to support revenue growth and the ramp of new products, particularly for automotive microcontrollers and advanced BCD.

Even if the macroeconomic environment has become more uncertain, our objectives for 2019 remain unchanged: we want to continue to outperform our served market, to balance our end markets and applications focus and to execute our strategic technology, R&D and manufacturing programs.

We want to continue to be a broad supplier in the Industrial and Automotive markets, while leveraging our differentiated, in-house technologies, products and solutions for selected opportunities in Personal Electronics and Communications Equipment, Computers and Peripherals. We also decided to devote a significant portion of our Capex in 2019 to support three longer-term strategic initiatives:

First, a new 300mm fab in Agrate, Italy to support our leadership and growth ambitions in BCD, IGBT and Power technologies. Initial volume production is expected from 2021, with the fab s modular design enabling expansion according to demand.

Second, the expansion of our 150mm capacity for Silicon Carbide (SiC) and the start of production ramp-up for Gallium Nitride for RF devices continuing to leverage our early investments in wide-bandgap materials.

5

Third, our investments in the next generation of specialized imaging sensor technologies to enable us to continue to lead in this field.

These initiatives will be integral to our objective of sustainable leadership in our end markets. They will also be key to ensuring time-to-market for our new technologies and products, a key factor for our customers alongside the reliable execution of their programs.

We believe that this strategy, executed with the strong engagement of our 46,000 outstanding employees, will make ST a more resilient company, while preparing us for further sustainable and profitable growth and creating more value for all of our stakeholders.

Table of Contents

2. Corporate overview

2.1. History and development of STMicroelectronics

STMicroelectronics N.V. was formed and incorporated in 1987 as a result of 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 also listed our shares on the Borsa Italiana S.p.A. (Borsa Italiana).

We operated as SGS-Thomson Microelectronics N.V. until May 1998, when we changed our name to STMicroelectronics N.V. We are organized under the laws of The Netherlands, with 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. 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

We are a global leader in the semiconductor market, serving a broad range of customers across different areas. Our strategy focuses on long-term value creation for the Company and its affiliated enterprises and takes into account the evolution of the markets we serve and the environment and opportunities we see for the years to come. We focus on developing industry-leading products and solutions for the application areas which are expected to experience solid growth rates driven by long-term trends. Trends include the evolution of population demographics, urbanization, workplace transformation, health and wellness, environmental awareness and increasing connectedness. These trends require enablers such as autonomous systems, robotics, securely connected machines and personal devices, electrification of automobiles and infrastructure, Internet of Things (IoT) and more power efficient systems, which in turn drive the demand for the electronic components we develop and manufacture.

Our products are used in a wide variety of applications, which address four end markets: automotive, industrial, personal electronics and communications equipment, computers and peripherals. We enable smarter driving by making vehicles safer, more environmentally friendly and more connected. We help make smarter homes, cities, workplaces and factories in which things can be done more efficiently and flexibly, in a more sustainable manner, safer and with a better experience for the people at the center. We enable creators of smart connected consumer devices to develop and take to market their devices quicker and more efficiently. In doing this we ensure that ST is found everywhere microelectronics make a positive and innovative contribution to people s lives. By getting more from technology to get more from life, ST stands for life.augmented.

2.3. Organizational structure

We are organized in a matrix structure with geographic regions interacting with product lines, 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 our parent company, we conduct our global business through STMicroelectronics International N.V. and 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 are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of products, including discrete and standard components, application-specific integrated circuits

Table of Contents

(ASICs), full-custom devices and semi-custom devices and application-specific standard products (ASSPs) for analog, digital and mixed-signal applications.

Our diverse product portfolio benefits from a unique, strong foundation of proprietary and differentiated leading-edge technologies. We use all of the prevalent function-oriented process technologies, including complementary metal-on silicon oxide semiconductors (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 our pioneering fully depleted silicon-on-insulator (FD-SOI) technology offering superior performance and power efficiency compared to bulk CMOS, bipolar CMOS technologies (Bi-CMOS) and radio frequency silicon-on-insulator (RF-SOI) for mixed-signal and high-frequency applications, as well as a combination of Bipolar, CMOS and DMOS (BCD) and vertically integrated power (VIPower) technologies for smart power applications, silicon carbide (SiC) and gallium-nitride (GaN) for high-efficiency systems, Micro-Electro-Mechanical Systems (MEMS) technologies for sensors and Actuators, embedded memory technologies for our microcontrollers and differentiated Imaging Technologies for our imaging solutions.

Our reportable segments are as follows:

- Automotive and Discrete Group (ADG), comprised of dedicated automotive ICs (both digital and analog), and discrete and power transistor products for all market segments.

- Analog, MEMS and Sensors Group (AMS), comprised of low-power high-end analog ICs (both custom and general purpose) for all markets, smart power products for Industrial, Computer and personal electronics markets, Touch Screen Controllers, Low Power Connectivity solutions (both wireline and wireless) for IoT, power conversion products, metering solutions for Smart Grid, specialized imaging sensors and modules, and all MEMS products for sensors or actuators, subsystems, as well as the Imaging Products division (including the sensors and modules utilizing the Group s Time-of-Flight technology).

- Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, Digital ASICs, Aerospace and Defense products including components for microwave and millimeter wave.

Others includes items such as unused capacity charges, impairment and restructuring charges and other related closure costs, phase out and start-up costs, and other unallocated expenses such as: management reorganization expenses, strategic or special research and development programs, certain corporate-level operating expenses, patent claims and litigations, and other costs that are not allocated to product groups, as well as assembly services and other revenue.

2.5. Sales, Marketing and Distribution

Our sales and marketing is organized by a combination of country/area coverage and key accounts coverage with the primary objective of accelerating sales growth and gaining market share, particularly with regards to: strengthening the effectiveness of the development of our global and major local accounts; boosting demand creation through an enhanced focus on geographical coverage with strong technical expertise, supported in the mass market by our distribution channel and local initiatives; and establishing regional sales and marketing teams that are fully aligned with our strategic end markets (automotive, industrial, personal electronics and communications equipment, computers and peripherals) product lines.

We have three regional sales organizations reporting to a global head of Sales & Marketing: Americas; Asia Pacific; and EMEA. Our regional sales organizations have a similar structure to enhance coordination in go-to-market activities and are strongly focused on revenue growth. The sales and marketing activities performed by our regional sales organizations are supported by product marketing organized by product group under the direct supervision of sales, which also includes product development functions. This matrix system reinforces our sales and marketing activities and our broader strategic objectives. An important objective of our regional sales and marketing efforts is expanding our customer base, which we seek to achieve by adding sales representatives, regional competence centers and improved online customer support.

2.6. Research & Development

Since our formation, we have maintained a solid commitment to innovation. About one-sixth of our employees work in R&D on product design/development and technology and, in 2018, we spent approximately 11.7% of our net revenues on R&D. Our innovations in semiconductor technology as well as in hardware and software contribute to the creation of successful products that generate value for us and our customers. Our complete design platforms, including a large selection of IP and silicon-proven models and design rules, enable the fast development of products designed to meet customer expectations in terms of reliability, quality, competitiveness in price and time-to-market. Through our R&D efforts, we contribute to making our customers products more efficient, more appealing, more reliable and safer. Our technology R&D strategy is based on the development of differentiated technologies, allowing for a unique offer in terms of new products and enabling new applications opportunities.

We draw on a rich pool of chip fabrication technologies, including advanced CMOS, FD-SOI, specialized imaging, embedded non-volatile memories, mixed-signal, analog, MEMS, Smart power SiC and GaN processes. This is well embedded in our strong packaging technologies portfolio such as high pin count BGA, Wafer level packaging, highly integrated sensor packages and leadframe packages power products. We combine both front-end and back-end manufacturing and technology R&D under the same organization to ensure a smooth flow of information between our R&D and manufacturing organizations. We leverage significant synergies and shared activities between our product groups to cross-fertilize them. We also use silicon foundries, especially for advanced CMOS beyond the 28-nm node that we do not plan to manufacture nor develop internally.

We have advanced R&D centers, which offer us a significant advantage in quickly and cost effectively introducing products. Furthermore, we have established a strong culture of partnerships and through the years have created a network of strategic collaborations with key customers, suppliers, competitors, and leading universities and research institutes around the world. We also play leadership roles in numerous projects running under the European Union s IST (Information Society Technologies) programs. We also participate in certain R&D programs established by the EU, individual countries and local authorities in Europe (primarily in France and Italy).

We currently own approximately 17,790 patents and pending patent applications, corresponding to approximately 9,573 patent families (each patent family containing all patents originating from the same invention), including over 549 original new patent applications filed in 2018.

2.7. Sustainability

Sustainability has been a guiding principle for ST for more than 20 years. In line with our vision to be everywhere microelectronics make a positive contribution to people s lives, sustainability is deeply embedded in all of our activities. We believe that sustainability is fundamental to our business, brings new opportunities, improves efficiency, reduces risks and secures long-term profitability. It also brings benefits to our employees and our external stakeholders. Our approach to sustainability is expressed in our Code of Conduct, our policies and in our sustainability strategy.

Each year we publish a sustainability report, which delivers a comprehensive view of our programs and performance. We are included in some of the main sustainability indices (Dow Jones World and Europe Sustainability Indices, FTSE4Good, Euronext Vigeo, ECPI, Ethibel) and recognized by CDP for its environmental management. In addition, as a member of the Responsible Business Alliance (RBA), formerly the Electronic Industry Citizenship Coalition, we participate in the collective efforts of the industry to find solutions to our global sustainability challenges.

Further information on ST s Sustainability approach can be found at: www.st.com/st-approach-to-sustainability.

Table of Contents

3. Report of the Managing Board

In accordance with Dutch law, our management is entrusted to our Managing Board under the supervision of our Supervisory Board. Mr. Jean-Marc Chery was appointed on May 31, 2018 as sole member of our Managing Board with the function of President and Chief Executive Officer. He succeeded Carlo Bozotti who retired at the end of our 2018 Annual General Meeting of Shareholders (AGM) on May 31, 2018. Under our Articles of Association, the sole member of our Managing Board is appointed for a three-year term at our Annual General Meeting of Shareholders (by a simple majority of the votes cast), upon a non-binding proposal by our Supervisory Board, which term may be renewed one or more times.

3.1. State ment 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, 2018 and for the year then ended, prepared under Title 9 of Part 2 of The Netherlands Civil Code in accordance with IFRS as adopted by the European Union, 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 report of the Managing Board 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.

Jean-Marc Chery,

Sole member of the Managing Board,

President and Chief Executive Officer

3.2. Busi ness overview & performance

3.2.1. Results highlights for the year 2018

The total available market is defined as the TAM , while the serviceable available market, the SAM , is defined as the market for products sold by us (which consists of the TAM and excludes major devices such as Microprocessors (MPUs), Dynamic random-access memories (DRAMs), optoelectronics devices, Flash Memories and the Wireless Application Specific market products such as Baseband and Application Processor).

Based on industry data published by WSTS, semiconductor industry revenues in 2018 increased on a year-over-year basis by approximately 14% and approximately 10% for the TAM and the SAM, to reach approximately $469 billion and $194 billion, respectively.

During 2018, in line with our objectives, we delivered significant revenue growth across our product groups and strong expansion of operating profitability, net income and free cash flow, while investing to increase growth opportunities and operating efficiency over the mid-term.

Our 2018 net revenues increased by 15.8% year-over-year, with a double-digit growth in all product groups and geographies. Our gross margin expanded 60 basis points; operating margin increased 110 basis points to 14.0% and net income improved by $1,409 million to $1,635 million.

Our effective average exchange rate was $1.18 for 1.00 for the full year 2018, as compared to $1.11 for 1.00 for the full year 2017.

Our 2018 gross margin improved 60 basis points to 36.9% from 36.3% in 2017, mainly benefiting from manufacturing efficiencies and better product mix, partially offset by normal price pressure and unfavorable currency effects, net of hedging.

Our operating expenses, comprised of SG&A and R&D expenses, amounted to $2,236 million in 2018, increasing from $2,055 million in the prior year, mainly due to unfavorable currency effects, salary dynamic, increase activities and headcount and higher costs of the share based compensation plans.

Other income and expenses, net, was $23 million in 2018 compared to $100 million in 2017, mainly due to a negative result on hedging and by a lower level of R&D grants.

Operating profit in 2018 improved by $276 million to $1,355 million compared to $1,079 million in 2017 on higher revenues and improved gross margin.

Table of Contents

Combined finance income and costs resulted in a net gain of $397 million in 2018, compared to costs of $735 million in 2017, and reflect in both years the IFRS accounting of convertible bonds. The 2018 amount includes a gain of $405 million for the fair value adjustment of outstanding convertible bonds (compared to a net loss $323 million in 2017). The 2017 finance costs also include a cost of $401 million in connection with the settlement of the 2014 convertible bonds.

Full year 2018 net profit was $1,635 million, or $1.80 diluted earnings per share, compared to net profit of $226 million, or $0.24 diluted earnings per share for the full year 2017.

Capital expenditure payments, net of proceeds from sales, followed well our anticipated route to support revenue growth and were $1.26 billion during the full year 2018. Full year 2017 capital expenditures, net of proceeds from sales, were $1.30 million.

During 2018, our net cash increased by $507 million, with net cash from operating activities reaching $2.11 billion. During 2018, we paid cash dividends to shareholders totaling $216 million, used $103 million for long-term debt repayment and $62 million for the repurchase of common stock.

Our free cash flow, a non GAAP measure, amounted to $533 million in 2018 compared to $309 million in 2017.

3.2.2. Business overview

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of products, including discrete and standard components, application-specific integrated circuits (ASICs), full-custom devices and semi-custom devices and application-specific standard products (ASSPs) for analog, digital and mixed-signal applications.

We design, develop, manufacture and market thousands of products that we sell to over 100,000 customers. We emphasize balance in our product portfolio, in the applications we serve and in the regional markets we address. Our major customers include Apple, Robert Bosch, Cisco, Continental, Hewlett-Packard, Huawei, Mobileye, Samsung, Seagate and Western Digital. Our broad 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.

Further information on our business model is included in chapter 2 above and paragraphs 3.2.2.1. *et seq.* below.

3.2.2.1. Strategy

We are a global leader in the semiconductor market, serving a broad range of customers across different areas. Our strategy focuses on long-term value creation for the Company and its affiliated enterprises and takes into account the evolution of the markets we serve and the environment and opportunities we see for the years to come. We focus on developing industry-leading products and solutions for the application areas which are expected to experience solid growth rates driven by long-term trends. Trends include the evolution of population demographics, urbanization, workplace transformation, health and wellness, environmental awareness and increasing connectedness. These trends require enablers such as autonomous systems, robotics, securely connected machines and personal devices, electrification of automobiles and infrastructure, Internet of Things (IoT) and more power efficient systems, which in turn drive the demand for the electronic components we develop and manufacture.

Our products are used in a wide variety of applications, which address four end markets: automotive, industrial, personal electronics and communications equipment, computers and peripherals. We enable smarter driving by making vehicles safer, more environmentally friendly and more connected. We help make smarter homes, cities, workplaces and factories in which things can be done more efficiently and flexibly, in a more sustainable manner, safer and with a better experience for the people at the center. We enable creators of smart connected consumer devices to develop and take to market their devices quicker and more efficiently. In doing this we ensure that ST is found everywhere microelectronics make a positive and innovative contribution to people s lives. By getting more from technology to get more from life, ST stands for life.augmented.

Table of Contents

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.

	2018	2017
France	10,314	10,296
Italy	10,266	10,108
Rest of Europe	904	884
United States	744	744
Mediterranean (Malta, Morocco, Tunisia)	4,897	4,616
Asia	18,828	18,820
Total	**45,953**	**45,468**

	2018	2017
Research and Development	7,387	7,370
Marketing and Sales	2,211	2,170
Manufacturing	31,317	31,016
Administration and General Services	2,190	2,135
Divisional Functions	2,848	2,777
Total	**45,953**	**45,468**

Our future success will partly depend on our ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and management personnel, as well as on our ability to timely adapt the size and/or profile of our personnel to changing industry needs. Unions are represented at almost all of our manufacturing facilities and at several of our R&D sites. We use temporarily employees if required during production spikes and, in Europe, during summer vacation. We have not experienced any significant strikes or work stoppages in recent years.

3.2.2.3. *Alliances with Customers and Industry Partnerships*

We believe that alliances with customers and industry partnerships are critical to our 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 gain access to our process technologies and manufacturing infrastructure. We are actively working to expand the number of our customer alliances, targeting key global OEMs.

From time to time we collaborate with other semiconductor industry companies, research organizations, universities and suppliers to further our R&D efforts. Such collaboration provides us with a number of important benefits, including the sharing of costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities.

3.2.2.4. *Customers and Applications*

We design, develop, manufacture and market thousands of products that we sell to over 100,000 customers. We emphasize balance in our product portfolio, in the applications we serve and in the regional markets we address. Our major customers include Apple, Robert Bosch, Cisco, Continental, Hewlett-Packard, Huawei, Mobileye, Samsung, Seagate and Western Digital. Our broad 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.

3.2.2.5. Sales, Marketing and Distribution

Our sales and marketing is organized by a combination of country/area coverage and key accounts coverage with the primary objective of accelerating sales growth and gaining market share, particularly with regards to: strengthening the effectiveness of the development of our global and major local accounts; boosting demand creation through an enhanced focus on geographical coverage with strong technical expertise, supported in the mass market by our distribution channel and local initiatives; and establishing regional sales and marketing teams that are fully aligned with our strategic end markets (automotive, industrial, personal electronics and communications equipment, computers and peripherals) product lines.

Table of Contents

We have three regional sales organizations reporting to a global head of Sales & Marketing: Americas; Asia Pacific; and EMEA. Our regional sales organizations have a similar structure to enhance coordination in go-to-market activities and are strongly focused on revenue growth. The sales and marketing activities performed by our regional sales organizations are supported by product marketing organized by product group under the direct supervision of sales, which also includes product development functions. This matrix system reinforces our sales and marketing activities and our broader strategic objectives. An important objective of our regional sales and marketing efforts is expanding our customer base, which we seek to achieve by adding sales representatives, regional competence centers and improved online customer support.

We engage distributors and sales representatives to distribute and promote our products around the world. Typically, distributors handle a wide variety of products, including those that compete with ours, and fulfill orders and service many of our customers. Most of our sales to distributors are made under agreements allowing for price protection and/or the right of return on unsold merchandise. Sales representatives, on the other hand, generally do not offer products that compete directly with our products, but may carry complementary items manufactured by others. Sales representatives do not maintain a product inventory and their customers place large quantity orders directly with us and are referred to distributors for smaller orders.

We also engage in mass market and online marketing programs, coordinated across our three regions, to provide consistency and coordination of key activities associated with mass market development.

At the request of certain of our customers, we also sell and deliver our products to electronics manufacturing services companies, which, on a contractual basis with our customers, incorporate our products into the application specific products they manufacture for our customers.

3.2.2.6. Research and Development in the area of new products

Since our formation, we have maintained a solid commitment to innovation. About one-sixth of our employees work in R&D on product design/development and technology and, in 2018, we spent approximately 11.7% of our net revenues on R&D. Our innovations in semiconductor technology as well as in hardware and software contribute to the creation of successful products that generate value for us and our customers. Our complete design platforms, including a large selection of IP and silicon-proven models and design rules, enable the fast development of products designed to meet customer expectations in terms of reliability, quality, competitiveness in price and time-to-market. Through our R&D efforts, we contribute to making our customers products more efficient, more appealing, more reliable and safer. Our technology R&D strategy is based on the development of differentiated technologies, allowing for a unique offer in terms of new products and enabling new applications opportunities.

We draw on a rich pool of chip fabrication technologies, including advanced CMOS, FD-SOI, specialized imaging, embedded non-volatile memories, mixed-signal, analog, MEMS, Smart power SiC and GaN processes. This is well embedded in our strong packaging technologies portfolio such as high pin count BGA, Wafer level packaging, highly integrated sensor packages and leadframe packages power products. We combine both front-end and back-end manufacturing and technology R&D under the same organization to ensure a smooth flow of information between our R&D and manufacturing organizations. We leverage significant synergies and shared activities between our product groups to cross-fertilize them. We also use silicon foundries, especially for advanced CMOS beyond the 28-nm node that we do not plan to manufacture nor develop internally.

We have advanced R&D centers which offer us a significant advantage in quickly and cost effectively introducing products. Furthermore, we have established a strong culture of partnerships and through the years have created a network of strategic collaborations with key customers, suppliers, competitors, and leading universities and research institutes around the world. We also play leadership roles in numerous projects running under the European Union s IST (Information Society Technologies) programs. We also participate in certain R&D programs established by the EU, individual countries and local authorities in Europe (primarily in France and Italy).

We believe that market driven R&D based on leading-edge products and technologies is critical to our success. 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 than their predecessors, with differentiated functionalities. They can enable significant value creation opportunities with their timely appearance on the market. The total amount of our R&D expenses in the past two fiscal years was $1,127 million and $1,054 million in 2018 and 2017, respectively, while the total amount of R&D expenses capitalized amounted to $286 million and $274 million in 2018 and 2017, respectively.

Table of Contents

3.2.2.7. Property, Plants and Equipment

We currently operate 13 main manufacturing sites around the world.

At December 31, 2018, our front-end facilities had a total maximum capacity of approximately 125,470 200 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.

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

We have historically subcontracted a portion of total manufacturing volumes to external suppliers. In 2018, we purchased approximately 11% from external foundries of our total silicon production. Our plan is to continue sourcing silicon from external foundries to give us flexibility in supporting our growth.

At December 31, 2018, we had approximately $628 million in outstanding commitments for purchases of equipment and other assets for delivery in 2019. In 2018, our capital spending, net of proceeds, was $1,262 million compared to $1,298 million in 2017. In the 2016-2018 period the ratio of capital investment spending to net revenues was about 12.7%.

3.2.2.8. Intellectual property

Our success depends in part on our ability to obtain patents, licenses and other IP rights to protect our proprietary technologies and processes. IP rights that apply to our various products include patents, copyrights, trade secrets, trademarks and mask work rights. We currently own approximately 17,790 patents and pending patent applications, corresponding to approximately 9,573 patent families (each patent family containing all patents originating from the same invention), including over 549 original new patent applications filed in 2018.

We believe that our IP represents valuable assets. We rely on various intellectual property laws, confidentiality procedures and contractual provisions to protect our IP assets and enforce our IP rights. To optimize the value of our IP assets, we have engaged in licensing our design technology and other IP, including patents, when consistent with our competitive position and our customers interests. We have also entered into broad-scope cross-licenses and other agreements which enable us to design, manufacture and sell semiconductor products using the IP rights of third parties and/or operating within the scope of IP rights owned by third parties.

From time to time, we are involved in IP litigation and infringement claims. 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 diminish 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 a time lag when matching 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 partly as a result of the seasonal dynamics for smartphone applications.

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.

3.2.2.10. Competition

Markets for our products are intensely competitive. We compete with major international semiconductor companies and while only a few companies compete with us in all of our product lines, we face significant competition from each of them. 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. 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 factors 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.

The semiconductor industry is characterized by the high costs associated with developing marketable products and manufacturing technologies as well as high levels of investment in production capabilities. As a result, the semiconductor industry has experienced, and is expected to continue to experience, significant vertical and horizontal consolidation among our suppliers, competitors and customers, which could lead to erosion of our market share, impact our capacity to compete and require us to restructure our operations.

3.2.2.11. Public Funding

We receive public funding mainly from French, Italian and EU governmental entities. Such funding is generally provided to encourage R&D activities, industrialization and local economic development. Public funding in France, Italy and Europe generally is open to all companies, regardless of their ownership structure or country of incorporation. The conditions for the receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with EU regulations, royalties or contingent return provisions as well as specifications regarding objectives and results. The approval process for such funding may be quite long, up to several years. Certain specific contracts require compliance with extensive regulatory requirements and set forth certain conditions relating to the funded programs. There could be penalties if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations. Our funding programs are classified under three general categories: funding for research and development activities, capital investment for pilot lines and loans. We also benefit from tax credits for R&D activities in several countries which are generally available to all companies.

The main programs for R&D in which we are involved include: (i) Pan-European program on Nanoelectronics Technology and Applications (PENTA); (ii) EU R&D projects within Horizon 2020 (the European Union s research and innovation framework); (iii) Electronic Components and Systems for European Leadership (ECSEL) initiative, which combines all electronics related R&D activities and is operated by joint undertakings formed by the European Union, certain 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.

In our role as Coordinator and Project Leader of Nano2017, we had been allocated an overall funding budget of about 400 million for the period 2013-2018, which was subject to the conclusion of agreements every year with the public authorities and linked to the achievement of technical parameters and objectives. A portion of the Nano2017 program was subject to a payback clause (financial return), depending on the future accumulated sales for certain products within the scope of the funded program on the period from 2018 to 2023. The financial return corresponded to the payment in 2024 of the original funded amount (37 million) multiplied by a rate from 0% to 250%, depending on the cumulative amount of future sales. As such, the criteria for granting income recognition were not met and an accrual amounting to $42 million was posted as of December 31, 2018. We believe the Nano2017 R&D program, which expired in April 2018, has strengthened our leadership in key technologies such as FD-SOI (low-power, high-performance processing), imagers and photonic sensors and embedded non-volatile memories. These technologies are at the core of our digital portfolio which includes, among others, microcontrollers, imaging, analog and mixed signal, digital automotive and ASICs.

In December 2018, the European Commission announced the approval of Important Projects of Common European Interest (IPCEI), a Pan-European project initiated to foster research and innovation in

Table of Contents

microelectronics to be funded by Germany, France, Italy and the U.K. We expect to participate in IPCEI for the period 2018 until 2022 in France and until 2024 in Italy.

3.2.2.12. Suppliers

We use three primary critical types of suppliers in our business: (i) equipment suppliers, (ii) material suppliers and (iii) external silicon foundries and back-end subcontractors. We also purchase third party licensed technology from a limited number of providers.

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 materials, including silicon and SiC wafers, lead frames, mold compound, ceramic packages and chemicals and gases. The prices of many of these 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 increases. The same strategy applies to supplies for the materials used by us to avoid potential material disruption of essential materials. Our multiple sourcing strategy , our Financial Risk Monitoring as well as the robustness of our supply chain and strong partnership with suppliers are intended to mitigate these risks.

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

3.2.2.13. Environmental Matters

We adopt a rigorous approach to managing our business operations in an environmentally responsible way. Consistent with our sustainability strategy, we have established proactive environmental policies with respect to the handling of chemicals, emissions, waste disposals and other substances of concern from our manufacturing operations. We are certified to be in compliance with quality standard ISO 9001 on a Company-wide basis. We also implement high standards across our manufacturing activities and supply chain. The majority of our sites are ISO 14001 certified and EMAS validated. Furthermore, all of our front-end manufacturing sites are ISO 50001 certified.

We aim to maintain our leadership in water efficiency by reducing consumption, recycling more and reinforcing our efforts in water scarcity areas and have a target to reduce our water consumption with by 20% in 2025, in normalized values versus 2016 baseline. Furthermore, we continuously reduce our carbon footprint and our impact on climate change by decreasing our GHG emissions and improving energy efficiency and our target is to decrease our energy consumption and GHG emissions with by 20% in 2025 in normalized values versus 2016 baseline.

We are subject to a variety of environmental, health and safety laws and regulations in the jurisdictions where we operate. Such laws and regulations govern, among other things, the use, storage, discharge and disposal of chemicals and other hazardous substances, emissions and wastes, as well as the investigation and remediation of soil and ground water contamination. We are also required to obtain environmental permits, licenses and other forms of authorization, or give prior notification, in order to operate.

We believe that in 2018 our activities complied with then-applicable environmental regulations in all material respects. We have engaged outside consultants to audit all of our environmental activities and have 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. In 2018, there were no material environmental claims made against us.

3.2.2.14. Labor and Human rights

Human rights are deeply rooted in our history and culture. Our programs are established to ensure that all of our employees are treated with respect and dignity. We follow the most advanced standards and make regular progress on nine core principles: freely-chosen employment, prevention of underage labor and protection of young workers, fair organization of working time, fair wages and benefits, fair treatment and anti-harassment, non-discrimination, freedom of association, fair working conditions and employee well-being, and privacy of personal information.

We are committed to identifying and mitigating any potential and actual human rights risks in our activities. We continually monitor both our own operations and supply chain using assessments and audits. Our programs take into account two main risk criteria: location and type of activity. A taskforce and a community of qualified local coordinators support our program objectives and ensure continuous monitoring. We compel all employees and organizations to respect our standards and any applicable law.

Since 2005, we are leveraging on the RBA code of conduct to develop the whole supply chain on Labor and Human rights effective risk management. All major production and design sites are required to answer the RBA self-assessment on a yearly basis. Higher risk locations have a rolling third-party audit program in place. This includes initial audit, corrective action plan and closure audit on a two-year basis. To improve our overall performance, we regularly train our community and we encourage best practice sharing between the sites.

We aim to improve workers awareness of their labor rights and to amplify workers voices to improve working conditions and mitigate issues that contribute to forced labor. Our Code of Conduct and related speak up culture ensures employees are aware of how to raise grievances.

3.2.2.15. Anti-corruption and bribery matters

We have a zero-tolerance approach to bribery and corruption, regardless of the identity or position of the originator or recipient of any bribe. It is also strictly forbidden for anybody to use Company funds or assets to make a political contribution. Our Code of Conduct and Anti-Bribery and Corruption policy, which are available in the corporate governance section of our website at http://investors.st.com, provide clear definitions regarding instances of bribery and corruption, and include detailed descriptions of the Company s rules for engaging with third-parties. They also explain how to report actual or suspected violations and outline the potential disciplinary actions and legal consequences of non-compliance.

3.2.2.16. Social and employee matters

Development and engagement

Employee engagement is a critical driver of company performance. Every two years, we carry out an employee survey to monitor individual engagement , goal alignment and organization agility . In 2018 the survey results show an engagement increase over the 2016 survey, while the overall engagement index showed an increase as well, standing higher than 2016 and above the global norm.

We launched several initiatives in 2018 to modernize our processes and our workplace from an employee experience perspective. The aim is to strengthen efficiency, innovation, cross-fertilization and knowledge sharing across teams. Furthermore we have introduced many lean principles and methodologies to help improve workplace effectiveness and foster collective intelligence and innovation.

In 2018, we sought to develop leadership skills at every level of the Company and launched, among others, a Leadership Augmented program, with modules covering topics such as strategy and innovation, change, leadership and Lean.

Feedback is a fundamental pillar of our culture. It enables us to maximize our ability to change and to sustain growth. Our annual Individual Performance Management (IPM) process and our People Review process are essential elements of this culture of qualitative feedback. In 2018, we strengthened our people management process with collective and individual assessments. We aim to assess all our employees at appropriate career stages using tools such as 360° feedback, psychometric tests, role plays and interviews. Assessments are performed by internal and external assessors and are formalized by an agreed development plan.

To motivate and retain our people, we pursue a differentiated salary policy, rewarding people individually for their competence and contribution to business results. We also continue to promote our long-standing talent development booster program, internal mobility initiative and advanced career paths.

Diversity and Inclusion

We are present in more than 35 countries and employ 106 different nationalities. We believe that diversity and inclusion bring value to our business through effective innovation, attractiveness, engagement and agility.

Table of Contents

We continuously reinforce a pro-active and inclusive mindset through digital learning and sensitize mindsets through advanced unconscious bias workshops.

At the end of 2018, more than a third of our global workforce consisted of women. Strengthening the role of women in building our future is one of our ongoing objectives. In 2018, we continued to deploy our flagship Women in Leadership program. This started in 2015 with the aim of preparing the next generation of women leaders. In terms of gender equality, Company-wide data shows there is no difference between men and women in performance management evaluations (rating and competencies) and training hours. Overall, our data reveals no significant difference in the level of compensation between men and women at all job grades. However, to monitor this over the long-term, we are deploying a Company-wide compensation comparison tool. This tool allows employees to compare their salary to a reference profile, based on position, seniority, and performance for a given job level.

To address the shortage of women in technical functions, we continued in 2018 to promote diversity in STEM (Science, Technology, Engineering and Mathematics) functions through long-established local initiatives that encourage girls to choose technical studies at an early stage in their education.

Health and safety

Protecting people from harm and safeguarding their health is key for our success. We believe that in 2018 our policies and practices maintained the health, safety and welfare of our employees in all material respects.

We aim to expand and promote employees health and well-being through employee health plans and local initiatives. Each of our major sites can design its own health program tailored to local needs and requirements. In 2018, all our sites increased engagement in their wellness campaigns. All our employees have access to health insurance, either from local government insurance schemes or from the Company.

We constantly strive to strengthen our safety culture by re-enforcing safe behaviors and working conditions though visits, training, audits, best practice sharing and communication. We prioritize the prevention of potential employee exposure to chemicals, fire and radiation and work to minimize the risks around ergonomics, machinery, handling and nanomaterials. We successfully reduced the incident severity rate in 2018 compared to 2017. In 2018 we took additional steps to strengthen our practices in evacuation drills, field safety visits by managers, use of safety instructions at meetings, systematic use of safety glasses, reverse parking, safety recognition based on prevention, visual safety supports and management and road users. We also take care to inform and train contractors at all our sites on the safety requirements they are expected to meet, including prevention measures and safety plans.

3.2.3. Key announcements

On March 15, 2019 we announced and hosted the official launch of the French Nano2022 program for the microelectronics industry at our Crolles site. Nano2022 is part of the European Commission s IPCEI for Microelectronics initiative and is specifically a five-year public-private strategic support program targeting not only research, development, and innovation, but also first industrial deployment. Nano2022 will support our French R&D and manufacturing sites: Crolles, Grenoble, Rennes, Rousset, and Tours; advances in key technologies: new generations of microcontrollers, microprocessors, and digital integrated circuits; power conversion technologies, including wide-bandgap materials, to optimize electric system performance; and new specialized imaging and 3D sensors.

On February 7, 2019 we announced the acquisition of a majority stake in Swedish SiC wafer manufacturer Norstel AB (Norstel). ST will acquire 55% of Norstel s share capital, with an option to acquire the remaining 45% subject to certain conditions, which, if exercised, will result in total consideration of $137.5 million, funded with available cash. After closing, ST will control the entire supply chain for a portion of its SiC devices at a time of constrained global capacity and positions itself for a significant growth opportunity. Norstel, headquartered in Norrkoping, Sweden, develops and manufactures advanced 150mm SiC bare and epitaxial wafers.

On January 7, 2019 Cree, Inc. and ST announced signing a multi-year agreement in which Cree will produce and supply SiC wafers to STMicroelectronics. The agreement governs the supply of Cree s 150mm SiC bare and epitaxial wafers to ST.

On November 5, 2018 we announced the launch of a share buy-back program of up to $750 million to be executed within a 3-year period.

On September 24, 2018 we announced that we entered the Dow Jones World and Europe Sustainability Indices.

Table of Contents

On August 22, 2018 we published our IFRS 2018 Semi Annual Accounts for the six-month period ended June 30, 2018 on our website and we filed our IFRS 2018 Semi Annual Accounts with the AFM (*Autoriteit Financiële Markten*), the Netherlands Authority for the Financial Markets (AFM).

On July 10, 2018 we announced the acquisition of software specialist Draupner Graphics. Draupner Graphics is the developer and supplier of TouchGFX, a software framework offering outstanding graphics and smooth animations for embedded graphical user interfaces with minimal resource requirements and power consumption. Hosted on 32-bit microcontrollers, TouchGFX enables high-end graphics that fully live up to today s smartphone standards across all devices and systems, including smart home and building automation systems, appliances, wearables, and audio and video systems.

On May 31, 2018 we announced that all of the proposed resolutions were adopted at our AGM, which was held in Amsterdam, the Netherlands. The main resolutions were:

- The adoption of the Company s Statutory Annual Accounts for the year ended December 31, 2017, prepared in accordance with IFRS and filed with the AFM on March 27, 2018;
- The distribution of a cash dividend of $0.24 per outstanding share of the Company s common stock, to be distributed in quarterly installments of $0.06 in each of the second, third and fourth quarters of 2018 and first quarter of 2019 to shareholders of record in the month of each quarterly payment;
- The appointment of Mr. Jean-Marc Chery, as sole member of the Managing Board, for a three-year term expiring at the 2021 AGM;
- The reappointment of Mr. Nicolas Dufourcq, as member of the Supervisory Board, for a three-year term expiring at the 2021 AGM; and
- The reappointment of Ms. Martine Verluyten, as member of the Supervisory Board, for a one-year term expiring at the 2019 AGM.

On May 31, 2018 we also announced that upon the proposal of our new President and CEO Jean-Marc Chery, the Supervisory Board has approved the establishment of a newly formed Executive Committee (please see section 5.4. for further information on the Executive Committee), entrusted with the management of the Company, led by Mr. Chery as its Chairman and composed of the following members:

- Orio Bellezza, President, Technology, Manufacturing and Quality
- Marco Cassis, President, Sales, Marketing, Communications and Strategy Development

Claude Dardanne, President, Microcontrollers and Digital ICs Group

Lorenzo Grandi, President, Finance, Infrastructure and Services and Chief Financial Officer

Marco Monti, President, Automotive and Discrete Group

Georges Penalver, President, Human Resources and Corporate Social Responsibility[1]

Steven Rose, President, Legal Counsel

Benedetto Vigna, President, Analog, MEMS and Sensors Group

On May 21, 2018 we announced the publication of our 2018 Sustainability Report.

On March 27, 2018 we announced the main resolutions to be submitted for adoption at our AGM held in Amsterdam, the Netherlands, on May 31, 2018.

On February 5, 2018 we were recognized as among the world s most innovative companies and we were named a 2018 Thomson Reuters Top 100 Global Technology Leader .

On January 25, 2018 we announced Carlo Bozotti s Succession Plan according to which the deputy CEO Jean-Marc Chery was proposed as the Sole Member of the Managing Board at the 2018 AGM following which he became the next President and CEO. Upon the proposal of the designated President and CEO, Jean-Marc Chery, the Succession Plan envisaged the establishment of Executive Committee effective upon the shareholder approval of Mr. Chery s appointment. In addition, Carlo Ferro, Chief Financial Officer and President Finance, Legal, Infrastructure and Services, informed the Company about his intention to step down from his position at the same time as the President and CEO Carlo Bozotti s retirement effective at the conclusion of the AGM. According to the announced Succession Plan Mr. Ferro would remain President of our Italian affiliate until the end of 2018.

[1] As of July 3, 2018, following the resignation of Georges Penalver, Philippe Brun was appointed President, Human Resources and Corporate Responsibility and became a member of our Executive Committee.

3.2.4. Financial outlook: Capital investment

Our policy is to modulate our capital spending according to the evolution of the semiconductor market. Based upon a combination of new products, higher customer demand in the second half of 2019 and on ongoing strategic initiatives, we forecast our capital investment in 2019 within a range of approximately $1.2 billion to $1.3 billion. A portion of this capital expenditure will be devoted to support three strategic initiatives: i) in Agrate Italy the start of the construction of a new 300mm fab to support next generation mixed signal, IGBT and power products; ii) the expansion of the installed capacity in SiC both in front-end and back-end and the start-up of production of GaN technology in Catania and Tours 150mm and iii) next generation Image sensor technology. In addition to our strategic initiatives, our main capital investment in front-end is in i) our 300mm fab in Crolles, expanding capacity optimizing existing infrastructure to support production ramp up on our main runner technologies; ii) mix evolution, and a few selected programs of capacity growth and infrastructure preparation, mainly in the area of mixed signal and discrete processes; and iii) capacity increase of technology in 200mm in Singapore by the progressive integration of the former Micron fab in Singapore. The most important 2019 capital investment for our back-end facilities are expected to be: (i) capacity growth on certain package families, including the SiC technology, next generation Imaging sensor technologies and new products for Automotive and Industrial, to sustain market demand; (ii) modernization and rationalization of package lines targeting cost savings benefits; and (iii) specific investments in the areas of factory automation, quality, environment and energy savings. In addition, we will invest in overall capacity adjustment in final testing and wafers probing (EWS) to meet increased demand and a changed product mix as well as invest in quality, safety, maintenance, productivity and cost savings in both 150mm, 200mm front-end fabs and back-end plants.

We will continue to invest to support revenues growth and new products introduction, 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 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 2018, our net cash increased by $507 million, due to the net cash from operating activities exceeding the net cash used in investing and financing activities.

The components of our cash flow for the last two years are set forth below:

In millions of USD	2018	2017
Net cash from operating activities	2,113	1,972
Net cash used in investing activities	(1,498)	(1,741)
Net cash used in financing activities	(104)	(127)
Effect of change in exchange rates	(4)	26
Net cash increase (decrease)	**507**	**130**

Table of Contents

Net cash from operating activities

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. The net cash from operating activities in 2018 was $2,113 million, increasing compared to $1,972 million in the prior year, benefitting from higher net income, partially offet by the non-cash impact of the conversion option fair value adjustment.

Net cash used in investing activities

Investing activities used $1,498 million of cash in 2018, decreasing from $1,741 million in the prior year, mainly due to proceeds from matured short-term deposits and lower payments for the purchase of tangible and intangible assets. Payments for purchase of tangible assets, net of proceeds, totaled $1,262 million, compared to $1,298 million in 2017. In addition, in 2017, $99 million were used for the purchase of marketable securities.

Net cash from (used in) financing activities

Net cash used in financing activities was $104 million for 2018, compared to the $127 million used in 2017. The 2018 amount included $281 million proceeds from long-term debt, $103 million of long-term debt repayment, $62 million of repurchase of common stock and $216 million of dividends paid to stockholders.

Free cash flow (non GAAP measure)

Free Cash Flow, which is a non GAAP measure, defined as (i) net cash from operating activities plus (ii) net cash used in investing activities, excluding payment for purchases (and proceeds from the sale) of marketable securities, and net cash variation for joint ventures deconsolidation, which are considered as temporary financial investments. The result of this definition is ultimately net cash from operating activities plus payment for purchase and proceeds from sale of tangible, intangible and financial assets, proceeds received in the sale of businesses and cash paid for business acquisitions. We believe Free Cash Flow, a non GAAP measure, provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operations. Free Cash Flow is not a GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. In addition, our definition of Free Cash Flow may differ from definitions used by other companies. Our Free Cash Flow is derived from the US GAAP Consolidated Statement of Cash Flows, which differs from the Consolidated Statement of Cash Flows under IFRS. A reconciliation with the Consolidated Statement of Cash Flows under IFRS is provided in the table below:

In millions of USD	December 31, 2018	December 31, 2017
Net cash from operating activities as reported	**2,113**	**1,972**
Excluding US GAAP/IFRS differences:		
Payment of withholding tax on vested shares	*18*	*9*
Interest paid on settled convertible debt	-	*(30)*
Net cash from operating activities adjusted	**2,131**	**1,951**
Net cash used in investing activities as reported	**(1,498)**	**(1,741)**
Excluding:		
Payment for purchase and proceeds from sale of marketable securities, and net cash variation for joint	*(100)*	*99*

ventures deconsolidation		
Payment for purchase and proceeds from sale of tangible, intangible and financial assets, proceeds received from the sale of businesses and payment for business acquisitions(1)	**(1,598)**	**(1,642)**
Free Cash Flow (non GAAP measure)	**533**	**309**

(1) Reflects the total of the following line items reconciled with our Consolidated Statement of Cash Flows relating to the investing activities: Payment for purchase of tangible assets, Proceeds from sale of tangible assets, Payment for purchase of intangible assets, Payment for purchase of financial assets, Proceeds from sale of financial assets, Payment for disposal of joint ventures, Proceeds received in sale of businesses, Payment for business acquisitions, net of cash and cash equivalents acquired.

Our Free Cash Flow was positive $533 million in 2018, increasing compared to positive $309 million in 2017.

Table of Contents

Financial position (non GAAP measure)

Our Net Financial Position represents the difference between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities and short-term deposits, and our total financial debt includes short-term debt, including bank overdrafts, and long-term debt, as represented in our consolidated statements of financial position. Net Financial Position is not a GAAP measure but we believe it provides useful information for investors and management because it gives evidence of our global position either in terms of net indebtedness or net cash by measuring our capital resources based on cash and cash equivalents and marketable securities and the total level of our financial indebtedness. In addition, our definition of Net Financial Position may differ from definitions used by other companies and therefore comparability may be limited. Our Net Financial Position is derived from our US GAAP Consolidated Balance Sheets which differs from the Consolidated Statement of Financial Position under IFRS. A reconciliation with the Consolidated Statement of Financial Position under IFRS is provided in the table below:

In millions of USD	December 31, 2018	December 31, 2017
Cash and cash equivalents	2,266	1,759
Government bonds issued by the U.S. Treasury	330	431
Total financial resources	**2,596**	**2,190**
Funding program loans from European Investment Bank	(577)	(401)
Dual tranche senior unsecured convertible bonds	(1,310)	(1,272)
Other funding programs and other long-term loans	(17)	(22)
Total financial debt as reported	**(1,904)**	**(1,695)**
US GAAP/IFRS differences on dual tranche senior unsecured convertible bonds valuation	(6)	(6)
Total financial debt adjusted	**(1,910)**	**(1,701)**
Net financial position (non GAAP measure)	**686**	**489**

Our Net Financial Position as of December 31, 2018 was a net cash position of $686 million, increasing compared to the net cash position of $489 million at December 31, 2017.

At December 31, 2018, our financial debt was $1,904 million, composed of (i) $146 million of current portion of long-term debt and (ii) $1,758 million of long-term debt. The breakdown of our total financial debt included: (i) $1,310 million in the senior unsecured convertible bonds issued in 2017, (ii) $577 million in European Investment Bank loans (the EIB Loans), and (iii) $17 million in loans from other funding programs and other long-term loans. The EIB Loans are comprised of three long-term amortizing credit facilities as part of our R&D funding programs. The first, signed in 2010, is a 350 million multi-currency loan to support our industrial and R&D programs. It was drawn mainly in U.S. dollars for an amount of $321 million and only partially in Euros for an amount of 100 million, of which $109 million remained outstanding as of December 31, 2018. The second, signed in 2013, is a 350 million multi-currency loan which also supports our R&D programs. It was drawn in U.S. dollars for an amount of $471 million, of which $176 million is outstanding as of December 31, 2018. The third, signed in August 2017 for a total aggregate amount of 500 million in relation to R&D and capital expenditure investments in the European Union, was partially drawn in December 2018 for a total amount of $292 million.

On July 3, 2014, we issued $1,000 million in principal amount of dual tranche senior unsecured convertible bonds (Tranche A for $600 million and Tranche B for $400 million), due 2019 and 2021, respectively. Tranche A bonds were issued as zero-coupon bonds while Tranche B bonds bore a 1% per annum nominal interest, payable semi-annually. The conversion price at issuance was approximately $12, equivalent to a 30% and a 31% premium, respectively, on each tranche. On October 3, 2016, the conversion price was adjusted up to 1.24% on each tranche, pursuant to a dividend adjustment symmetric provision, which corresponds to 16,491 and 16,366 equivalent shares per each $200,000 bond par value for Tranche A and Tranche B, respectively. On October 2, 2017, the conversion price was adjusted up to 1.16% on Tranche B, pursuant to a dividend adjustment symmetric provision, which corresponded to 16,178 equivalent shares per each $200,000 bond par value. The bonds were convertible by the bondholders or were callable by the issuer upon certain conditions, in both cases on a full-cash, full-shares or net-share settlement basis at issuer s decision. The net proceeds from the bond offering were approximately $994 million, after deducting issuance costs.

In the second quarter of 2017, we issued a redemption notice to inform bondholders of the early redemption of the Tranche A bonds in July 2017. As a consequence, bondholders exercised their conversion rights for

Table of Contents

$598 million nominal value on the total of $600 million of the Tranche A. The remainder amount of $2 million was early redeemed in cash by us. Each conversion exercised by the bondholders was net-share settled at our election. As a result, we settled $600 million in cash and approximately 13.0 million shares from treasury shares. The consideration transferred in shares was a non-cash item and, as such, was not reported in our consolidated statement of cash flows for the year ended December 31, 2017.

Between September 13, 2017 and October 10, 2017, bondholders exercised their conversion rights for $340 million nominal value on the total of $400 million of the Tranche B bonds. On October 11, 2017, we issued a redemption notice to inform bondholders of the early redemption of the remaining $60 million nominal value of the Tranche B on November 10, 2017. As a consequence, bondholders exercised their conversion rights for $59 million nominal value on the remaining $60 million of the Tranche B. The remainder amount of $1 million was early redeemed in cash by us. As we elected to net share settle the bonds, each conversion followed the process defined in the original terms and conditions of the convertible bonds, which determined the actual number of shares to be transferred upon each conversion. As a result, we settled $400 million in cash and approximately 13.7 million shares from treasury shares. The consideration transferred in shares was a non-cash item and, as such, was not reported in our consolidated statement of cash flows for the year ended December 31, 2017.

On July 3, 2017, we issued $1,500 million in principal amount of dual tranche senior unsecured convertible bonds (Tranche A for $750 million and Tranche B for $750 million), due 2022 and 2024, respectively. Tranche A bonds were issued at 101.265% as zero-coupon bonds while Tranche B bonds were issued at par and bear a 0.25% per annum nominal interest, payable semi-annually. The conversion price at issuance was $20.54, equivalent to a 37.5% premium on both tranches, which corresponds to 9,737 equivalent shares per each $200,000 bond par value. The bonds are convertible by the bondholders or are callable by the issuer upon certain conditions, on a net-share settlement basis, except if the issuer elects a full-cash or full-share conversion as an alternative settlement. The net proceeds from the bond offering were $1,502 million, after deducting issuance costs.

On August 7, 2017 we announced the completion of the repurchase of 18.6 million shares of our common stock for a total of $297 million under the share buy-back program announced on June 22, 2017. The repurchased shares are held as treasury shares and will be used to meet our obligations arising from debt financial instruments that are exchangeable into equity instruments and to meet our obligations arising from share award programs.

On November 5, 2018 we announced the launch of a share buy-back program of up to $750 million to be executed within a three-year period. Shares repurchased under the buy-back program are disclosed on a weekly basis and are held as treasury shares and will be used to meet our obligations in relation to our employee stock award plans. As of December 31, 2018, we held 12.9 million treasury shares.

Additionally, we had unutilized committed medium-term credit facilities with core relationship banks of $572 million.

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

Our current ratings with the three major rating agencies that report on us on a solicited basis, are as follows: S&P: BBB with stable outlook; Moody s: Baa3 with stable outlook; Fitch: BBB with stable outlook. On October 9, 2018, Fitch revised our long-term issuer default rating and senior unsecured rating to BBB with stable outlook from BBB- . On November 23, 2018, S&P Global Ratings raised its long- and short-term issuer credit ratings on ST from to BBB / A-2 from BBB- / A-3 with stable outlook. At the same time, S&P Global Ratings raised its issuer ratings on ST s senior unsecured debt to BBB from BBB- .

3.2.6. Financial risk management

We are exposed to changes in financial market conditions in the normal course of business due to our operations in different foreign currencies and our ongoing investing and financing activities. Market risk is the uncertainty to which future earnings or asset/liability values are exposed due to operating cash flows denominated in foreign currencies and various financial instruments used in the normal course of operations. The major financial risks to which we are exposed are the foreign exchange risks related to the fluctuations of the U.S. dollar exchange rate compared to the Euro and the other major currencies in which costs are incurred, the variation of the interest rates and the risks associated to the investments of our available cash. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

Table of Contents

Our financial risk management is carried out by a central treasury department (Corporate Treasury). Additionally, a Treasury Committee, chaired by our CFO, steers treasury activities and ensures compliance with our corporate policies. Treasury activities are thus regulated by our 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 Corporate Treasury. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the our 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. These ratings are closely and continuously monitored in order to manage exposure to the counterparty s risk. Hedging transactions are performed only to hedge exposures deriving from operating, investing and financing activities conducted in the normal course of business.

Foreign exchange risk

We conduct our business on a global basis in various major international currencies. As a result, we are exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from recognized assets and liabilities at our subsidiaries and future commercial transactions.

Cash flow and fair value interest rate risk

Our interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Credit risk

We select banks and/or financial institutions that operate with the group based on the criteria of long-term rating from at least two major Rating Agencies and keeping a maximum outstanding amount per instrument with each bank not to exceed 20% of the total.

We monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. If certain customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and external ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored. Sales to customers are primarily settled in cash. At December 31, 2018 and 2017, no customer represented more than 10% of trade accounts receivable, net. Any remaining concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their dispersion across many geographic areas.

Liquidity risk

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

3.3. Risk management and Internal control

3.3.1. Risk Management

3.3.1.1. Our Risk Management approach

As a multi-national listed semiconductor company, we take, and are therefore exposed to, risks. We consequently take appropriate steps to identify, manage and monitor such risks.

We have implemented an Enterprise Risk Management (ERM) process aligned with the guidelines of the ISO 31000 standard to systematically identify, analyze, assess, prioritize, mitigate and monitor our risks within a 5-year time horizon.

Table of Contents

Our ERM process has two key purposes:

- to maintain a holistic management system for systematically identifying, evaluating, and treating risks; and
- to seize opportunities to achieve the Company s objectives and enable continuous sustainable growth.

Our ERM governance is described in the following chart:

ERM governance

Our ERM approach is managed by our Chief Audit & Risk Executive under the direct responsibility of our Managing Board and the oversight of our Supervisory Board. The content of this oversight role is detailed in our Supervisory Board Charter.

During 2018, we continued our investment in risk management, in particular through the creation of a full time ERM Director position and the definition of a formal 3-year roadmap, leveraging the conclusions of an independent audit of our ERM approach conducted at the end of 2017. As part of that roadmap, we defined, set-up and deployed an ERM framework described in the following chart:

ERM FRAMEWORK

25

Our ERM process applies a holistic approach, addressing top-down (Company-level) and bottom-up (organization-level) perspectives. It is built on a comprehensive risk universe, comprising generic risk areas that allow consolidated and comparative analysis across ST. The process is implemented as described in the following chart:

ERM PROCESS

Each risk scenario, whether identified and managed at Corporate (top-down) or ST Organizations (bottom-up) level, is assessed against potential impact, likelihood of occurrence and room for improvement criteria, allowing us to select Priority risk scenarios to be treated through specific action plans monitored by our management and our Supervisory Board in the case of risks addressed at Corporate level.

3.3.1.2. Risk Factors

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

Risks Related to the Semiconductor Industry which Impact Us

We, and the semiconductor industry as a whole, may be impacted by changes in, or uncertainty about, global, regional and local economic, political, legal, regulatory and social environments.

Changes in, and uncertainty about, economic, political, legal, regulatory and social conditions pose a risk as consumers and businesses may postpone spending in response to factors such as curtailment of trade and other business restrictions, financial market volatility, interest rate fluctuations, shifts in inflationary and deflationary expectations, lower capital and productivity growth, unemployment, negative news, declines in income or asset values and/or other factors. Such global, regional and local conditions could have a material adverse effect on customer and end-market demand for our products, thus materially adversely affecting our business and financial condition.

The institution of trade tariffs globally could negatively impact economic conditions, which could have negative repercussions for our business. In 2018, both the U.S. Administration as well as several foreign governments have been undertaking significant trade policy changes, in some cases followed by legislative or executive action. For instance, U.S. and China have applied tariffs on foreign imports of certain goods and materials and they have announced that further tariffs would be applied in the future. Such trade policy changes could trigger retaliatory actions by affected countries, which could have a negative impact on our ability to do business in affected countries or lead to reduced purchases of our products by foreign customers, leading to increased costs of components contained in our products, increased manufacturing costs of our products, and higher prices for our products in foreign markets. Further, protectionist measures, laws or governmental policies may encourage our customers to relocate their manufacturing capacity or supply chain to their own respective countries or require their respective contractors, subcontractors and relevant agents to do so, which could impair our ability to sustain our current level of productivity and manufacturing efficiency.

We, and the semiconductor industry as a whole, face greater risks due to the international nature of the semiconductor business, including in the countries where we, our customers or our suppliers operate, such as:

- instability of foreign governments, including the threat of war, military conflict, civil unrest, regime changes, mass migration and terrorist attacks;
- natural events such as severe weather, earthquakes and tsunamis;
- epidemics such as disease outbreaks, pandemics and other health related issues;
- changes in, or uncertainty about, laws, regulations (including executive orders) and policies affecting trade and investment, including following Brexit and including through the imposition of trade and travel restrictions, government sanctions, local practices which favor local companies and constraints on investment;
- complex and varying government regulations and legal standards, particularly with respect to export control regulations and restrictions, customs and tax requirements, data privacy, intellectual property and anti-corruption; and
- differing practices of regulatory, tax, judicial and administrative bodies, including with regards to the interpretation of laws, governmental approvals, permits and licenses.

The semiconductor industry is cyclical and downturns in the semiconductor industry can negatively affect our results of operations and financial condition.

The semiconductor industry is cyclical and has been subject to significant downturns from time to time, as a result of global economic conditions as well as industry-specific factors, such as built-in excess capacity, fluctuations in product supply, product obsolescence and changes in end-customer preferences. Downturns are typically characterized by reduction in overall demand, accelerated erosion of selling prices, reduced revenues and high inventory levels, any of which could result in a significant deterioration of our results of operations. Such macroeconomic trends typically relate to the semiconductor industry as a whole rather than to the individual semiconductor markets to which we sell our products. To the extent that industry downturns are concurrent with the timing of new increases in production capacity or introduction of new advanced technologies in our industry, the negative effects on our business from such industry downturns may also be more severe. We have experienced revenue volatility and market downturns in the past and expect to experience them in the future, which could have a material adverse impact on our results of operations and financial condition.

We may not be able to match our production capacity to demand.

As a result of the cyclicality and volatility of the semiconductor industry, it is difficult to predict future developments in the markets we serve, and, in turn, to estimate requirements for production capacity. If our markets, major customers or certain product designs or technologies do not perform as well as we have anticipated, we risk unused capacity charges, write-offs of inventories and losses on products, and we could be required to undertake restructuring and transformation measures that may involve significant charges to our earnings. Furthermore, during certain periods, we have also experienced increased demand in certain market segments and product technologies, which has led to a shortage of capacity, an increase in the lead times of our delivery to customers and, in certain instances, being required to enter into agreements with our suppliers with onerous terms, such as take-or-pay arrangements.

Competition in the semiconductor industry is intense, and we may not be able to compete successfully if our product design technologies, process technologies and products do not meet market requirements. Furthermore, the competitive environment of the industry has resulted, and is expected to continue to result, in vertical and horizontal consolidation among our suppliers, competitors and customers, which may lead to erosion of our market share, impact our ability to compete and require us to restructure our operations.

We compete in different product lines to various degrees on certain characteristics, for example, price, technical performance, product features, product design, product availability, process technology, manufacturing capabilities and sales and technical support. Given the intense competition in the semiconductor industry, if our products do not meet market requirements based on any of these characteristics, our business, financial condition and results of operations could be materially adversely affected. Our competitors may have a stronger presence in key markets and geographic regions, greater name recognition, larger customer bases, greater government support and greater financial, research and development, sales and marketing,

Table of Contents

manufacturing, distribution, technical and other resources than we do. These competitors may be able to adapt more quickly to changes in the business environment, to new or emerging technologies and to changes in customer requirements.

The semiconductor industry is intensely competitive and characterized by the high costs associated with developing marketable products and manufacturing technologies as well as high levels of investment in production capabilities. As a result, the semiconductor industry has experienced, and is expected to continue to experience, significant vertical and horizontal consolidation among our suppliers, competitors and customers. Consolidation in the semiconductor industry could erode our market share, negatively impact our ability to compete and require us to increase our R&D effort, engage in mergers and acquisitions and/or restructure our operations.

Risks Related to Our Operations

Our high fixed costs could adversely impact our results.

Our operations are characterized by high fixed or other costs which are difficult to reduce, including costs related to manufacturing, particularly as we operate our own manufacturing facilities, and the employment of our highly skilled workforce. When demand for our products decreases, competition increases or we fail to forecast demand accurately, we are driven to reduce prices and we are not always able to decrease our total costs in line with resulting revenue declines. As a result, the costs associated with our operations may not be fully absorbed, leading to unused capacity charges, higher average unit costs and lower gross margins, adversely impacting our results.

Our capital needs are high compared to those competitors who do not manufacture their own products and we may need additional funding in the coming years to finance our investments, to purchase other companies or technologies developed by third parties or to refinance our maturing indebtedness.

As a result of our choice to maintain control of a large portion of our manufacturing technologies and capabilities, we may require significant capital expenditure to maintain or upgrade our facilities in the future. We monitor our capital expenditures taking into consideration factors such as trends in the semiconductor market, customer requirements and capacity utilization. These capital expenditures may increase in the future if we decide to upgrade or expand the capacity of our manufacturing facilities, purchase or build new facilities or increase investments supporting key strategic initiatives. There can be no assurance that future market demand and products required by our customers will meet our expectations. We also may need to invest in other companies, in IP and/or in technology developed either by us or by third parties to maintain or improve our position in the market or to complement or expand our existing business. Failure to invest appropriately or in a timely manner could have a material adverse effect on our business and results of operations.

The foregoing may require us to secure additional financing, including through the issuance of debt, equity or both. The timing and the size of any new share or bond offering would depend upon market conditions as well as a variety of other factors. In addition, the capital markets may from time to time offer terms of financing that are particularly favorable. We cannot exclude that we may access the capital markets opportunistically to take advantage of market conditions. Any such transaction or any announcement concerning such a transaction could materially impact the market price of our common shares. If we are unable to access capital on acceptable terms, this may adversely affect our business and results of operations.

Our financial results can be affected by fluctuations in exchange rates, principally in the value of the U.S. dollar.

Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major portion of our revenues, while, more importantly, we incur a limited portion of our revenue and a significantly higher portion of our costs in currencies other than the U.S. dollar. A significant variation of the value of the U.S. dollar against the principal currencies that have a material impact on us (primarily the Euro, but also certain other currencies of countries where we have operations, such as the Singapore dollar) could result in a favorable impact, net of hedging, on our net income in the case of an appreciation of the U.S. dollar, or a negative impact, net of hedging, on our net income if the U.S. dollar depreciates relative to these currencies, in particular with respect to the Euro.

In order to reduce the exposure of our financial results to the fluctuations in exchange rates, our principal strategy has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of purchases from our suppliers denominated in U.S. dollars and to reduce the weight

Table of Contents

of the other costs, including depreciation, denominated in Euros and in other currencies. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have hedged certain line items on our Consolidated Statements of Income, in particular with respect to a portion of the cost of sales, the majority of the R&D expenses and certain SG&A expenses located in the Euro zone. We also hedge certain manufacturing costs, included within the cost of sales, denominated in Singapore dollars. There can be no assurance that our hedging transactions will prevent us from incurring higher Euro-denominated manufacturing costs and/or operating expenses when translated into our U.S. dollar-based accounts.

Our operating results may vary significantly from quarter to quarter and annually and may also differ significantly from our expectations or guidance.

Our operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability or lead to significant variability of our operating results from one period to the next. These factors include changes in demand from our key customers, capital requirements, inventory management, availability of funding, competition, new product developments, start of adoption of our new products by customers, technological changes, manufacturing or supplier issues and effective tax rates. In addition, in periods of industry overcapacity or when our key customers encounter difficulties in their end markets or product ramps, orders are more exposed to cancellations, reductions, price renegotiation or postponements, which in turn reduce our ability to forecast the next quarter or full year production levels, revenues and margins. For these reasons and others that we may not yet have identified, our revenues and operating results may differ materially from our expectations or guidance as visibility is reduced.

Our operating results depend on our ability to obtain quality supplies on commercially reasonable terms. As we depend on a limited number of suppliers for materials, equipment and technology, we may experience supply disruptions if suppliers interrupt supply, increase prices or experience material adverse changes in their financial condition.

Our ability to meet our customers demand to manufacture our products depends upon obtaining adequate supplies of quality materials on a timely basis and on commercially reasonable terms. Certain materials are available from a limited number of suppliers or only from a limited number of suppliers in a particular region. We purchase certain materials whose prices on the world markets have fluctuated significantly in the past and may fluctuate significantly in the future. Although supplies for most of the materials we currently use are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. In addition, the costs of certain materials may increase due to market pressures and we may not be able to pass on such cost increases to our customers.

We also purchase semiconductor manufacturing equipment and third party licensed technology from a limited number of suppliers and providers and, because such equipment and technology are complex, it is difficult to replace one supplier or provider with another or to substitute one piece of equipment or type of technology for another. In addition, suppliers and providers may extend lead times, limit our supply, increase prices or change contractual terms related to certain manufacturing equipment and third party licensed technology, any of which could adversely affect our results. Furthermore, suppliers and technology providers tend to focus their investments on providing the most technologically advanced equipment, materials and technology and may not be in a position to address our requirements for equipment, materials or technology of older generations. Although we work closely with our suppliers and providers to avoid such shortages, there can be no assurance that we will not encounter these problems in the future.

Consolidation among our suppliers or vertical integration among our competitors may limit our ability to obtain sufficient quantities of materials, equipment and/or technology on commercially reasonable terms and engage in mergers and acquisitions. In certain instances we may be required to enter into agreements with our suppliers with onerous terms, such as take-or-pay arrangements. If we are unable to obtain supplies of materials, equipment or technology in a timely manner or at all, or if such materials, equipment or technology prove inadequate or too costly, our results of operations could be adversely affected.

If our external silicon foundries or back-end subcontractors fail to perform, this could adversely affect our business prospects.

We currently use external silicon foundries and back-end subcontractors for a portion of our manufacturing activities. If our external silicon foundries or back-end subcontractors are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. Likewise, if we are unable to meet our commitments to silicon foundries and back-end subcontractors, our results of operations could suffer. Prices for these services also vary depending on capacity utilization rates at our external silicon foundries and back-end subcontractors, quantities demanded and product and process technology. Such outsourcing costs can vary materially and, in cases of industry shortages, they can increase significantly, negatively impacting our business prospects.

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities, disruptions or inefficient implementation of production changes or interruptions that can significantly increase our costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and increasingly costly equipment and are continuously modified or maintained in an effort to improve yields and product performance and lower the cost of production.

Furthermore, impurities or other difficulties in the manufacturing process can lower yields, interrupt production or result in scrap. As system complexity and production changes have increased and sub-micron technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. We have from time to time experienced bottlenecks and production difficulties that have caused delivery delays and quality control problems. There can be no assurance that we will not experience bottlenecks or production, transition or other difficulties in the future.

In addition, we are exposed to risks related to interruptions of our manufacturing processes. If any of our property or equipment is damaged or otherwise rendered unusable or inoperable due to accident, cyberattack or otherwise this could result in interruptions which could have a material adverse effect on our business, financial condition and results of operations.

We may experience quality problems from time to time that can result in decreased sales and operating margin and product liability or warranty claims.

We sell complex products that may not in each case comply with specifications or customer requirements, or may contain design or manufacturing defects, that could cause personal injury, property damage or security risks that could be exploited by unauthorized third parties hacking, corrupting or otherwise obtaining access to our products, including the software loaded thereon by us, our suppliers or our customers. Although our general practice is to contractually limit our liability to the repair, replacement or refund of defective products, we occasionally agree to contractual terms with key customers in which we provide extended warranties and accordingly we may face product liability, warranty, delivery failure, and/or other claims relating to our products that could result in significant expenses relating to compensation payments, product recalls or other actions related to such extended warranties and/or to maintain good customer relationships, which could result in decreased sales and operating margin and other material adverse effects on our business. Costs or payments we may make in connection with warranty and other claims or product recalls may adversely affect our results of operations. There can be no assurance that we will be successful in maintaining our relationships with customers with whom we incur quality problems. Furthermore, if litigation occurs we could incur significant costs and liabilities to defend ourselves against such claims and, if damages are awarded against us, there can be no assurance that our insurance policies will be available or adequate to protect us against such claims.

We may experience delays in delivering our product and technology roadmaps as well as transformation initiatives.

Our industry adapts to technological advancements and it is likely that new products, equipment, processes and service methods, including transformation initiatives, will be introduced in the future. Any failure by us to react to changes or advances in existing technologies and processes as we develop and invest in our product, technology and transformation roadmaps could materially delay the introduction of new solutions. If we are not able to execute on these roadmaps on a timely basis or at an acceptable cost this could result in loss of competitiveness of our solutions, decreased revenue and a loss of market share.

Our computer systems, including hardware, software and information, are subject to attempted security breaches and other cybersecurity threats, which, if successful, could adversely impact our business.

We have, from time to time, experienced attempts by others to gain unauthorized access to our computer systems and networks. The reliability and security of our information technology infrastructure and software, and our ability to expand and continually update technologies in response to our changing needs is critical to our business. In the current environment, there are numerous and evolving risks to cybersecurity, including criminal hackers, state-sponsored intrusions, terrorism, industrial espionage, employee malfeasance, vandalism and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and those of our customers, suppliers and providers of third party licensed technology, and some of those attempts may be successful. Such breaches could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of our, our customer, or other third party data or systems, theft of our trade secrets and other sensitive or confidential data, including personal information and intellectual property, system disruptions, and denial of service. The attempts to breach our systems and gain unauthorized access to our information technology systems are becoming increasingly more sophisticated. These attempts may include covertly introducing malware to our computers, including those in our manufacturing operations, and impersonating unauthorized users, among others. For instance, employees and former employees, in particular former employees who become employees of our competitors or customers, may misappropriate, use, publish or provide to our competitors or customers our intellectual property and/or proprietary or confidential business information. Also, third parties may attempt to register domain names similar to our brands or website, which could cause confusion and divert online customers away from our products. In the event of such breaches, we, our customers or other third parties could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and other financial loss and such breaches could also result in losing existing or potential customers in connection with any actual or perceived security vulnerabilities in our systems. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. As these threats continue to develop and grow, we have been adapting and strengthening our security measures. We continue to increase the resources we allocate to implementing, maintaining and/or updating security systems to protect data and infrastructure and to raising security awareness among those having access to our systems. However, these security measures cannot provide absolute security and there can be no assurance that our employee training, operational, and other technical security measures or other controls will detect, prevent or remediate security or data breaches in a timely manner or otherwise prevent unauthorized access to, damage to, or interruption of our systems and operations. We regularly evaluate our IT systems to make enhancements and periodically implement new or upgraded systems. Any delay in the implementation of, or disruption in the transition to different systems could adversely affect our ability to record and report financial and management information on a timely and accurate basis. In addition, a miscalculation of the level of investment needed to ensure our technology solutions are current and up-to-date as technology advances and evolves could result in disruptions in our business should the software, hardware or maintenance of such items become out-of-date or obsolete and the costs of upgrading our cybersecurity systems and remediating damages could be substantial. We may also be adversely affected by security breaches related to our equipment providers and providers of third party licensed technology. As a global enterprise, we could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection. Additionally, cyberattacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to us, our customers, or other third party operations or services, financial loss, potential liability, and damage our reputation and affect our relationships with our customers and suppliers.

We may be subject to theft, loss, or misuse of personal data about our employees, customers, or other third parties, which could increase our expenses, damage our reputation, or result in legal or regulatory proceedings.

The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business could result in significantly increased security costs or costs related to defending legal claims. Global privacy legislation, including various EU regulations and directives regulating data privacy and security, such as the General Data Protection Regulation (GDPR) which came into force on May 25, 2018, and the transmission of content using the Internet involving residents of the EU, enforcement, and policy activity in this area are rapidly expanding and creating a complex compliance regulatory environment.

In particular, the requirements of the GDPR will impose a higher compliance burden on us and materially increase the maximum level of fines for compliance failures from their current levels relating to, among other things, consent to process personal data of individuals, the information provided to individuals regarding the processing of their personal data, the security and confidentiality of personal data, and notifications in the event of data breaches and use of third party processors. Costs to comply with and implement these privacy-related and data protection measures could be significant and may necessitate changes to our business. In addition, our failure to comply with local and international privacy or data protection laws and regulations could result in proceedings against us by governmental entities or others. Failure to comply with the GDPR or other data privacy regimes could subject us to significant fines and reputational harm. GDPR imposes fines for breaches of data protection requirements, which can be up to four percent of our worldwide revenue or 20 million per breach or data processing activity, whichever is greater.

Further, privacy-related laws or any newly adopted privacy-related laws may have a negative impact on our business if interpreted or implemented in a manner that is inconsistent from country to country and inconsistent with the current policies and practices of our customers or business partners. We may also have to change the manner in which we contract with our business partners, store and transfer information and otherwise conduct our business, which could increase our costs and reduce our revenues. In particular, the requirements of the GDPR will impose a higher compliance burden on us and materially increase the maximum level of fines for compliance failures from their current levels. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, our failure to comply with local and international privacy or data protection laws and regulations could result in proceedings against us by governmental entities or others.

Our business is dependent in large part on continued growth in the industries and segments into which our products are sold and on our ability to retain existing customers and attract new ones. A market decline in any of these industries, our inability to retain and attract customers, or customer demand for our products which differs from our projections, could have a material adverse effect on our results of operations.

The demand for our products depends significantly on the demand for our customers end products. Growth of demand in the industries and segments into which our products are sold fluctuates significantly and is driven by a variety of factors, including consumer spending, consumer preferences, the development and acceptance of new technologies and prevailing economic conditions. Changes in our customers markets and in our customers respective shares in such markets could result in slower growth and a decline in demand for our products. In addition, if projected industry growth rates do not materialize as forecasted, our spending on process and product development ahead of market acceptance could have a material adverse effect on our business, financial condition and results of operations.

Our business is dependent upon our ability to retain existing customers. Our existing customers product strategy may change from time to time and/or product specifications may change on short-time product life cycles and we have no certainty that our business, financial position and results of operations will not be affected. Our business is also dependent upon our ability to attract new customers. There can be no assurance that we will be successful in attracting and retaining new customers, or in adequately projecting customer demand for our products. Our failure to do so could materially adversely affect our business, financial position and results of operations.

Disruptions in our relationships with any one of our key customers or distributors, and/or material changes in their strategy or financial condition or business prospects, could adversely affect our results of operations.

A substantial portion of our sales is derived from a limited number of customers and distributors. There can be no assurance that our customers or distributors will continue to book the same level of sales with us that they have in the past, will continue to succeed in the markets they serve and will not purchase competing products over our products. Many of our key customers and distributors operate in cyclical businesses that are also highly competitive, and their own market positions may vary considerably. In recent years, some of our customers have vertically integrated their businesses. Such vertical integrations may impact our business. Our relationships with the newly formed entities could be either reinforced or jeopardized by the integration. If we are unable to maintain or increase our market share with our key customers or distributors, or if they were to increase product returns or fail to meet payment obligations, our results of operations could be materially adversely affected. Certain of our products are customized to our customers specifications. If customers do not purchase products made specifically for them, we may not be able to recover a cancellation fee from our customers or resell such products to other customers.

Market dynamics have driven, and continue to drive us, to a strategic repositioning.

In recent years, we have undertaken several initiatives to reposition our business. Our strategies to improve our results of operations and financial condition have led us, and may in the future lead us, to acquire businesses that we believe to be complementary to our own, or to divest ourselves of or wind down activities that we believe do not serve our longer term business plans. Our potential acquisition strategies depend in part on our ability to identify suitable acquisition targets, finance their acquisition, obtain approval by our shareholders and obtain required regulatory and other approvals. Our potential divestiture strategies depend in part on our ability to compete and to identify the activities in which we should no longer engage, obtain the relevant approvals pursuant to our governance process and then determine and execute appropriate methods to divest of them.

We are constantly monitoring our product portfolio and cannot exclude that additional steps in this repositioning process may be required. Furthermore, we cannot assure that any strategic repositioning of our business, including executed and possible future acquisitions or dispositions, will be successful and will not result in impairment, restructuring charges and other related closure costs.

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results and financial condition, including: we may be unable to successfully integrate businesses or teams we acquire with our culture and strategies on a timely basis or at all; and we may be required to record charges related to the goodwill or other long-term assets associated with the acquired businesses. There can be no assurance that we will be able to achieve the full scope of the benefits we expect from a particular acquisition, divestiture or investment. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any acquired businesses. In addition, the financing of future acquisitions or divestitures may negatively impact our financial position, including our ability to pay a dividend and/or repurchase our shares, and credit rating and we could be required to raise additional funding.

Other risks associated with acquisitions include: assumption of potential liabilities, disclosed or undisclosed, associated with the business acquired, which liabilities may exceed the amount of indemnification available from the seller; potential inaccuracies in the financials of the business acquired; and our ability to retain customers of an acquired entity, its business or industrialize an acquired process or technology. Identified risks associated with divestitures include: loss of activities and technologies that may have complemented our remaining businesses or operations; and loss of important services provided by key employees that are assigned to divested activities.

We depend on collaboration with other semiconductor industry companies, research organizations, universities, customers and suppliers to further our R&D efforts, and our business and prospects could be materially adversely affected by the failure or termination of such alliances.

Our success depends on our ability to introduce innovative new products and technologies to the marketplace on a timely basis. In light of the high levels of investment required for R&D activities, we depend in certain instances on collaborations with other semiconductor industry companies, research organizations, universities, customers and suppliers to develop or access new technologies.

Such collaboration provides us with a number of important benefits, including the sharing of costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. However, there can be no assurance that our collaboration efforts will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. If a particular collaboration terminates before our intended goals are accomplished we may incur additional unforeseen costs, and our business and prospects could be adversely affected. Furthermore, if we are unable to develop or otherwise access new technologies, whether independently or in collaboration with another industry participant, we may fail to keep pace with the rapid technology advances in the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share.

We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others.

We depend on patents and other IP rights to protect our products and our manufacturing processes against misappropriation by others. The process of seeking patent protection can be long and expensive, and there can be no assurance that that we will receive patents from currently pending or future applications. Even if patents are issued, they may not be of sufficient scope or strength to provide meaningful protection or any commercial advantage. In addition, effective IP protection may be unavailable or limited in some countries. Our ability to enforce one or more of our patents could be adversely affected by changes in patent laws, laws in certain foreign jurisdictions that may not effectively protect our intellectual property rights or by ineffective enforcement of laws in such jurisdictions. Competitors may also develop technologies that are protected by patents and other IP and therefore either be unavailable to us or be made available to us subject to adverse terms and conditions. We have in the past used our patent portfolio to negotiate broad patent cross-licenses with many of our competitors enabling us to design, manufacture and sell semiconductor products, without concern of infringing patents held by such competitors. We may not in the future be able to obtain such licenses or other rights to protect necessary IP on favorable terms for the conduct of our business, and such failure may adversely impact our results of operations. Such cross-license agreements expire from time to time and there is no assurance that we can or we will extend them.

We have from time to time received, and may in the future receive, communications alleging possible infringement of third party patents and other IP rights. Some of those claims are made by so-called non-practicing entities against which we are unable to assert our own patent portfolio to lever licensing terms and conditions. Competitors with whom we do not have patent cross-license agreements may also develop technologies that are protected by patents and other IP rights and which may be unavailable to us or only made available on unfavorable terms and conditions. We may therefore become involved in costly litigation brought against us regarding patents and other IP rights. IP litigation may also involve our customers who in turn may seek indemnification from us should we not prevail and/or who may decide to curtail their orders for those of our products over which claims have been asserted. Such lawsuits may therefore have a material adverse effect on our business. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third party IP and/or face an injunction.

The outcome of IP litigation is inherently uncertain and may divert the efforts and attention of our management and other specialized technical personnel. Such litigation can result in significant costs and, if not resolved in our favor, could materially and adversely affect our business, financial condition and results of operations.

We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules, new or revised legislation or the outcome of tax assessments and audits could cause a material adverse effect on our results.

We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules, new or revised legislation or the outcome of tax assessments and audits could have a material adverse effect on our results. Our tax rate is variable and depends on changes in the level of operating results within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. We currently receive certain tax benefits or benefit from net operating losses cumulated in prior years in some countries, and these benefits may not be available in the future due to changes in the local jurisdictions or credits on net operating losses being no longer available due to either full utilization or expiration of the statute of limitations in such jurisdictions. As a result, our effective tax rate could increase and/or our benefits from carrying forward net operating losses could affect our deferred tax assets in certain countries in the coming years. In addition, the acquisition or divestiture of businesses in certain jurisdictions could materially affect our effective tax rate.

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income that is sufficient to utilize in certain jurisdictions loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax optimization strategies. The recorded amount of total deferred tax assets could be reduced, which could have a material adverse effect on our results of operations and financial position, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in business condition or in management s plans or due to other factors, such as changes in tax laws and regulations.

We are subject to the possibility of loss contingencies arising out of tax claims, assessment of uncertain tax positions and provisions for specifically identified income tax exposures. We are also subject to tax audits in certain jurisdictions. There can be no assurance that we will be successful in resolving potential tax claims that result from these audits, which could result in material adjustments in our tax positions. We record provisions on the basis of the best current understanding; however, we could be required to record additional provisions in future periods for amounts that cannot currently be assessed. Our failure to do so and/or the need to increase our provisions for such claims could have a material adverse effect on our results of operations and our financial position.

Table of Contents

Our operating results can also vary significantly due to impairment of goodwill and other intangible assets incurred in the course of acquisitions and equity investments, as well as to impairment of tangible assets due to changes in the business environment.

Our operating results can vary significantly due to impairment of goodwill, other intangible assets and equity investments booked pursuant to acquisitions, joint venture agreements and the purchase of technologies and licenses from third parties. Because the market for our products is characterized by rapidly changing technologies, significant changes in the semiconductor industry, and the potential failure of our business initiatives, our future cash flows may not support the value of goodwill and other intangibles registered in our Consolidated Statement of financial position.

We receive public funding, and a reduction in the amount available to us or demands for repayment could increase our costs and impact our results of operations.

To support our proprietary R&D for technology investments and investments in cooperative R&D ventures, we have in the past benefited and expect to continue to benefit in the future from public funding, mainly from French, Italian and EU governmental entities. The public funding we receive is subject to periodic review by the relevant authorities and there can be no assurance that we will continue to benefit from such programs at current levels or that sufficient alternative funding will be available if we lose such support. If any of the public funding programs we participate in are curtailed or discontinued and we do not reduce the relevant R&D costs, this could have a material adverse effect on our business. Furthermore, to receive public funding, we enter into agreements which require compliance with extensive regulatory requirements and set forth certain conditions relating to the funded programs. If we fail to meet the regulatory requirements or applicable conditions, we may, under certain circumstances, be required to refund previously received amounts, which could have a material adverse effect on our results of operations. If there are changes in the public funding we receive this could increase the net costs for us to continue investing in R&D at current levels and could result in a material adverse effect on our results of operations.

Some of our production processes and materials are environmentally sensitive, which could expose us to liability and increase our costs due to environmental, health and safety laws and regulations or because of damage to the environment.

We are subject to environmental, health and safety laws and regulations that govern various aspects, including the use, storage, discharge and disposal of chemicals, gases and other hazardous substances used in our operations. Compliance with such laws and regulations could adversely affect our manufacturing costs or product sales by requiring us to acquire costly equipment, materials or greenhouse gas allowances, or to incur other significant expenses in adapting our manufacturing processes or waste and emission disposal processes. 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. Failure by us to control the use of, or adequately restrict the discharge of, chemicals or hazardous substances could subject us to future liabilities.

Loss of key employees could hurt our competitive position.

Our success depends to a significant extent upon our key executives and R&D, engineering, marketing, sales, manufacturing, support and other personnel. Our success also depends upon our ability to continue to identify, attract, retain and motivate highly trained and skilled engineering, technical and professional personnel in a competitive recruitment environment. For instance, in highly specialized areas, it may become more difficult to retain employees. We intend to continue to devote significant resources to recruit, train and retain qualified employees, however, we may not be able to attract and retain these employees, which may affect our growth in future years and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on us.

The interests of our controlling shareholder, which is in turn indirectly controlled by the French and Italian governments, may conflict with other investors interests. In addition, our controlling shareholder may sell our existing common shares or issue financial instruments exchangeable into our common shares at any time.

We have been informed that as of December 31, 2018, STMicroelectronics Holding N.V. (ST Holding), owned 250,704,754 shares, or approximately 27.5%, of our issued common shares. ST Holding may therefore be in a position to effectively control the outcome of decisions submitted to the vote at our shareholders meetings, including but not limited to the appointment of the members of our Managing and Supervisory Boards.

Table of Contents

We have been informed that ST Holding s shareholders, each of which is ultimately controlled by the French or Italian government, are party to a shareholders agreement (the STH Shareholders Agreement), which governs relations between them. We are not a party to the STH Shareholders Agreement. The STH Shareholders Agreement includes provisions requiring the unanimous approval by the shareholders of ST Holding before ST Holding can vote its shares in our share capital, which may give rise to a conflict of interest between our interests and investors interests, on the one hand, and the (political) interests of ST Holding s shareholders, on the other hand. Our ability to issue new shares or other securities giving access to our shares may be limited by ST Holding s desire to maintain its shareholding at a certain level and our ability to buy back shares may be limited by ST Holding due to a Dutch law requiring one or more shareholders acquiring 30% or more of our voting rights to launch a tender offer for our outstanding shares.

The STH Shareholders Agreement also permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at any time, thereby reducing the current level of their respective indirect interests in our common shares. Sales of our common shares or the issuance of financial instruments exchangeable into our common shares or any announcements concerning a potential sale by ST Holding could materially impact the market price of our common shares depending on the timing and size of such sale, market conditions as well as a variety of other factors.

Our shareholder structure and our preference shares may deter a change of control.

We have an option agreement in place with an independent foundation, whereby the foundation can acquire preference shares in the event of actions which the board of the independent foundation determines would be contrary to our interests, our shareholders and our other stakeholders and which in the event of a creeping acquisition or offer for our common shares are not supported by our Managing Board and Supervisory Board. In addition, our shareholders have authorized us to issue additional capital within the limits of the authorization by our General Meeting of Shareholders, subject to the requirements of our Articles of Association, without the need to seek a specific shareholder resolution for each capital increase. Accordingly, an issue of preference shares or new shares may make it more difficult for a shareholder to obtain control over our General Meeting of Shareholders. These anti-takeover provisions could substantially impede the ability of our shareholders to benefit from a change in control and, as a result, may materially adversely affect the market price of our ordinary shares and our investors ability to realize any potential change of control premium.

Any decision to reduce or discontinue paying cash dividends to our shareholders could adversely impact the market price of our common shares.

On an annual basis, our Supervisory Board, upon the proposal of the Managing Board, may propose the distribution of a cash dividend to the general meeting of our shareholders. See Item 6. Dividend Policy . Any reduction or discontinuance by us of the payment of cash dividends at historical levels could cause the market price of our common shares to decline.

We are required to prepare financial statements under IFRS and we also prepare Consolidated Financial Statements under U.S. GAAP, and such dual reporting may impair the clarity of our financial reporting.

We use U.S. GAAP as our primary set of reporting standards. Applying U.S. GAAP in our financial reporting is designed to ensure the comparability of our results to those of our competitors, as well as the continuity of our reporting, thereby providing our stakeholders and potential investors with a clear understanding of our financial performance. As we are incorporated in The Netherlands and our shares are listed on Euronext Paris and on the Borsa Italiana, we are subject to EU regulations requiring us to also report our results of operations and financial statements using IFRS.

As a result of the obligation to report our financial statements under IFRS, we prepare our results of operations using both U.S. GAAP and IFRS, which are currently not consistent. Such dual reporting can materially increase the complexity of our financial communications. Our financial condition and results of operations reported in accordance with IFRS will differ from our financial condition and results of operations reported in accordance with U.S. GAAP, which could give rise to confusion in the marketplace.

There are inherent limitations on the effectiveness of our controls.

There can be no assurance that a system of internal control over financial reporting, including one determined to be effective, will prevent or detect all misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance regarding financial statement preparation and presentation. Projections of the results of any evaluation of the effectiveness of internal control over financial

Table of Contents

reporting into future periods are subject to inherent risk. The relevant controls may become inadequate due to changes in circumstances or the degree of compliance with the underlying policies or procedures may deteriorate.

Because we are subject to the corporate law of The Netherlands, U.S. investors might have more difficulty protecting their interests in a court of law or otherwise than if we were a U.S. company.

Our corporate affairs are governed by our Articles of Association and by the laws governing corporations incorporated in The Netherlands. The rights of our investors and the responsibilities of members of our Managing and Supervisory Boards under Dutch law are different than under the rules of some U.S. jurisdictions. Therefore, U.S. investors may have more difficulty in protecting their interests in the face of actions by our management, members of our Managing and Supervisory Boards or our controlling shareholders than U.S. investors would have if we were incorporated in the United States.

Our executive offices and a substantial portion of our assets are located outside the United States. In addition, ST Holding and most members of our Managing and Supervisory Boards are residents of jurisdictions other than the United States. As a result, it may be difficult or impossible for shareholders to effect service within the United States upon us, ST Holding, or members of our Managing or Supervisory Boards. It may also be difficult or impossible for shareholders to enforce outside the United States judgments obtained against such persons in U.S. courts, or to enforce in U.S. courts judgments obtained against such persons in courts in jurisdictions outside the United States. This could be true in any legal action, including actions predicated upon the civil liability provisions of U.S. securities laws. In addition, it may be difficult or impossible for shareholders to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon U.S. securities laws.

We have been advised by Dutch counsel that the United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. With respect to choice of court agreements in civil or commercial matters, it is noted that the Hague Convention on Choice of Court Agreements entered into force in the Netherlands, but has not entered into force in the United States. As a consequence, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, will not be enforceable in The Netherlands. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to The Netherlands court the final judgment that has been rendered in the United States. If The Netherlands court finds that the jurisdiction of the federal or state court in the United States has been based on grounds that are internationally acceptable and that proper legal procedures that are in accordance with the Dutch standards of proper administration of justice including sufficient safeguards (behoorlijke rechtspleging) have been observed, the court in The Netherlands would, under current practice, in principle give binding effect to the final judgment that has been rendered in the United States unless such judgment contradicts The Netherlands public policy and provided that the judgment by the foreign court is not incompatible with a decision rendered between the same parties by a Dutch court, or with a previous decision rendered between the same parties by a foreign court in a dispute that concerns the same subject and is based on the same cause, provided that the previous decision qualifies for acknowledgment in the Netherlands. Even if such a foreign judgment is given binding effect, a claim based thereon may, however, still be rejected if the foreign judgment is not or no longer formally enforceable.

3.3.1.3. Risk appetite strategy

Risk management activities conducted as part of the ERM process are governed by our risk appetite, which has been discussed at the Supervisory Board and Audit Committee levels.

Risk appetite is defined as the amount and type of risk that we are willing to pursue or retain in the pursuit of our objectives. Our risk appetite depends on the nature of risks.

Risks pertaining to

- Environment, Health & Safety,
- Product quality,
- Ethics, regulatory and compliance,

represent risks that we strive to eliminate or mitigate to the lowest possible level through well-designed and effective internal controls.

Table of Contents

For other risk categories, we determine, on a regular basis, the amount of risk we are willing to pursue or retain, depending on associated expected rewards, opportunities, and cost of risk optimization.

3.3.1.4. Illustrative risk management measures

Environment, Health & Safety

We listen to customers, investors, partners, employees and management s feedback before identifying, prioritizing and managing our Environmental, Health and Safety (EHS) risks. Based on feedback from all stakeholders, we maintain a regular materiality exercise on all related topics, and update our sustainability strategy accordingly. For each sustainability domain, we define precise ambitions and long-term goals, and deploy the relevant programs to manage the related risks.

We have a Company sustainability council that reviews the progres of these programs and related KPIs together with our stakeholders continuous feedback. Additionally, all our plants run their own EHS specific risk analyses and follow-up both on Company and local programs.

Our aim is to prevent employee and environmental risks, including chemicals, fire, ergonomics, mechanical, handling, radiation, movements and work at height, nanomaterials, wastes, water or air emission.

We constantly review our policies and rules, deploy certified management systems such as OHSAS18001 and ISO140001, reinforce our culture, strengthen job hazard analysis and training plans, deploy industry standards such as RBA, and audit all of our sites.

We promote and recognize shared vigilance and drive continuous improvements in behaviors. Everywhere we practice early detection of hazards, unsafe acts and conditions. We systematically implement adequate actions to address weak points and avoid recurrence of near misses. We share all data transparently and adapt our prevention and practices to the highest standards.

Product quality

Our Product Quality & Reliability (PQR) is organized at a Company-level, but it is also embedded in all of our organizations. The PQR leadership team brings together quality directors from across organizations: front-end and back-end manufacturing, product groups, sales regions and corporate organizations to deploy our quality strategy and quality programs throughout the Company.

Our approach to quality is based on our Quality Management System (QMS), as documented in our Quality Manual. Our manual details how we implement processes intended to assure that our products and processes meet customer requirements.

In 2018, we successfully transitioned from ISO-TS 16949 to IATF 16949, to improve our quality governance, effective QMS and quality compliance across the Company.

We are now certified IATF 16949:2016 and ISO 9001:2015.

Our vision is to win a quality leadership position with all our customers based on three drivers: customer focus, built-in quality and Lean leadership.

In 2018, we initiated a quality booster program to challenge and improve our quality practices in the context of market expectations. We created five groups: research and development, manufacturing, incident detection, interaction between front-end and back-end, as well as one specific to lessons learned. We began multiple quality initiatives, and established key performance indicators to monitor and measure the impact of each initiative.

Ethics, regulatory and compliance

We believe that conducting our business with the highest standard of integrity is essential to our long term success, and that compliance and ethics is everyone s job and responsibility.

Our Code of Conduct is all about our values and the principles contained therein, which are shared throughout the Company, are the top level reference for guiding our behavior, decision making and activities.

Integrity: we conduct our business with the highest ethical standards, honor our commitments, deliver on our promises, are loyal and fair, and stand up for what is right.

People: we behave with openness, trust and simplicity; we are ready to share our knowledge, encourage everyone s contribution, develop our people through empowerment, teamwork and training; each one of us is committed and personally involved in the continuous improvement process.

Excellence: we strive for quality and customer satisfaction and create value for all our partners; we are flexible, encourage innovation, develop our competences, seek responsibility and are accountable for our actions; we act with discipline, base our decisions on facts, and focus on the priorities.

In 2018, we continued to push forward and refreshed our Compliance & Ethics awareness and communication campaign (branded Building Trust Together), focusing on the importance of integrity and ethical conduct. This initiative establishes clear expectations throughout the Company and invites all employees to speak up without fear of retaliation.

We use a variety of tools to engage with employees, managers and third parties, such as: face-to-face and town-hall meetings, e-learning modules, dedicated intranet webpage, articles, posters, targeted emails and short videos (available in 10 languages). We have also developed a dedicated mobile application, our ST Integrity App , which we use to provide our employees with quick and easy access to important and useful information, push notifications, fun quizzes, training materials, and a link to our misconduct reporting hotline and other useful contact information.

We have a zero-tolerance approach to bribery and corruption, regardless of the identity or position of the originator or recipient of any bribe. It is also strictly forbidden for anybody to use Company funds or assets to make a political contribution.

Our Code of Conduct and Anti-Bribery and Corruption policy, which are also available in the corporate governance section of our website at http://investors.st.com, provide clear definitions regarding instances of bribery and corruption, and include detailed descriptions of the Company s rules for engaging with third-parties. They also explain how to report actual or suspected violations and outline the potential disciplinary actions and legal consequences of any non-compliance.

We encourage everyone, including external business partners, to express, in good faith, any concerns they might have regarding possible violations of our Code of Conduct, the Company s policies, or the law. Managers are accountable for maintaining a working atmosphere where employees are comfortable about speaking up and expressing their concerns freely.

Our misconduct reporting process is communicated to all employees through, *inter alia*, our Code of Conduct, dedicated intranet web page and our ST Integrity App. In addition to Company reporting channels, we have an independent multilingual misconduct reporting hotline.

The Company applies a high standard of confidentiality when handling reports of misconduct (received either through management or through the hotline) to ensure that no employee who reports a concern in good faith suffers retaliation in the form of harassment, adverse employment or career consequences.

3.3.1.5. Risks having had a significant impact during 2018

In 2018, no single risk event had a negative material impact on the Company s financial results.

3.3.2. Internal Control

Our Managing Board is responsible for ensuring that we comply with all applicable legislation and regulations. As such, under the guidance of our CFO, we have established and implemented internal financial risk management and control systems. These controls and procedures are based on identified risk factors that could potentially influence our operations and financial objectives and contain a system of monitoring, reporting and operational reviews.

We regularly evaluate the effectiveness of our internal controls and procedures and correspondingly advise our Audit Committee on the results of such evaluations, any 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 to our auditors and to our Audit Committee. 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 external auditors and to our Audit Committee and approved by the Supervisory Board.

We have established 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 policies and 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 the Company.

We have a Corporate Audit organization, which performs general scope internal audits covering 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 Corporate Audit organization are reviewed annually by our Audit Committee and approved by the Supervisory Board.

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 2018 financial year; (ii) in relation to STMicroelectronics financial reporting these systems operated effectively during 2018; (iii) it is justified that the financial reporting is prepared on a going concern basis; and (iv) the report states those material risks and uncertainties that are relevant to the expectation of the Company s continuity for the period of twelve months after the preparation of the report.

Our internal risk management and control systems, including the structure and operation thereof, were discussed and evaluated on several occasions with our Audit Committee, and also discussed by our Supervisory Board, during 2018 (in accordance with best practice provision 1.4.1 of the 2016 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 ST and its business, taking into consideration the interests of all ST shareholders and other stakeholders.

Our Supervisory Board supervises and advises our Managing Board in performing its management tasks and setting the direction of our affairs and business. Among other matters 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.

The members of our Supervisory Board are carefully selected based on their combined experience, expertise, knowledge, as well as the business in which we operate. Our Supervisory Board is empowered to recommend to the General Meeting of Shareholders people to be appointed as members of our Supervisory Board and our Managing Board.

In performing its duties, our Supervisory Board is advised and assisted by the following committees: the Strategic Committee, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The committees all report to our Supervisory Board. Only members of the Supervisory Board can be committee members.

Our Supervisory Board has determined, based on the evaluation of an ad-hoc committee, the following independence criteria for its members: Supervisory Board members must not have any material relationship with STMicroelectronics N.V., or any of its consolidated subsidiaries, or its 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. As a result we have deviated from the independence criteria as included in best practice provision 2.1.7 of the 2016 Dutch Corporate Governance Code, specifically item f of such best practice provision, which states that a supervisory board member is not independent if he/she (or his/her registered partner or other life companion, foster child or relative by blood or marriage up to the second degree as defined under Dutch law) is a member of the management board or is a representative in some other way of a legal entity which holds at least 10% of our shares, unless such entity is a member of our Group. We do however comply with corporate governance listing standards of the NYSE.

Our Supervisory Board also adopted specific bars to independence. On that basis, our Supervisory Board concluded that all members qualify as independent based on the criteria set forth above.

The Supervisory Board is pleased to report on its Committees and its various activities in 2018.

Table of Contents

4.1. Composition of the Supervisory Board

Our Supervisory Board advises our Managing Board and is responsible for supervising the policies pursued by our Managing Board, the manner in which the Managing Board implements the long-term value creation strategy and the general course of our affairs and business. Our Supervisory Board consists of such number of members as is resolved by our AGM upon a non-binding proposal of our Supervisory Board, with a minimum of six members. Decisions by our AGM 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.

Our Supervisory Board was composed of the following nine members as of December 31, 2018:

Name	Position	Year First Appointed	Term Expires	Nationality	Gender	Age
Nicolas Dufourcq	Chairman	2015	2021	French	Male	55
Maurizio Tamagnini	Vice Chairman	2014	2020	Italian	Male	53
Janet Davidson	Member	2013	2019	American	Female	62
Heleen Kersten	Member	2014	2020	Dutch	Female	53
Jean-Georges Malcor	Member	2011	2020	French	Male	62
Salvatore Manzi	Member	2016	2019	Italian	Male	47
Alessandro Rivera	Member	2011	2020	Italian	Male	48
Frédéric Sanchez	Member	2017	2020	French	Male	58
Martine Verluyten	Member	2012	2019	Belgian	Female	67

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 meets at least five times a year, including once per quarter to approve our quarterly, semi-annual and annual accounts and their release. In 2018, the average attendance rate for the meetings of our Supervisory Board was 95.1%. Our Supervisory Board has adopted a Supervisory Board Charter, which is available on our website (www.st.com).

Our Supervisory Board may make a proposal to our AGM for the suspension or dismissal of one or more of its members. 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/her term of office. Pursuant to Dutch law, there is no mandatory retirement age for members of our Supervisory Board. Members of the Supervisory Board may be suspended or dismissed by our AGM. Certain of our Supervisory Board members are proposed by and may retain certain relationships with our direct or indirect shareholders represented through our major shareholder.

Biographies

Nicolas Dufourcq has been a member of our Supervisory Board since May 2015 and its Chairman since June 2017. He serves on our Supervisory Board s Nominating and Corporate Governance Committee and chairs its Compensation Committee and Strategic Committee. Mr. Dufourcq is a graduate of HEC (Hautes Etudes Commerciales) and ENA (Ecole Nationale d Administration). He began his career at the French Ministry of Finance and Economics before joining the Ministry of Health and Social affairs in 1992. In 1994, he joined France Telecom, where he created the Multimedia division, before going on to chair Wanadoo, the firm s listed Internet and Yellow Pages subsidiary. After joining the Capgemini Group in 2003, he was made responsible for the Central and Southern Europe region, successfully leading their financial turnaround. He was appointed Chief Financial Officer of the Group and member of the Executive Committee in September 2004. In 2005, he was named deputy Chief Executive Officer in charge of finance, risk management, IT, delivery, purchases and LEAN program and, in 2007, also in charge of the follow-up of the group s major contracts. On February 7, 2013, Mr. Dufourcq was appointed Chief Executive Officer of Bpifrance (Banque Publique d Investissement), which is indirectly controlled by the French Government and is one of the indirect shareholders of ST Holding. Mr. Dufourcq is also a member of the Supervisory Board of Euler Hermes Group and Orange Group.

Maurizio Tamagnini has been a member of our Supervisory Board since June 2014 and has been its Vice Chairman since June 2017. He was the Supervisory Board s Chairman from 2014 until June 2017. Mr. Tamagnini serves on our Supervisory Board s Nominating and Corporate Governance Committee, Compensation Committee and Strategic Committee. Mr. Tamagnini is currently Chief Executive Officer of FSI Sgr Spa, an asset management company participated, with a significant stake, among others, by Cassa depositi e prestiti Spa

(CDP), which is 82.7% controlled by the Italian Government. FSI Sgr Spa manages FSI Mid-Market Growth Equity Fund, a private equity closed-end fund with approximately 1.3 billion capital endowment, specialized on growth equity investments in Italian midmarket companies with development potential. He is non-executive Chairman of FSI Investimenti Spa, which is controlled 77% by CDP. Until 31 March 2016, Mr. Tamagnini was Chief Executive Officer and Chairman of the Investment Committee of Fondo Strategico Italiano Spa (now CDP Equity Spa), an investment company controlled by CDP. He was previously Southern European Manager of the Corporate & Investments Banking division of Bank of America Merrill Lynch and a member of the Executive Committee of Bank of America Merrill Lynch for the EMEA region. Mr. Tamagnini has gained over 25 years of experience in the financial sector specializing in the areas of Corporate Finance, Private Equity, Debt and Equity. Until 21 April 2016, he was Chairman of the Joint Venture between CDP Equity and Qatar Holding (IQ Made in Italy Investment Company Spa) with capital endowment of up to 2 billion in total for investments in the food, brands, furniture & design and tourism sectors. Mr. Tamagnini is also a member of the International Advisory Board of BIDMC Harvard Medical School. He holds a degree in International Monetary Economics from Bocconi University in Milan and has also studied at the Rensselaer Polytechnic Institute Troy in New York, USA.

Janet 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 was a member of the board of the Alcatel Lucent Foundation from 2011 until 2014. Ms. Davidson is also a member of the board of directors of Millicom since April 2016. On February 22, 2019, Ms. Davidson was elected to the board of directors of The AES Corporation and was appointed to the Financial Audit Committee and Compensation Committee of its board of directors. 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.

Heleen Kersten has been a member of our Supervisory Board since June 2014. She serves on our Supervisory Board s Audit Committee and Compensation Committee and chairs its Nominating and Corporate Governance Committee. Ms. Kersten is a partner at Stibbe in Amsterdam, where she held the position of managing partner from 2008 to 2014. Stibbe is a Benelux law firm with offices in Amsterdam, Brussels, Luxembourg, London, New York and Dubai. She began her career in 1989 with Stibbe before joining Davis Polk in New York and London (1992-1993). After her return to Stibbe Amsterdam, she rose through the ranks to become a partner in 1997. As a member of the Bar of Amsterdam since 1989, Ms. Kersten specializes in mergers and acquisitions, equity capital markets, corporate law and corporate governance. Ms. Kersten was a supervisory board member of the Dutch listed bank Van Lanschot N.V. until May 2015 and the Chairman of the supervisory board of Egeria Investment B.V. until April 2016. She is currently a supervisory board member of the Rijksmuseum (Stichting Het Rijksmuseum), since 2015. She is also a board member of the Stichting RCO Foundation (Stichting Royal Concertgebouw Orchestra Foundation), since 2010. Ms. Kersten holds master s degrees in Dutch law and tax law, both from Leiden University in the Netherlands.

Jean-Georges Malcor has been a member of our Supervisory Board since May 2011. He serves on our Supervisory Board s Audit Committee. Until his retirement on October 1, 2018, Mr. Malcor was 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

Table of Contents

President and became CEO on June 30, 2010 until his retirement in October 2018. Since June 2013, Mr. Malcor has been a member of the Supervisory Board of the Fives Group. Since June 2018, he has served on the board and the strategic committee of ORTEC. In November 2018, he also joined the board of Atlas Arteria (ASX).

Salvatore Manzi has been a member of our Supervisory Board since May 2016. He serves on our Supervisory Board s Compensation Committee and Strategic Committee. Mr. Manzi is the founder and CEO of Ovidio Tech S.r.l., an Italian holding company investing in a wide range of activities (including in the IT, IoT, security, film production, and biomedical fields). The main company in the Ovidio group is Schema31 S.p.A., a company providing innovation service as a business process outsourcer for public administrations and large private customers, of which Mr. Manzi is the founder and, since 2007, has been the managing director. During the course of his professional career, Mr. Manzi directed several Italian software companies, where he was responsible for ICT projects in the areas of enterprise management, finance and control, training and R&D. A primary player in one of the major SAP projects in Italy (Rete Ferroviaria Italiana RFI SpA), Mr. Manzi carries a multi-year international executive management experience in the direction of R&D operations and enterprise ICT projects. Mr. Manzi was a member of the supervisory board of ST Holding NV from 2014 until May 25, 2016. Mr. Manzi holds a master degree in electrical engineering from the Florence University, Italy, and is a member of the National Board of Engineers, section of Rome (IT, construction, environmental and industrial engineering).

Alessandro Rivera has been a member of our Supervisory Board since May 2011. Mr. Rivera serves on our Supervisory Board s Audit 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 the Government representative in the Consiglio Superiore of the Bank of Italy, and in the Financial Services Committee. Since 2013 he has been a member of the Board of Directors and Compensation Committee of Cassa Depositi e Prestiti. From 2011 to 2014 he was a member of the Board of Directors and Compensation Committee of Poste Italiane S.p.A. From 2008 to 2011 he was a member of 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.

Frédéric Sanchez has been a member of our Supervisory Board since June 20, 2017. He serves on our Supervisory Board s Compensation Committee, Strategic Committee and Nominating and Corporate Governance Committee. Mr. Sanchez is the chairman of the executive board of Fives, an industrial engineering group with heritage of over 200 years of engineering excellence and expertise. Fives designs and supplies machines, process equipment and production lines for the world s largest industrial groups in various sectors such as aluminum, steel, glass, automotive, logistics, aerospace, cement and energy, in both developing and developed countries. Mr. Sanchez started his career in 1985 with Renault in Mexico, then in the USA. In 1987 he became a mission manager at Ernst & Young. In 1990 he joined Fives-Lille group, in which he held various positions before being appointed chief financial officer in 1994 and becoming chief operating officer in 1997. In 2002, the Compagnie de Fives-Lille (renamed Fives in 2007) became a company with a Management and Supervisory Board chaired by Frederic Sanchez. Within MEDEF (French Business Confederation), Mr. Sanchez is President of MEDEF International and President of the Council of Entrepreneurs France-Saudi Arabia and UAE. Mr. Sanchez is also a member of the Supervisory Board of Mirion, an administrator of

Thea, Primagaz and Business France and honorary co-president of the Alliance Industrie du Futur. Mr. Sanchez graduated from HEC Business School (1983) and Sciences-Po Paris (1985) and he also holds a Master Degree in Economics from Université Paris-Dauphine (1984).

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

Table of Contents

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 (and serves as Chair of its Audit Committee) and GBL (group Bruxelles Lambert). Ms. Verluyten began her career in 1973 at KPMG as an Auditor.

4.2. Meetings and activities of the Supervisory Board

Activities of the Supervisory Board

Our Supervisory Board held 9 meetings in 2018, of which all were held in the presence of the sole member of the Managing Board and other select members of our senior management, with the exception of the evaluation of the functioning of our Managing Board, Supervisory Board, its Committees and its individual members as described below.

The items discussed in those meetings included recurring subjects such as our annual budget, financial performance, Annual Report on Form 20-F as well as its statutory annual accounts, objectives and results, strategy and long term value creation, operations review, reports of the various Committees of our Supervisory Board, the convocation of our AGM, the risks of our 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 and the compensation 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, and other members of our senior management.

At one of our Supervisory Board meetings and in accordance with best practice provisions 2.2.6 and 2.2.7 of the 2016 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, 2018, the composition of the four standing committees of our Supervisory Board was as follows: (i) Ms. Martine Verluyten is the Chair of the Audit Committee, and Ms. Janet Davidson, Ms. Heleen Kersten, Mr. Jean-Georges Malcor and Mr. Alessandro Rivera are members of the Audit Committee; (ii) Mr. Nicolas Dufourcq is the Chairman of the Compensation Committee, and Mr. Maurizio Tamagnini, Ms. Heleen Kersten, Mr. Salvatore Manzi and Mr. Frédéric Sanchez are members of the Compensation Committee; (iii) Ms. Heleen Kersten is the Chair of the Nominating and Corporate Governance Committee, and Messrs. Nicolas Dufourcq, Alessandro Rivera, Frédéric Sanchez and Maurizio Tamagnini are members of the Nominating and Corporate Governance Committee; and (iv) Mr. Nicolas Dufourcq is the Chairman of the Strategic Committee, and Ms. Janet Davidson and Messrs. Salvatore Manzi, Frédéric Sanchez and Maurizio Tamagnini are members of the Strategic Committee.

Detailed information on attendance at full Supervisory Board and Supervisory Board Committee meetings during 2018 is as follows:

Number of Meetings Attended in 2018	Supervisory Board	% Attendance	Audit Committee	% Attendance	Compensation Committee	% Attendance	Strategic Committee	% Attendance	Nominating & Corporate Governance Committee	% Attendance
Nicolas Dufourcq	8	89%	-	-	2	100%	2	100%	5	100%
Maurizio Tamagnini	9	100%	-	-	2	100%	2	100%	5	100%
Janet Davidson	9	100%	9	90%	-	-	2	100%	-	-
Heleen Kersten	9	100%	8	80%	2	100%	-	-	5	100%
Jean-Georges Malcor	9	100%	9	90%	-	-	-	-	-	-
Salvatore Manzi	9	100%	-	-	2	100%	2	100%	-	-
Alessandro Rivera	7	78%	8	80%	-	-	-	-	4	80%
Frédéric Sanchez	9	100%	-	-	2	100%	2	100%	5	100%
Martine Verluyten	8	89%	10	100%	-	-	-	-	-	-

Table of Contents

4.3. Audit Committee

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

Our Audit Committee met ten times during 2018. At many of the Audit Committee s meetings, the committee received presentations on current financial and accounting issues and had the opportunity to discuss with our CEO, CFO, Chief Accountant, Chief Audit and Risk Executive, Legal Counsel, Chief Compliance Officer and external auditors. Our Audit Committee also discussed with outside U.S. legal counsel corporate requirements pursuant to NYSE s corporate governance rules and the Sarbanes Oxley Act. Our Audit Committee also proceeded with its annual review of our internal audit function. Our Audit Committee reviewed our annual Consolidated Financial Statements in U.S. GAAP for the year ended December 31, 2018, and the results press release was published on January 24, 2019. Furthermore our Audit Committee also reviewed our annual Consolidated Financial Statements in IFRS, as adopted by the European Union, for the year ended December 31, 2018.

Our Audit Committee approved the compensation of our external auditors for 2018 and discussed the scope of their audit, audit related and non-audit related services for 2018.

Also in 2018, our Audit Committee reviewed with our external auditors our compliance with Section 404 of the Sarbanes-Oxley Act. In addition, our Audit Committee regularly reviewed management s conclusions as to the effectiveness of internal control over financial reporting, supervised the implementation of our corporate ERM process, and reviewed our Compliance & Ethics program.

As part of each of its quarterly meetings, our Audit Committee also 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

Our Compensation Committee advises 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 our Compensation Committee. Our Compensation Committee also reviews the stock based compensation plans for our senior managers and key employees. Our Compensation Committee met twice in 2018.

Among its main activities, in 2018 our Compensation Committee: (i) reviewed the objectives met as compared to the performance criteria relating to the bonus of our former CEO, Carlo Bozotti, for the fiscal year ended on December 31, 2017; (ii) defined the performance targets relating to the bonus of our new CEO, Jean-Marc Chery, for the fiscal year ending on December 31, 2018 (which targets are based on, inter alia, revenues growth, certain financial targets, the share price evolution versus PHLX Semiconductor Sector^{SM} Index (SOX^{SM}) and special programs); and (iii) 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. For the 2018 unvested stock award plan, these performance criteria are based on sales evolution and operating income evolution, both as compared against a panel of ten semiconductor companies, and Return on Net Assets targets.

4.5. Strategic Committee

Our Strategic Committee advises the 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. Our Strategic Committee met twice in 2018. In addition, there were strategic discussions, many of which occurred at extended Supervisory Board meetings and involved all Supervisory Board members.

4.6. Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee advises the Supervisory Board on the selection criteria and procedures relating to the appointment of members to our Supervisory Board and Managing Board, and the review of principles relating to corporate governance. Our Nominating and Corporate Governance

Table of Contents

Committee met five times during 2018 to discuss succession planning for our Supervisory Board and Managing Board, the establishment of an Executive Committee, recent developments in Dutch and U.S. law, best practices regarding corporate governance, and the update of our corporate governance documents.

4.7. Secretariat an d Controllers

Our Supervisory Board appoints a Secretary and Vice Secretary. Furthermore, the 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 the 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. Ms. Marie Artaud-Dewitte serves as Secretary and Mr. Gabriele Pagnotta serves as Vice Secretary. Ms. Artaud-Dewitte and Mr. Pagnotta serve as a Managing Director of ST Holding. Our Chief Compliance Officer, Philippe Dereeper, serves as Executive Secretary for our Supervisory Board, and for each of the four standing committees of our Supervisory Board.

Our Supervisory Board also 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 full Supervisory Board. The current Controllers are Messrs. Samuel Dalens and Giorgio Ambrosini. 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. Remuneratio n report

4.8.1. Supervisory board remuneration

Our Articles of Association provide that the compensation of our Supervisory Board members is determined by our General Meeting of Shareholders. The aggregate compensation for current and former members of our Supervisory Board with respect to service in 2018 was 928,000, before any applicable withholding taxes, as set forth in the following table.

In Euros	2018(1)
Nicolas Dufourcq	(2)
Maurizio Tamagnini	165,500
Janet Davidson	101,000
Heleen Kersten	110,500
Jean-Georges Malcor	98,500
Salvatore Manzi	94,500
Alessandro Rivera	103,500
Frédéric Sanchez	105,500
Martine Verluyten	149,000
Total	**928,000**

(1) These amounts include a fixed annual compensation for the directors mandate, together with attendance fees from January 1, 2018 until December 31, 2018.

(2)

Mr. Dufourcq would have been entitled to receive 165,000 in 2018, but he waived his right to receive any compensation from the Company in relation to his mandate as a member of the Supervisory Board.

We do not have any service agreements with members of our Supervisory Board. We did not extend any loans or overdrafts to any of our Supervisory Board members. Furthermore, we have not guaranteed any debts or concluded any leases with any of our Supervisory Board members or their families.

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.

4.8.2. Senior Management remuneration

Our Senior Management, including the sole member of our Managing Board, President and Chief Executive Officer, received a combination of short term and long term compensation. The following table sets forth the total cash amount paid as compensation in 2018, 2017 and 2016 to the 22, 20 and 19 members, respectively, of

Table of Contents

our Senior Management (including the sole member of our Managing Board, President and Chief Executive Officer) on duty on December 31st of each year, before applicable withholding taxes and social contributions (amounts in millions):

	2018	2017	2016
Total(1)	**$20.8**	**$17.3**	**$13.4**

(1) Total cash amount paid as compensation comprises fixed salary, annual cash bonus incentive, pension contributions and other cash benefits. In addition, non-cash amounts accrued as compensation, including unvested stock awards and other non-cash benefits, as well as all applicable withholding taxes and social contributions, were approximately $26.7 million in 2018, $14.2 million in 2017 and $8.3 million in 2016.

The total remuneration of our senior management (including the Sole Member of our Managing Board and President and CEO) takes into consideration factors such as the size and complexity of our Company, our global presence and that of our customers, the pace of change in our industry, our strategy and goal of long-term value creation, and the need to recruit and retain key personnel.

For the year 2018, the Senior Management pay ratio is 19.6 (2017: 17.4). This ratio is based on:

(i) the average remuneration of our Senior Management, including the compensation of Carlo Bozotti until May 31, 2018 (excluding any payments made in connection with the settlement of acquired rights for 2018) and the compensation of Jean-Marc Chery from June 1, 2018,

compared to

(ii) the average remuneration of our global indirect employees (i.e., all employees other than those directly manufacturing our products), excluding the compensation of our Senior Management and Managing Board and President and Chief Executive Officer.

The annual cash bonus incentive, which we call Corporate Executive Incentive Program (the EIP), entitles selected executives to a yearly bonus based upon the assessment of the achievement of individual objectives that are set on a yearly basis and focused, inter alia, on return on net assets, customer service, profit, cash flow and market share. The maximum bonus awarded under the EIP is based upon a percentage of the executive s salary and is adjusted to reflect the overall performance of our Company.

The amounts paid in 2018 to the 22 members of our Senior Management (including the sole member of our Managing Board, our President and Chief Executive Officer) pursuant to the Corporate EIP represented approximately 49% of the total compensation paid to our Senior Management.

	Bonus paid in 2018 (2017 performance)	Bonus paid in 2017 (2016 performance)	Bonus paid in 2016 (2015 performance)
Bonus (cash) amount	$ 10,181,945	$ 6,095,335	$ 3,342,855
Ratio bonus / base salary + EIP	48.84%	35.22%	24.99%

Our Supervisory Board has approved the establishment of a complementary pension plan for certain members of our Senior Management, comprising the sole member of our Managing Board, President and Chief Executive Officer, and certain other key executives as selected by the sole member of our Managing Board, President and Chief Executive

Officer, according to the general criteria of eligibility and service set up by the 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 2018, we made a contribution of approximately $0.5 million to the plan of the sole member of our Managing Board, President and Chief Executive Officer, and $0.4 million to the plan for all other beneficiaries. The amount of pension plan payments made for other beneficiaries, such as former employees retired in 2018 and/or no longer salaried in 2018, was $0.9 million.

We did not extend any loans or overdrafts to the sole member of our Managing Board, President and Chief Executive Officer, nor to any other member of our Senior Management. Furthermore, we have not guaranteed any debts or concluded any leases with the sole member of our Managing Board, President and Chief Executive Officer, nor with any other member of our Senior Management or their families.

Table of Contents

The members of our Senior Management, including the sole member of our Managing Board, President and Chief Executive Officer, were covered in 2018 under certain group life and medical insurance programs provided by us. The aggregate additional amount set aside by us in 2018 to provide pension, retirement or similar benefits for our Senior Management, including the sole member of our Managing Board, President and Chief Executive Officer, as a group is including the amounts allocated to the complementary pension plan described above and is estimated to have been approximately $4.9 million, which includes statutory employer contributions for state run retirement, similar benefit programs and other miscellaneous allowances.

For further details on the compensation of our Senior Management we also refer to Note 7.6.33 to our consolidated financial statements.

4.8.3. Managing Board remuneration

The remuneration of the sole member of our Managing Board, President and Chief Executive Officer, 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 AGM. The objectives of our remuneration policy, are for the Managing Board to focus on improving the performance of the Company and to enhance its value, as well as to motivate and retain the member(s) of the Managing Board. Before setting targets for the Managing Board, the Compensation Committee carries out scenario analyses of the possible financial outcomes of meeting target levels.

For further details on the compensation of the sole member of our Managing Board, President and Chief Executive Officer we also refer to Note 7.6.33 to our consolidated financial statements.

The sole member of our Managing Board, President and Chief Executive Officer, received compensation in the form of: a fixed salary, annual bonus, stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances. Set forth in the following table is the total compensation of the sole member of our Managing Board, President and Chief Executive Officer, in 2018, 2017 and 2016, which comprises, with relation to 2018 (i) the total compensation of Carlo Bozotti until May 31, 2018 (excluding any accelerated compensation), (ii) the total compensation of Jean-Marc Chery from June 1, 2018 and (iii) accelerated compensation relating to Carlo Bozotti s departure:

	2018	2017	2016
Salary (US$)	$ 927,820	$ 903,186	$ 860,468
Bonus(1) (US$)	$ 3,214,578	$ 1,044,514	-
Charges and Non-cash Benefits(2) (US$)	$ 6,496,372	$ 1,575,660	$ 770,212
Total (US$)	**$ 10,638,770**	**$ 3,523,360**	**$ 1,630,680**

(1) The bonus paid in 2018, 2017 and 2016 was approved by the Compensation Committee and Supervisory Board with respect to the 2017, 2016 and 2015 financial year, respectively, based on the evaluation and assessment of the actual fulfillment of a number of pre-defined objectives for such year.

(2) Including stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances. In accordance with the resolutions adopted at our AGM held on May 30, 2012, the bonus of our former President and Chief Executive Officer, Carlo Bozotti, in 2018, 2017 and 2016 included a portion of a bonus payable in stock awards and corresponding to 86,782, 59,435 and 50,567 vested shares, respectively, based on fulfillment of a number of pre-defined objectives. In addition, our current sole member of our Managing Board, President and Chief Executive Officer, Jean-Marc Chery, was granted, in accordance with the compensation policy adopted by our General Meeting of Shareholders and subsequent shareholder

authorizations, up to 100,000 unvested Stock Awards. The vesting of such stock awards is conditional upon the sole member of our Managing Board, President and Chief Executive Officer s, continued service with us.

Set forth in the following table is the total compensation of our former President and Chief Executive Officer, Carlo Bozotti, in 2018.

	Regular income	Settlement of acquired rights for 2018 (2018 bonus, accelerated shares, or USAs)	Total
Salary (US$)	$ 392,058	-	**$ 392,058**
Bonus[(1) (3)] (US$)	$ 1,418,885	$ 1,795,693	**$ 3,214,578**
Charges and Non-cash Benefits[(2)] (US$)	$ 2,818,927	$ 3,354,994	**$ 6,173,921**
Total (US$)	**$ 4,629,870**	**$ 5,150,687**	**$ 9,780,557**

(1) The bonus paid in 2018, 2017 and 2016 was approved by the Compensation Committee and Supervisory Board with respect to the 2017, 2016 and 2015 financial year, respectively, based on the evaluation and assessment of the actual fulfillment of a number of pre-defined objectives for such year.

Table of Contents

(2) Including stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances. In accordance with the resolutions adopted at our AGM held on May 30, 2012, the bonus of our former President and Chief Executive Officer, Carlo Bozotti, in 2018, 2017 and 2016 included a portion of a bonus payable in stock awards and corresponding to 86,782, 59,435 and 50,567 vested shares, respectively, based on fulfillment of a number of pre-defined objectives. The vesting of such stock awards is conditional upon the sole member of our Managing Board, President and Chief Executive Officer s, continued service with us.

(3) Bonus paid in 2018 with respect to 2018 and 2017 financial year.

Set forth in the following table is the total compensation of the current sole member of our Managing Board, President and Chief Executive Officer, Mr. Jean-Marc Chery, in 2018:

	Regular income	Total
Salary (US$)	$ 535,762	**$ 535,762**
Bonus (US$)	-	-
Charges and Non-cash Benefits[1] (US$)	$ 322,451	**$ 322,451**
Total (US$)	**$ 858,213**	**$ 858,213**

(1) Including stock awards, employer social contributions, company car allowance, pension contributions and miscellaneous allowances. Our current sole member of our Managing Board, President and Chief Executive Officer, Mr. Jean-Marc Chery, was granted, in accordance with the compensation policy adopted by our General Meeting of Shareholders and subsequent shareholder authorizations, up to 100,000 unvested Stock Awards. The vesting of such stock awards is conditional upon the sole member of our Managing Board, President and Chief Executive Officer s, continued service with us.

The current sole member of our Managing Board, President and Chief Executive Officer, was appointed on May 31, 2018 for a three-year term expiring at the 2021 AGM. He has 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 with one of our entities in Switzerland, which relates to his activities as President and Chief Executive Officer, the EIP, Pension and other items covered by the compensation policy adopted by our General Meeting of Shareholders. While the relationship between a member of the managing board and a listed Dutch company will be treated as a mandate agreement, not an employment agreement, existing employment agreements, including the employment agreement between us and our sole member of the Managing Board, will remain in effect.

(i) CEO Bonus

In accordance with the resolutions adopted at our AGM held on May 30, 2012, the annual bonus of the sole member of our Managing Board and President and Chief Executive Officer is composed of a portion payable in cash (up to a maximum of 150% of the base salary for the relevant year) and a portion payable in shares (up to a maximum of 60% of the base salary for the relevant year), all subject to the assessment and fulfillment of a number of pre-defined conditions which are set annually by the Compensation Committee of our Supervisory Board. For Mr. Jean-Marc Cherry, a similar CEO bonus mechanism, as the one previously in place for our former President and CEO, will be submitted for approval of the 2019 AGM.

Consistent with the remuneration policy adopted by our General Meeting of Shareholders, the Supervisory Board, upon the recommendation of its Compensation Committee, set the conditions and performance criteria that must be met by Mr. Jean-Marc Chery for the attribution of his 2018 bonus. Those conditions are based, inter alia, on revenues growth, certain financial targets, the share price evolution versus the SOX^{SM}, as well as certain special programs. The evaluation and assessment of the fulfillment of those conditions and performance criteria were completed by the Compensation Committee of our Supervisory Board on March 27, 2019 in order to determine the actual amount of the CEO bonus for 2018.

(*ii*) *CEO Stock Awards*

Our Supervisory Board, upon recommendation of the Compensation Committee, determines whether the performance criteria, as described below, have been met and conclude whether and to which extent all eligible employees, including the sole member of our Managing Board, President and Chief Executive Officer, are entitled to any stock awards under the stock award plan. The stock awards vest 32% after one year, a further 32% after two years and the remaining 36% after three years, respectively, after the date of the grant as defined by the plan, provided that the eligible employee is still an employee at such time (subject to the acceleration provisions in the event of a change in control).

Table of Contents

(iii) Unvested Stock Awards Allocation

Year[(1)]	Performance achieved	Result	Details
2018	100%[(1)]	3 criteria out of 3 met	Evolution of Sales criteria met (33.3%) Evolution of Operating Income criteria met (33.3%) Return on Net Assets (RONA) criteria met (33.3%)
2017	100%[(1)]	3 criteria out of 3 met	Evolution of Sales criteria met (33.3%) Evolution of Operating Income criteria met (33.3%) Return on Net Assets (RONA) criteria met (33.3%)
2016	45%[(1)]	2 criteria out of 4 met	Evolution of Sales criteria met (30%) Evolution of Operating Income criteria not met (50%) Days of Sale Outstanding (DSO) met (15%) Return on Net Assets (RONA) not met (5%)

(1) In accordance with the resolution adopted by our General Meeting of Shareholders, the maximum grant allowed in relation to the CEO stock award for each of 2014, 2015, 2016, 2017 and 2018 was 100,000 unvested stocks awards.

During 2018, our former President and Chief Executive Officer, Carlo Bozotti did not have any stock options, and did not purchase or sell any of our shares in his capacity as President and Chief Executive Officer, other than the sale of 340,000 vested stock awards shares. Since May 31, 2018, our current sole member of our Managing Board, President and Chief Executive Officer, Mr. Jean-Marc Chery, did not have any stock options, and did not purchase or sell any of our shares, other than the sale of 10,000 vested stock awards shares.

For further details on the compensation of the sole member of our Managing Board and President and CEO we also refer to Note 7.6.33 to our consolidated financial statements.

For further 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 4.8.5. Stock Awards and Options below.

4.8.4. Share ownership

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

4.8.5. 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. Furthermore, until 2012, the Compensation Committee (on behalf of the Supervisory Board and with its approval) granted stock-based awards (the options to acquire common shares in the share capital of the Company) to the members and professionals of the 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 conditions relating to our 2015 unvested stock award allocation under the 2013 Unvested Stock Award Plan, including restriction criteria linked to our performance (for selected employees);

- approved conditions relating to our 2016 unvested stock award allocation under the 2013 Unvested Stock Award Plan, including restriction criteria linked to our performance (for selected employees);

- approved, for a four-year period, our 2017 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 (for selected employees) and continued service with us; and

- approved conditions relating to our 2018 unvested stock award allocation under the 2017 Unvested Stock Award Plan, including restriction criteria linked to our performance (for selected employees).

Table of Contents

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 Chief Executive Officer, and all our employees are subject to an internal policy which involves, inter alia, certain blackout periods.

5. Corporate Governance

5.1. Commitment to the principles of good corporate governance

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

Our corporate organization under Dutch law that entrusts our management to a Managing Board acting under the supervision and control of a Supervisory Board totally independent from the Managing Board. Members of our Managing Board and of our Supervisory Board are appointed and dismissed by our shareholders;

Our early adoption of policies on important issues such as business ethics and conflicts of interest and strict policies to comply with applicable regulatory requirements concerning financial reporting, insider trading and public disclosures;

Our compliance with Dutch securities laws, because we are a company incorporated under the laws of The Netherlands, and, as applicable, our compliance with American, French and Italian securities laws, because our shares are listed in these jurisdictions, in addition to our compliance with the corporate, social and financial laws applicable to our subsidiaries in the countries in which we do business;

Our broad-based activities in the field of corporate social responsibility, encompassing environmental, social, health, safety, educational and other related issues including our corporate governance statement which evidences our policy objectives with respect to diversity as well as the results of implementing our diversity policy for the year ended December 31, 2018;

Our implementation of a non-compliance reporting channel (managed by an independent third party) for issues regarding accounting, internal controls or auditing. A special ombudsperson has been appointed by our Supervisory Board, following the proposal of its Audit Committee, to collect all complaints, whatever their source, regarding accounting, internal accounting controls or auditing matters, as well as the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;

Our Corporate Ethics Committee and Local Ethics Committees, whose mandate is to provide support to our management in its efforts to foster a business ethics culture consistent across regions, functions and organizations;

Our Chief Compliance Officer, who reports to our CEO, also acts as Executive Secretary to our Supervisory Board; and

Our Chief Audit and Risk Executive, who reports directly to our Audit Committee for Internal Audit and directly to the CEO for ERM is also responsible for our whistle-blowing hotline and related investigations.

As a Dutch company, we are subject to the 2016 Dutch Corporate Governance Code (DCGC). We are committed to informing our shareholders of any significant changes in our corporate governance policies and practices at our AGM. Along with our Supervisory Board Charter (which we last updated in May 2018 and which also includes the charters of our Supervisory Board Committees) and our Code of Conduct, the current version of our Corporate Governance Charter is posted on our website (www.st.com), and these documents are available in print to any shareholder who may request them.

As required by the DCGC, our Corporate Governance Charter includes information on the broad outline of our corporate governance structure and our compliance with the DCGC.

Our Supervisory Board is carefully selected based upon the combined experience and expertise of its members. In fulfilling their duties under Dutch law, Supervisory Board members serve the best interests of the Company and its business, taking into consideration the interests of all our shareholders and other stakeholders, and must act independently in their supervision of our management. Our Supervisory Board has adopted criteria to assess the independence of its members in accordance with corporate governance listing standards of the NYSE. For more information please refer to item 4 Report of the Supervisory Board .

Table of Contents

Our Supervisory Board has on various occasions discussed Dutch corporate governance standards, the implementing rules and corporate governance standards of the SEC and of the NYSE, as well as other corporate governance standards. The Supervisory Board has determined, based on the evaluations by an ad hoc committee, the following independence criteria for its members: Supervisory Board members must not have any material relationship with STMicroelectronics N.V., or any of our consolidated subsidiaries, or our management. A material relationship can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others, but does not include a relationship with direct or indirect shareholders.

We believe we are fully compliant with all material NYSE corporate governance standards, to the extent possible for a Dutch company listed on Euronext Paris, Borsa Italiana, as well as the NYSE.

Because we are a Dutch company, the Audit Committee is an advisory committee to the Supervisory Board, which reports to the Supervisory Board, and our General Meeting of Shareholders appoints our statutory auditors. Our Audit Committee has established a charter outlining its duties and responsibilities with respect to, among others, the monitoring of our accounting, auditing, financial reporting and the appointment, retention and oversight of our external auditors. In addition, our Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential anonymous submission by our employees regarding questionable accounting or auditing matters.

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

In accordance with our Corporate Governance Charter, the sole member of our Managing Board and our senior managers may not serve on the board of a public company without the prior approval of our Supervisory Board. Pursuant to the Supervisory Board Charter, the sole member of our Managing Board must inform our Supervisory Board of any (potential) conflict of interest and pursuant to such charter and Dutch law, any Managing Board resolution regarding a transaction in relation to which the sole member of our Managing Board has a conflict of interest must be approved and adopted by our Supervisory Board. Should our entire Supervisory Board also have a conflict of interest, the resolution must be adopted by our shareholders meeting pursuant to Dutch law. We are not aware of any potential conflicts of interests between the private interest or other duties of our sole Managing Board member and our senior managers and their duties to us.

5.2. General Meeting of Shareholders

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

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

The notice of our General Meeting of Shareholders states the business to be transacted as well as other information prescribed by law and our Articles of Association. The agenda is fixed by the author of the notice of the meeting; however, one or more shareholders or other persons entitled to attend General Meetings of Shareholders representing at least one-tenth of our issued share capital may, provided that the request was made at least five days prior to the date of convocation of the meeting, request that proposals be included on

Table of Contents

the agenda. Notwithstanding the previous sentence, proposals of persons who are entitled to attend General Meetings of Shareholders will be included on the agenda, if such proposals are made in writing to our Managing Board within a period of sixty days before that meeting by persons who are entitled to attend our General Meetings of Shareholders who, solely or jointly, represent at least 1% of our issued share capital or a market value of at least 50 million. The requests referred to in the previous two sentences may not be submitted electronically. The aforementioned requests must comply with conditions stipulated by our Managing Board, subject to the approval of our Supervisory Board, which shall be posted on our website. Pursuant to Dutch law, a shareholder requesting discussion of an agenda item must disclose to us its entire beneficial interest (long and short position). We are required to disclose this interest on our website.

Dutch law prescribes a fixed registration date of 28 days prior to the date of the General Meeting of Shareholders, which means that shareholders and other persons entitled to attend our General Meetings of Shareholders are those persons who have such rights at such date and, as such, are registered in a register designated by our Managing Board, regardless of who is a shareholder or otherwise a person entitled to attend our General Meeting of Shareholders at the time of the meeting if a registration date would not be applicable.

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

In general, the most important items of our General Meetings of Shareholders are:

- the adoption of our annual accounts;
- the adoption of a dividend;
- the discharge of the members of our Managing Board and Supervisory Board;
- the adoption of the compensation policy of our Managing Board;
- the determination of the compensation of the members of our Supervisory Board;
- the appointment, suspension and dismissal of the sole member of our Managing Board;
- the appointment, suspension and dismissal of the members of our Supervisory Board;
- the appointment of our auditors;

- the authorization to our Managing Board to repurchase shares;
- the issuance of shares and the granting of rights to subscribe for shares (option rights) as well as the delegation of these authorities to our Supervisory Board;
- approving resolutions of our Managing Board as referred to below under Managing Board ; and
- resolutions regarding the amendment of our Articles of Association, our liquidation, legal merger and legal demerger.

Under Dutch law, our General Meeting of Shareholders has the authority to adopt our statutory annual accounts as prepared by our Managing Board. Our General Meeting of Shareholders does not have the authority to amend our statutory annual accounts as prepared by our Managing Board. Our General Meeting of Shareholders can:

i. either adopt our statutory annual accounts in the form as prepared by our Managing Board; or

ii. instruct our Managing Board to amend our statutory annual accounts before adopting these annual accounts; or

iii. not adopt the statutory annual accounts.

Table of Contents

If our General Meeting of Shareholders instructs our Managing Board to amend our statutory annual accounts, our Managing Board is required to make the necessary amendments, unless the instruction contravenes the provisions of reasonableness and fairness (*redelijkheid en billijkheid*). Furthermore, the instruction must not contravene with the applicable presentation rules for the statutory annual accounts, including requirements of consistency and balance continuity. If there are multiple options, our General Meeting of Shareholders is authorized to decide with due observance of said limits.

If there are doubts regarding the correctness of our statutory annual accounts, the annual report and the other information, a petition for revision of our statutory annual accounts can be filed with the Enterprise Chamber (*Ondernemingskamer*) of the Amsterdam Court of Appeal in The Netherlands by each interested party on the basis of non-compliance with the applicable presentation requirements for the statutory annual accounts, the annual report and/or the other information prescribed by the EU IFRS regime, Title 9 of Book 2 of the Dutch Civil Code and/or the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*). The petition must state in which respect the documents require revision. The petition can also be filed by the Advocate General (*advocaat-generaal*) of the Amsterdam Court of Appeal on the basis of public interest as well as the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) with due observance of Section 4 of the Dutch Financial Markets Supervision Act.

5.3. Supervisory Board

Our Supervisory Board advises our Managing Board and is responsible for supervising the policies pursued by our Managing Board, the manner in which the Managing Board implements the long-term value creation strategy and the general course of our affairs and business. Our Supervisory Board consists of such number of members as is resolved by our General Meeting of Shareholders upon a non-binding proposal of our Supervisory Board, with a minimum of six members. Decisions by our 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.

Under Dutch law, certain statutory provisions limit the number of supervisory positions that members of our Supervisory Board may hold. A member of our Supervisory Board can only be appointed as such if he/she does not hold more than four supervisory positions at other so-called large Dutch entities. In this connection, the position of chairman equals two positions. The term supervisory position means the position of supervisory director or non-executive director. Supervisory positions at several entities belonging to the same group constitute one position, and supervisory positions at non-Dutch entities are not taken into account. Furthermore, an appointment by the Enterprise Chamber (*Ondernemingskamer*) of the Amsterdam Court of Appeal as part of corporate inquiry proceedings is not taken into account. For purposes of the foregoing, large Dutch entities are Dutch limited liability companies, private companies with limited liability and foundations which meet at least two of the following three criteria (Large Dutch Entities): (i) the value of the assets according to the consolidated statement of financial position with explanatory notes exceeds 20 million; (ii) the net turnover for the financial year exceeds 40 million; or (iii) there are, on average, 250 or more employees during the financial year.

In the Netherlands, companies such as ours are expected to pursue a policy of having a balanced participation by men and women in supervisory boards. Where seats on a supervisory board are to be divided among individuals, balanced participation is deemed to exist if at least 30% of the seats are taken by men and at least 30% by women. We meet this criterion.

In accordance with the criteria as reflected in our Supervisory Board Charter and diversity policy, members of our Supervisory Board are selected on the basis of their specific business, financial, technical and/or legal expertise, prior professional experience, soundness of judgment, ability to make analytical enquiries and willingness to devote the time required to adequately perform their activities as Supervisory Board members. The object of our diversity policy is to have a diverse composition of our Supervisory Board in the areas that are relevant to us, such as nationality, experience, background, gender and age. Our Supervisory Board endorses the principle of a diversified Supervisory Board, including the aforementioned statutory gender balance rules, within the scope of the criteria as reflected in our Supervisory Board Charter and diversity policy. This is demonstrated by the appointment of Ms. Martine Verluyten as member of our Supervisory Board at our 2012 AGM, the appointment of Ms. Janet G. Davidson as member of our Supervisory Board at our 2013 AGM and the appointment of Ms. Heleen Kersten as member of our Supervisory Board at our 2014 AGM. We will continue to strive for an appropriate balance as recommended by the aforementioned statutory gender balance rules. The Supervisory Board meets the other criteria as set forth in their Charter as well, resulting in a diversified composition of the Supervisory Board.

Table of Contents

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

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

supervising the adoption and implementation by our Managing Board on a consolidated basis of strategic pluri-annual plans and annual budgets in line with the decisions of our Supervisory Board;

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

declaring independently as well as proposing to our General Meeting of Shareholders to declare, distributions out of our share premium reserve and other reserves available for shareholder distributions under Dutch law.

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

For information on the identity of our Supervisory Board members, including its committees, as well as the compensation of the members of our Supervisory Board, see the report of our Supervisory Board. We believe that at least one member of our Supervisory Board can be regarded as a financial expert.

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

5.4. Managing Board

In accordance with Dutch law, our management is entrusted to the Managing Board under the supervision of our Supervisory Board. Jean-Marc Chery is currently the sole member of our Managing Board with the function of President and Chief Executive Officer. He succeeded Carlo Bozotti whose term expired at the end of our 2018 AGM on May 31, 2018. Under our Articles of Association, the sole member of our Managing Board is appointed for a three-year term, upon a non-binding proposal by our Supervisory Board, at our AGM (by a simple majority of the votes cast, provided quorum conditions are met), which term may be renewed one or more times.

Table of Contents

In the Netherlands, companies such as ours are expected to pursue a policy of having a balanced participation by men and women in managing boards. Where seats on a managing board are to be divided among individuals, balanced participation is deemed to exist if at least 30% of the seats are taken by men and at least 30% by women. Since its creation in 1987, our Managing Board has always been comprised of a sole member.

Our shareholders may suspend or dismiss one or more members of our Managing Board, in accordance with the procedures laid down in our Articles of Association. Under Dutch law, our Managing Board is entrusted with our general management and the representation of our Company. Our Managing Board must seek prior approval from our shareholders for decisions regarding a significant change in the identity or nature of the Company. Under our Articles of Association and our Supervisory Board Charter, our Managing Board must also seek prior approval from our Supervisory Board for certain other decisions with regard to the Company and our direct or indirect subsidiaries.

The sole member of our Managing Board may not serve on the board of a public company without the prior approval of our Supervisory Board. Pursuant to our Supervisory Board Charter, the sole member of our Managing Board must inform our Supervisory Board of any (potential) conflict of interest and pursuant to such charter and Dutch law, any Managing Board resolution regarding a transaction in relation to which the sole member of our Managing Board has a conflict of interest must be approved and adopted by our Supervisory Board. Should our entire Supervisory Board also have a conflict of interest, the resolution must be adopted by our shareholders pursuant to Dutch law. We are not aware of any potential conflicts of interests between the private interest or other duties of our sole Managing Board member and our senior managers and their duties to us.

Pursuant to our Articles of Association and the Supervisory Board Charter, the following decisions by our Managing Board with regard to the Company and any of our direct or indirect subsidiaries (an ST Group Company) require prior approval from our Supervisory Board: (i) any modification of our or any ST Group Company s Articles of Association or other constitutional documents, other than those of wholly owned subsidiaries; (ii) other than for wholly owned subsidiaries, any change in our or any ST Group Company s authorized share capital or any issue, acquisition or disposal by us with the exception of shares in our share capital acquired in order to transfer these shares under employee stock option or stock purchase plans or any ST Group Company of own shares or change in share rights and any issue of instruments resulting in a share in the capital of any ST Group Company or its profits (iii) the liquidation or dissolution of the Company or any ST Group Company or the disposal of all or a substantial and material part of our business or assets, or those of any ST Group Company, or of any shares in any ST Group Company; (iv) any merger, acquisition or joint venture agreement (and, if substantial and material, any agreement relating to IP) to which we or any ST Group Company is, or is proposed to be, a party, as well as the formation of new companies by us or any ST Group Company (with the understanding that only acquisitions above $25 million per transaction are subject to prior Supervisory Board approval); (v) our draft Consolidated Statement of Financial Position and Consolidated Financial Statements, as well as our and any ST Group Company s profit distribution policies; (vi) entering into any agreement that may qualify as a related party transaction, including any agreement between us or any ST Group Company and any of our major shareholders; (vii) the appointment of members of the Executive Committee; (viii) the key parameters of our pluri-annual plans and our consolidated annual budgets, as well as any significant modifications to said plans and budgets, or any one of the matters set forth in our Articles of Association and not included in the approved