

STMICROELECTRONICS NV
Form 6-K
May 08, 2015

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 May 8, 2015
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 Q

Form 40-F E

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 E

No Q

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

Yes E

No Q

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

Yes E

No Q

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

Enclosure: STMicroelectronics N.V.'s First Quarter Ended March 28, 2015:

- Operating and Financial Review and Prospects;
 - Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months ended March 28, 2015; and
 - Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.
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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flows and Statements of Equity for the three months ended March 28, 2015 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2014 as filed with the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”) on March 3, 2015 (the “Form 20-F”). The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections “Business Overview” and “Liquidity and Capital Resources—Financial Outlook: Capital Investment”. Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see “Cautionary Note Regarding Forward-Looking Statements” and “Item 3. Key Information—Risk Factors” included in the Form 20-F. We assume no obligation to update the forward-looking statements or such risk factors.

Our Management’s Discussion and Analysis of Financial Position and Results of Operations (“MD&A”) is provided in addition to the accompanying unaudited interim consolidated financial statements (“Consolidated Financial Statements”) and notes to assist readers in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

- Critical Accounting Policies using Significant Estimates.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months ended March 28, 2015 designed to provide context for the other sections of the MD&A, including our expectations for selected financial items for the second quarter of 2015.
- Other Developments in the first quarter 2015.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months ended March 28, 2015, as well as segment information.
- Legal Proceedings.
- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.
- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.
- Impact of Recently Issued U.S. Accounting Standards.
- Backlog and Customers, discussing the level of backlog and sales to our key customers.
- Disclosure Controls and Procedures.
- Cautionary Note Regarding Forward-Looking Statements.

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

Critical Accounting Policies Using Significant Estimates

There were no material changes in the first three months of 2015 to the information provided under the heading “Critical Accounting Policies Using Significant Estimates” included in our annual report on Form 20-F.

Fiscal Year

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. The first quarter of 2015 ended on March 28, 2015. The second quarter will end on June 27. The third quarter will end on September 26 and the fourth quarter will end on December 31, 2015. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years’ periods. There were 87 days in the first quarter of 2015, 95 days in the fourth quarter of 2014 and 88 days in the first quarter of 2014.

Business Overview

Our results of operations for each period were as follows:

	Three Months Ended			% Variation	
	March 28, 2015 (Unaudited, in millions, except per share amounts)	December 31, 2014	March 29, 2014	Sequential	Year-Over-Year
Net revenues	\$1,705	\$1,829	\$1,825	(6.8)%	(6.6)%
Gross profit	566	619	599	(8.6)%	(5.5)%
Gross margin as percentage of net revenues	33.2 %	33.8 %	32.8 %	-	-
Operating income (loss)	(19)	38	(4)	-	-
Net income (loss) attributable to parent company	(22)	43	(24)	-	-
Earnings per share	\$(0.03)	\$0.05	\$(0.03)	-	-

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), DRAMs, optoelectronics devices, Flash Memories and the Wireless Application Specific market products such as Baseband and Application Processor).

Based on the data published by WSTS, semiconductor industry revenues decreased in the first quarter of 2015 on a sequential basis by approximately 5% for the TAM and 3% for the SAM, to reach approximately \$83 billion and \$37 billion, respectively. On a year-over-year basis, both the TAM and the SAM increased by approximately 6% and 3%,

respectively.

First quarter 2015 revenues amounted to \$1,705 million, a 6.8% sequential decrease, inside our guidance of the quarter but below the 5% mid-point, with all product lines registering a sequential revenues decrease. Sense & Power and Automotive Products (SP&A) revenues declined by approximately 4% and Embedded Processing Solutions (EPS) by 12%, mainly driven by Digital products and Industrial & Power Discrete products, respectively.

On a year-over-year basis, our revenues decreased by 6.6%. Excluding the former ST-Ericsson products that we are phasing-out, our revenues declined by 4.4%. SP&A segment revenues decreased by about 6% primarily due to a decrease in Analog & MEMS. EPS segment revenues decreased by approximately 7% mainly due to the phasing-out of the legacy ST-Ericsson products and weak performance of the other Digital Products, only partially offset by the growth in Microcontrollers, Memory & Secure MCU (MMS).

Compared to the served market, our performance was below the SAM both on a year-over-year and sequential basis.

Our effective average exchange rate for the first quarter of 2015 was \$1.23 for €1.00 compared to \$1.29 for €1.00 in the fourth quarter of 2014 and \$1.35 for €1.00 in the first quarter of 2014. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see “Impact of Changes in Exchange Rates” below.

Our first quarter 2015 gross margin was 33.2% of revenues, at the mid-point of our guidance, and decreasing sequentially by 60 basis points, mainly due to decreasing sales prices and lower manufacturing efficiency, partially offset by the positive impact of currency exchange rates, net of hedging, and lower charges for unloading. On a year-over-year comparison, our first quarter 2015 gross margin improved by 40 basis points, mainly due to improved manufacturing efficiencies and favorable currency exchange rates, net of hedging, partially offset by lower selling prices and higher unused capacity charges.

Our combined selling, general and administrative (SG&A) and research and development (R&D) costs amounted to \$591 million, decreasing by about 3% compared to \$611 million in the prior quarter mainly due to a shorter quarter and the favorable impact of currency exchange rates, net of hedging. On a year-over-year basis, operating expenses decreased by about 2% compared to \$606 million in the prior-year quarter mainly due to more favorable currency exchange rates, net of hedging, partially offset by higher labor costs.

Other income and expenses, net, amounted to \$35 million, decreasing compared to \$50 million in the previous quarter due to lower R&D funding and increasing from the year-ago quarter \$15 million mainly due to the impact of the recognition of Nano2017 R&D grants following the program approval in the second quarter of 2014.

In the first quarter of 2015 our operating loss was \$19 million, deteriorating from an income of \$38 million in the fourth quarter of 2014 and from a loss of \$4 million in the year-ago quarter. Sequentially, the deterioration in our operating results was mainly due to lower revenues, lower other income and higher impairment and restructuring charges, partially offset by savings in operating expenses. Compared to the year-ago period, the deterioration in our operating results was mainly due to higher impairment and restructuring charges.

We showed progress in terms of free cash flow, positive at \$41 million for the first quarter of 2015 and improving \$92 million compared to the year-ago period.

In the second quarter, we expect to increase our revenues by about 3.5% sequentially, plus or minus 3.5 percentage points, with most of our product groups contributing. Gross margin is anticipated to increase by about 60 basis points to 33.8% at midpoint (plus or minus 2.0 percentage points), including existing hedging contracts significantly mitigating the positive impact from currency.

Key products driving growth for the second quarter include filters and protection devices as well as power discrete from IPD, touchscreen controllers and 6-axis motion MEMS from AMS, microcontrollers from APG, STM32 microcontrollers and the secure element from MMS. On the other hand, a large volume socket within DPG has been very recently postponed, reducing our expected revenues for this product group in the second and the next quarters.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.16 = €1.00 for the 2015 second quarter and includes the impact of existing hedging contracts. The second quarter will close on June 27, 2015.

These are forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially; in particular, refer to those known risks and uncertainties described in “Cautionary Note Regarding Forward-Looking Statements” and Item 3. “Key Information — Risk Factors” in our Form 20-F as may be updated from time to time in our SEC filings.

Other Developments in the first quarter of 2015

On March 6, 2015, we closed the agreement signed on July 22, 2014 with Enel Green Power to transfer our equity stake in 3Sun. As a result, ST paid €11.5 million to Enel Green Power in exchange for our full release from any obligations concerning the joint venture or Enel Green Power. In addition, ST forgave its €13 million outstanding shareholder loan to the joint venture.

During the first quarter of 2015, we agreed with IBM to end our participation in the IBM Technology Development Alliance at the end of the second quarter of 2015.

On March 24, ST's Supervisory Board resolved that our dividend distributions, more recently decided on a semi-annual basis, will now be decided on an annual basis at ST's Annual General Meeting of Shareholders.

On March 27, 2015, we announced the main resolutions to be submitted for adoption at the Annual General Meeting of Shareholders which will be held in Amsterdam on May 27, 2015. The main resolutions, proposed by the Supervisory Board, include:

- The adoption of the Company's Statutory Annual Accounts for the year ended December 31, 2014, prepared in accordance with International Financial Reporting Standards (IFRS). The 2014 Statutory Annual Accounts are posted on the Company's website and were filed with the Netherlands Authority for the Financial Markets (AFM) on March 27, 2015;
- The distribution of a cash dividend of US\$0.40 per outstanding share of the Company's common stock, to be distributed to shareholders in quarterly installments of US\$0.10 in each of the second, third and fourth quarters of 2015 and first quarter of 2016;
- The appointment of Mr. Nicolas Dufourcq as a new member of the Supervisory Board, for a three-year term expiring at the 2018 Annual General Meeting of Shareholders, in replacement of Mr. Jean d'Arthuys whose mandate will terminate as of the 2015 Annual General Meeting of Shareholders;
- The reappointment of Ms. Martine Verluyten as a member of the Supervisory Board, for a three-year term expiring at the 2018 Annual General Meeting of Shareholders; and
 - The appointment of Ernst & Young Accountants LLP as the Company's external auditor for the 2016-2019 financial years. The proposal to appoint Ernst & Young Accountants LLP in replacement of PricewaterhouseCoopers Accountants N.V is based on the new Dutch law which currently imposes an eight-year audit firm rotation period.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, we design, develop, manufacture and market a broad range of products, including discrete and standard commodity 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. In addition, we further participate in the manufacturing value chain of Smartcard products, which include the production and sale of both silicon chips and Smartcards.

In 2015, our segments are as follows:

- Sense & Power and Automotive Products (SP&A), including the following product lines:
 - o Automotive (APG);
 - o Industrial & Power Discrete (IPD);
 - o Analog & MEMS (AMS); and

- o Other SP&A;
- Embedded Processing Solutions (EPS), comprised of the following product lines:
 - o Digital Product Group (DPG);
 - o Microcontrollers, Memory & Secure MCU (MMS); and
 - o Other EPS.

Effective in the first quarter of 2015, the former Digital Convergence Group (DCG) and Imaging, BI-CMOS and Silicon Photonics (IBP) groups, both belonging to EPS, were combined under one single organization, called Digital Product Group (DPG). DPG focuses on three main areas: ASSPs addressing home gateway and set-top box, as well as digital ASICs for consumer applications; mixed process and digital ASICs, including silicon photonics, addressing communication infrastructure; and differentiated imaging products.

We believe that the amended 2015 revenues presentation is consistent with that of 2014 and we use these comparatives when managing our company.

In the Subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the guidance on disclosures about segments of an enterprise and related information. All the financial values related to Subsystems including net revenues and related costs, are reported in the segment "Others".

For the computation of the segments' internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative ("SG&A") expenses and a part of research and development ("R&D") expenses. In compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special R&D programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. As of the first quarter of 2015, our internal policy regarding unallocated costs was amended to allocate unused capacity charges to our product lines. Prior periods have been revised accordingly. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the product segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold. Finally, R&D grants are allocated to our product lines proportionally to the incurred R&D expenses on the sponsored projects.

First Quarter 2015 vs. Fourth Quarter 2014 and First Quarter 2014

The following table sets forth certain financial data from our unaudited Consolidated Statements of Income:

	Three Months Ended (unaudited)					
	March 28, 2015		December 31, 2014		March 29, 2014	
	\$ million	% of net revenues	\$ million	% of net revenues	\$ million	% of net revenues
Net sales	\$1,693	99.3 %	\$1,806	98.8 %	\$1,801	98.7 %
Other revenues	12	0.7	23	1.2	24	1.3
Net revenues	1,705	100.0	1,829	100.0	1,825	100.0
Cost of sales	(1,139)	(66.8)	(1,210)	(66.2)	(1,226)	(67.2)
Gross profit	566	33.2	619	33.8	599	32.8
Selling, general and administrative	(222)	(13.0)	(235)	(12.9)	(228)	(12.4)
Research and development	(369)	(21.7)	(376)	(20.5)	(378)	(20.7)
Other income and expenses, net	35	2.1	50	2.8	15	0.8
Impairment, restructuring charges and other related closure costs	(29)	(1.7)	(20)	(1.1)	(12)	(0.7)
Operating income (loss)	(19)	(1.1)	38	2.1	(4)	(0.2)
Interest expense, net	(5)	(0.3)	(6)	(0.4)	(2)	(0.1)
Income (loss) on equity-method investments	4	0.2	17	0.9	(8)	(0.4)
Gain (loss) on financial instruments, net	-	-	(3)	(0.1)	1	0.0
Income (loss) before income taxes and noncontrolling interest	(20)	(1.2)	46	2.5	(13)	(0.7)
Income tax expense	(1)	(0.1)	(3)	(0.2)	(9)	(0.5)
Net income (loss)	(21)	(1.3)	43	2.3	(22)	(1.2)
Net loss (income) attributable to noncontrolling interest	(1)	-	-	-	(2)	(0.1)
Net income (loss) attributable to parent company	\$(22)	(1.3)%	\$43	2.3 %	\$(24)	(1.3)%

Net revenues

	Three Months Ended			% Variation	
	March 28, 2015	December 31, 2014	March 29, 2014	Sequential	Year-Over-Year
	(Unaudited, in millions)				
Net sales	1,693	\$1,806	\$1,801	(6.3)	(6.0)
Other revenues	12	23	24	(44.2)	(48.8)
Net revenues	\$1,705	\$1,829	\$1,825	(6.8)	(6.6)

Our first quarter 2015 net revenues decreased sequentially by 6.8%, inside our guidance for the quarter, but below the 5% mid-point. The sequential decrease resulted from an approximate 3% decrease in volume and an approximate 4% decrease in average selling prices.

On a year-over-year basis, our net revenues decreased by 6.6% as a result of an approximate 15% decrease in average selling prices, partially offset by an 8% higher volume. The reduction in average selling prices resulted from a pricing effect, down by approximately 7%, and a less favorable product mix of about 8%. Excluding legacy ST-Ericsson products, our revenues decreased by 4.4%. Additionally, in Q1 2014, our net revenues were positively impacted by a \$15 million non-recurring sale of license to Invensense.

No customer exceeded 10% of our total net revenues in the first quarter of 2015 or in the prior and year-ago quarters.

Net revenues by product line and product segment

	Three Months Ended			% Variation	
	March 28, 2015	December 31, 2014	March 29, 2014	Sequential	Year-Over- Year
	(Unaudited, in millions)				
Automotive (APG)	\$434	\$436	\$445	(0.4)%	(2.3)%
Industrial & Power Discrete (IPD)	430	462	442	(6.8)	(2.8)
Analog & MEMS (AMS)	255	266	304	(4.3)	(16.2)
Sense & Power and Automotive Products (SP&A)	1,119	1,164	1,191	(3.9)	(6.0)
Digital Product Group (DPG)	207	259	282	(19.9)	(26.4)
Microcontrollers, Memory & Secure MCU (MMS)	374	388	346	(3.7)	8.0
Other EPS	-	13	-	-	-
Embedded Processing Solutions (EPS)	581	660	628	(12.0)	(7.4)
Others	5	5	6	6.0	(18.5)
Total consolidated net revenues	\$1,705	\$1,829	\$1,825	(6.8)%	(6.6)%

Sequentially, both SP&A and EPS decreased their revenues, by approximately 4% and 12%, respectively, with all product lines registering a drop in revenues, with the main decrease recorded in DPG (approximately 20%). All remaining product lines declined at a lower rate than the calendar days (87 days in the first quarter of 2015 versus 95 days in the fourth quarter of 2014), between 7% and 4%, but Automotive that remained substantially flat. Our revenues were affected by a lower contribution from euro-denominated sales of about \$19 million, mainly associated with distribution, which impacted our SP&A segment, in particular.

On a year-over-year basis, our revenues were down by approximately 7% in EPS and 6% in SP&A. Excluding legacy ST-Ericsson products, EPS segment revenues decreased by approximately 1%. Within the SP&A segment, APG and IPD revenues decreased by about 2% and 3%, respectively, while AMS registered a decline of approximately 16%. Within EPS, DPG including legacy ST-Ericsson products registered a decline of revenues of approximately 26% while MMS increased by about 8%.

In the first quarter of 2015, "Others" includes revenues from the sales of Subsystems (\$3 million) and sales of materials and other products not allocated to product segments.

Net Revenues by Market Channel (1)

	Three Months Ended				
	March 28, 2015	December 31, 2014	March 29, 2014		
	(Unaudited, in %)				
OEM	70	% 68	% 70	%	%
Distribution	30	32	30		
Total	100	% 100	% 100	%	%

(1)

Original Equipment Manufacturers (“OEM”) are the end-customers to which we provide direct marketing application engineering support, while Distribution customers refers to the distributors and representatives that we engage to distribute our products around the world.

By market channel, our revenues in Distribution amounted to 30%, stable year-over-year and decreasing compared to the prior quarter.

Net Revenues by Location of Shipment (1)

	Three Months Ended			% Variation	
	March 28, 2015	December 31, 2014	March 29, 2014	Sequential	Year-Over-Year
	(Unaudited, in millions)				
EMEA	\$451	\$458	\$469	(1.7)%	(3.8)%
Americas	267	277	278	(3.3)	(3.9)
Greater China-South Asia	773	869	803	(11.0)	(3.7)
Japan-Korea	214	225	275	(4.8)	(22.2)
Total	\$1,705	\$1,829	\$1,825	(6.8)%	(6.6)%

(1) Net revenues by location of shipment are classified by location of customer invoiced or reclassified by shipment destination in line with customer demand. For example, products ordered by U.S.-based companies to be invoiced to Greater China-South Asia affiliates are classified as Greater China-South Asia revenues. Furthermore, the comparison among the different periods may be affected by shifts in shipment from one location to another, as requested by our customers.

Both sequentially and year-over-year, all regions experienced revenue decrease. On a year-over-year basis Japan-Korea revenues were lower by approximately 22% mainly driven by the decline of legacy ST-Ericsson products.

Gross profit

	Three Months Ended			Variation	
	March 28, 2015	December 31, 2014	March 29, 2014	Sequential	Year-Over- Year
	(Unaudited, in millions)				
Cost of sales	\$(1,139)	\$(1,210)	\$(1,226)	5.8 %	7.1 %
Gross profit	566	619	599	(8.6)%	(5.5)%
Gross margin (as percentage of net revenues)	33.2 %	33.8 %	32.8 %	-	-

In the first quarter of 2015, gross margin was 33.2%, decreasing sequentially by approximately 60 basis points. Sequential decrease was mainly due to the seasonal price decline, lower manufacturing efficiency and less licensing revenues and was only partially offset by currency benefits, still significantly mitigated by \$33 million loss of the impact of the existing hedging contracts, and lower unused capacity charges. In the first quarter of 2015, unused capacity charges were \$19 million, compared to \$29 million in the previous quarter, impacting the gross margin by about 110 basis points.

On a year-over-year basis, our margin increased by approximately 40 basis points, mainly due to improved manufacturing efficiencies and favorable currency effects, net of hedging, partially offset by the negative impact of lower selling prices and higher unused capacity charges. Unused capacity charges amounted to \$5 million in the year-ago quarter.

Operating expenses

Three Months Ended Variation

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	March 28, 2015	December 31, 2014	March 29, 2014	Sequential	Year-Over-Year
(Unaudited, in millions)					
Selling, general and administrative expenses	\$(222)	\$(235)	\$(228)	5.8 %	2.6 %
Research and development expenses	\$(369)	\$(376)	\$(378)	1.8 %	2.4 %
As percentage of net revenues	(34.6)%	(33.4)%	(33.2)%	-	-

The first quarter of 2015 operating expenses decreased sequentially mainly due to a shorter quarter and the favorable currency effects, net of \$23 million loss on the existing hedging contracts. On a year-over-year basis, our operating expenses decreased mainly due to the favorable currency effects, net of hedging, partially offset by salary increases. As a percentage of revenues, our operating expenses amounted to 34.6%, increasing both sequentially and year-over-year due to lower revenues.

The first quarter 2015 R&D expenses were net of research tax credits, which amounted to \$27 million compared to \$42 million in the prior quarter and \$35 million in the year-ago quarter.

Other income and expenses, net

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014
	(Unaudited, in millions)		
Research and development funding	\$36	\$53	\$21
Phase-out and start-up costs	(1)	(3)	(3)
Exchange loss, net	(3)	-	(1)
Patent costs, net of reversal of unused provisions	-	-	(13)
Gain on sale of businesses and non-current assets	-	-	13
Other, net	3	-	(2)
Other income and expenses, net	\$35	\$50	\$15
As percentage of net revenues	2.1	% 2.8	% 0.8

In the first quarter of 2015, we recognized an income, net of \$35 million, decreasing sequentially mainly due to lower income from R&D funding and higher exchange loss.

On a year-over-year basis the increase is mainly due to higher R&D funding following the Nano2017 R&D program, recognized since the second quarter of 2014 once approved by the European Union.

Impairment, restructuring charges and other related closure costs

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014
	(Unaudited, in millions)		
Impairment, restructuring charges and other related closure costs	\$(29)	\$(20)	\$(12)

In the first quarter of 2015, we recorded \$29 million of impairment, restructuring charges and other related closure costs, primarily consisting of: (i) \$18 million of restructuring charges related to the EPS restructuring plan; (ii) \$11 million of restructuring charges related to the manufacturing consolidation plans. See Note 7 Impairment, Restructuring Charges and Other Related Closure Costs.

In the fourth quarter of 2014, we recorded \$20 million of impairment, restructuring charges and other related closure costs, consisting of: (i) \$17 million of restructuring charges related to the EPS restructuring plan; (ii) \$1 million of restructuring charges related to our \$600 million net opex plan; and (iii) \$2 million of restructuring charges related to the manufacturing consolidation plans.

In the first quarter of 2014, we recorded \$12 million of impairment, restructuring charges and other related closure costs, consisting of: (i) \$10 million of restructuring charges related to our \$600 million net opex plan; and (ii) \$2 million of restructuring charges related to the manufacturing consolidation plans.

Operating income (loss)

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014
	(Unaudited, in millions)		

Operating income (loss)	\$ (19)	\$ 38	\$ (4)
In percentage of net revenues	(1.1)%	2.1 %	(0.2)%

The first quarter of 2015 registered an operating loss of \$19 million compared to an operating income of \$38 million in the prior quarter and an operating loss of \$4 million in the year-ago quarter. Sequentially, the deterioration in our operating results was mainly due to lower revenues, lower other income and higher impairment and restructuring charges, partially offset by lower operating expenses. Compared to the year-ago period, the deterioration in our operating results was mainly due to higher impairment and restructuring charges.

The benefit of today's currency environment is still limited on our profitability due to outstanding hedges. Excluding existing hedging contracts, our operating margin would have increased by over 300 basis points.

Operating income (loss) by product segment

	March 28, 2015		Three Months Ended (unaudited)			December 31, 2014		March 29, 2014	
	\$ million	% of net revenues	\$ million	% of net revenues	\$ million	% of net revenues	\$ million	% of net revenues	
Sense & Power and Automotive Products (SP&A)	\$72	6.4	\$98	8.4	\$101	8.5			
Embedded Processing Solutions (EPS)	(64)	(11.1)	(34)	(5.1)	(82)	(13.1)			
Total operating income (loss) of product segments (2)	8	0.5	64	3.5	19	1.1			
Others(1) (2)	(27)	-	(26)	-	(23)	-			
Total consolidated operating income (loss)	\$(19)	(1.1)%	\$38	2.1%	\$(4)	(0.2)%			

(1) Operating loss of "Others" includes items such as impairment, restructuring charges and other related closure costs, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items and other unallocated expenses such as: strategic or special R&D programs, certain corporate-level operating expenses and other costs that are not allocated to the product segments, as well as operating earnings of the Subsystems and Other Products Group.

(2) The segment operating results of the prior periods have been restated following our internal policy on unallocated costs being amended as of Q1 2015 to allocate unused capacity charges to our product lines instead of allocating it to "Others".

Sequentially, our SP&A segment reported a decrease in its operating income, driven by the impact of lower revenues in IPD and the seasonal price decline. Our EPS segment increased its operating loss, impacted by the lower level of the sale of license and lower product revenues.

On a year-over-year basis, SP&A reported a decrease in its operating income, mainly driven by reduced profitability in AMS, impacted by the decline in product revenues and an unfavorable product mix on top of the non-recurring 2014 first quarter benefit from the sale of license to Invensense. SP&A operating margin is not yet benefiting from favorable currency effects of about 2.9 points, due to hedging. EPS reduced its operating loss mainly due to an improved product mix, positive currency impact, lower expenses and an increased level of R&D grants. EPS is not benefiting yet from favorable currency effects of about 3.8 points, due to hedging.

Reconciliation to consolidated operating income (loss)

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014
	(Unaudited, in millions)		
Total operating income of product segments	\$8	\$64	\$19
Impairment, restructuring charges and other related closure costs	(29)	(20)	(12)
Strategic and other research and development programs	(1)	(2)	(1)
Phase-out and start-up costs	(1)	(3)	(3)

Other non-allocated provisions(1)	4	(1)	(7)	
Total operating loss Others	(27)	(26)	(23)
Total consolidated operating income (loss)	\$(19)	\$38		\$(4)

(1) Includes unallocated income and expenses such as certain corporate-level operating expenses and other costs/income that are not allocated to the product segments.

Interest expense, net

	Three Months Ended					
	March 28, 2015	December 31, 2014	March 29, 2014			
Interest expense, net	\$(5)	\$(6)	\$(2)

(Unaudited, in millions)

In the first quarter of 2015 we recorded a net interest expense of \$5 million, decreasing sequentially but increasing on a year-over-year basis. The majority of this amount is due to the non-cash interest expense of the Senior Convertible Bonds which amounted to \$5 million in the first quarter 2015.

Income (loss) on equity-method investments

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014
	(Unaudited, in millions)		
Income (loss) on equity-method investments	\$4	\$17	\$(8)

In the first quarter of 2015, we recorded an income of \$4 million as result of the sale of our participation in 3Sun to Enel Green Power realized at a more favorable condition than originally expected.

In the fourth quarter of 2014, we recorded a profit of \$17 million mostly related to our share of the profit in ST-Ericsson following the sale of a portion of its patent portfolio.

In the first quarter of 2014, we recorded a charge of \$8 million, of which \$7 million related to our share in ST-Ericsson as a loss pick-up and \$1 million related to 3Sun.

Income tax expense

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014
	(Unaudited, in millions)		
Income tax expense	\$(1)	\$(3)	\$(9)

During the first quarter of 2015, we registered an income tax expense of \$1 million, reflecting the discrete effective tax rate estimated in each of our jurisdictions, applied to the first quarter consolidated result before taxes, as opposed to an estimated effective tax rate due to significant uncertainty in estimating the effective tax rate. In addition, our income tax included the estimated impact of provisions related to potential tax positions which have been considered uncertain.

Net loss (income) attributable to noncontrolling interest

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014
	(Unaudited, in millions)		
Net loss (income) attributable to noncontrolling interest	\$(1)	-	\$(2)

In the first quarter of 2015 and 2014, we recorded respectively \$1 million and \$2 million representing the income attributable to noncontrolling interest mainly related to our joint venture in Shenzhen, China for assembly operating activities.

Net income (loss) attributable to parent company

	Three Months Ended		
	March 28, 2015	December 31, 2014	March 29, 2014

	(Unaudited, in millions)			
Net income (loss) attributable to parent company	\$ (22)	\$ 43	\$ (24)	
As percentage of net revenues	(1.3)%	2.3 %	(1.3)%	

For the first quarter of 2015, we reported a net loss attributable to parent company of \$22 million compared to a \$43 million income in the prior quarter and a \$24 million loss in the year-ago quarter.

Earnings per share for the first quarter of 2015 was \$(0.03) compared to \$0.05 in the prior quarter and \$(0.03) in the year-ago quarter.

In the first quarter of 2015, the impact per share after tax of impairment, restructuring charges and one-time charges, a non U.S. GAAP measure, was estimated to be approximately \$(0.04) per share, compared to approximately \$(0.02) per share in the prior and year-ago quarters.

Legal Proceedings

For a discussion of legal proceedings, see Note 24 Contingencies, Claims and Legal proceedings to our Consolidated Financial Statements.

Impact of Changes in Exchange Rates

Our results of operations and financial condition can be significantly affected by material changes in the exchange rates between the U.S. dollar and other currencies, particularly the Euro.

As a market rule, the reference currency for the semiconductor industry is the U.S. dollar and the market prices of semiconductor products are mainly denominated in U.S. dollars. However, revenues for some of our products (primarily our dedicated products sold in Europe) are quoted in currencies other than the U.S. dollar and as such are directly affected by fluctuations in the value of the U.S. dollar. As a result of currency variations, the appreciation of the Euro compared to the U.S. dollar could increase, in the short-term, our level of revenues when reported in U.S. dollars. Revenues for all other products, which are either quoted in U.S. dollars and billed in U.S. dollars or in local currencies for payment, tend not to be affected significantly by fluctuations in exchange rates, except to the extent that there is a lag between the changes in currency rates and the adjustments in the local currency equivalent of the price paid for such products. Furthermore, certain significant costs incurred by us, such as manufacturing costs, SG&A expenses, and R&D expenses, are largely incurred in the currency of the jurisdictions in which our operations are located. Given that most of our operations are located in the Euro zone and other non-U.S. dollar currency areas, including Singapore, our costs tend to increase when translated into U.S. dollars when the dollar weakens or to decrease when the U.S. dollar strengthens.

In summary, as our reporting currency is the U.S. dollar, exchange rate fluctuations affect our results of operations: in particular, if the U.S. dollar weakens, our results are negatively impacted since we receive only a limited part of our revenues, and more importantly, we incur a significant part of our costs, in currencies other than the U.S. dollar. On the other hand, our results are favorably impacted when the dollar strengthens. The impact on our accounts could therefore be material, in the case of a material variation of the U.S. dollar exchange rate.

Our principal strategy to reduce the risks associated with exchange rate fluctuations has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of materials, purchases and services from our suppliers denominated in U.S. dollars, thereby reducing the potential exchange rate impact of certain variable costs relative to revenues. Moreover, in order to further reduce the exposure to U.S. dollar exchange fluctuations, we have hedged certain line items on our Consolidated Statements of Income, in particular with respect to a portion of the costs of goods sold, most of the R&D expenses and certain SG&A expenses, located in the Euro zone, which we account for as cash flow hedging contracts. We use three different types of hedging contracts, consisting of forward contracts, collars and options.

Our Consolidated Statements of Income for the three months ended March 28, 2015 included income and expense items translated at the average U.S. dollar exchange rate for the period, plus the impact of the hedging contracts expiring during the period. Our effective exchange rate was \$1.23 for €1.00 in the first quarter of 2015 compared to \$1.29 for €1.00 in the fourth quarter of 2014 and \$1.35 for €1.00 in the first quarter of 2014. These effective exchange rates reflect the actual exchange rates combined with the impact of cash flow hedging contracts that matured in the period.

The time horizon of our cash flow hedging for manufacturing costs and operating expenses may run up to 24 months, for a limited percentage of our exposure to the Euro and under certain currency market circumstances. As of March

28, 2015, the outstanding hedged amounts were €1,019 million to cover manufacturing costs and €583 million to cover operating expenses, at an average exchange rate of about \$1.21 for €1.00 and \$1.22 for €1.00 respectively (considering the collars at upper strike), maturing over the period from March 31, 2015 to November 30, 2016. As of March 28, 2015, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory resulted in a deferred loss of approximately \$144 million before tax, recorded in “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Equity, compared to a deferred loss of approximately \$73 million before tax at December 31, 2014.

We also hedge certain manufacturing costs denominated in Singapore dollars (SGD); as of March 28, 2015, the outstanding hedged amounts were SGD 136 million at an average exchange rate of about SGD 1.31 to \$1.00 maturing over the period from April 1, 2015 to March 10, 2016. As of March 28, 2015, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory resulted in a deferred loss of approximately \$4 million before tax, recorded in “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Equity, compared to a deferred loss of approximately \$3 million before tax at December 31, 2014.

Our cash flow hedging policy is not intended to cover our full exposure and is based on hedging a portion of our exposure in the next four quarters and a declining percentage of our exposure in each quarter thereafter. In the first quarter of 2015, as a result of our cash flow hedging, we recorded a net loss of \$56 million, consisting of a loss of about \$17 million to R&D expenses, a loss of about \$6 million to SG&A and a loss of about \$33 million to costs of goods sold, while in the first quarter of 2014, we recorded a net profit of \$12 million.

In addition to our cash flow hedging, in order to mitigate potential exchange rate risks on our commercial transactions, we purchase and enter into forward foreign currency exchange contracts and currency options to cover foreign currency exposure in payables or receivables at our affiliates, which we account for as fair value instruments. We may in the future purchase or sell similar types of instruments. See Item 11. “Quantitative and Qualitative Disclosures About Market Risk” in our Form 20-F, which may be updated from time to time in our public filings. Furthermore, we may not predict in a timely fashion the amount of future transactions in the volatile industry environment. No assurance may be given that our hedging activities will sufficiently protect us against declines in the value of the U.S. dollar. Consequently, our results of operations have been and may continue to be impacted by fluctuations in exchange rates. The net effect of our consolidated foreign exchange exposure resulted in a net loss of \$3 million recorded in “Other income and expenses, net” in our Consolidated Statements of Income for the first quarter of 2015.

The assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. Income and expenses, as well as cash flows, are translated at the average exchange rate for the period. The balance sheet impact, as well as the income statement and cash flow impact, of such translations have been, and may be expected to be, significant from period to period since a large part of our assets and liabilities and activities are accounted for in Euros as they are located in jurisdictions where the Euro is the functional currency. Adjustments resulting from the translation are recorded directly in equity, and are shown as “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Equity. At March 28, 2015, our outstanding indebtedness was denominated mainly in U.S. dollars and in Euros.

For a more detailed discussion, see Item 3. “Key Information — Risk Factors — Risks Related to Our Operations” in our Form 20-F, which may be updated from time to time in our public filings.

Impact of Changes in Interest Rates

Interest rates may fluctuate upon changes in financial market conditions and material changes can affect our results of operations and financial condition, since these changes can impact the total interest income received on our cash and cash equivalents and marketable securities, as well as the total interest expense paid on our financial debt.

Our interest income (expense), net, as reported in our Consolidated Statements of Income, is the balance between interest income received from our cash and cash equivalents and marketable securities investments and interest expense paid on our financial liabilities (including the sale without recourse of receivables), non-cash interest expense on the \$1,000 million dual-tranche offering of convertible bonds issued on July 3, 2014 (“Senior Bonds”) and bank fees (including fees on committed credit lines). Our interest income is dependent upon fluctuations in interest rates, mainly in U.S. dollars and Euros, since we invest primarily on a short-term basis; any increase or decrease in the market interest rates would mean an equivalent increase or decrease in our interest income. Our interest expenses are also

dependent upon fluctuations in interest rates, since our financial liabilities include European Investment Bank Floating Rate Loans at Libor and Euribor plus variable spreads.

At March 28, 2015, our total financial resources, including cash and cash equivalents and marketable securities, generated an average interest income rate of 0.69%. At the same date, the average interest rate on our outstanding debt was 1.86%, while the average rate of the cash interests on our total debt at redemption value was 0.67%.

Impact of Changes in Equity Prices

As of March 28, 2015, we did not hold any significant equity participations, which could be subject to a material impact in changes in equity prices. However, we hold equity participations whose carrying value could be reduced due to further losses or impairment charges of our equity-method investments. See Note 18 to our Consolidated Financial Statements.

Liquidity and Capital Resources

Treasury activities are regulated by our policies, which define procedures, objectives and controls. The policies focus on the management of our financial risk in terms of exposure to currency rates and interest rates. Most treasury activities are centralized, with any local treasury activities subject to oversight from our head treasury office. The majority of our cash and cash equivalents are held in U.S. dollars and Euros and are placed with financial institutions rated at least a single A long-term rating, meaning at least A3 from Moody's Investors Service ("Moody's") and A- from Standard & Poor's ("S&P") or Fitch Ratings ("Fitch"), or better. Marginal amounts are held in other currencies. See Item 11. "Quantitative and Qualitative Disclosures About Market Risk" in our Form 20-F, which may be updated from time to time in our public filings.

Cash flow

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 the first three months of 2015, our net cash decreased by \$68 million, due to the net cash used in financing and investing activities exceeding the net cash from operating activities.

The components of our cash flow for the comparable periods are set forth below:

	Three Months Ended	
	March 29, 2015	March 28, 2014
	(Unaudited, in millions)	
Net cash from operating activities	\$ 149	\$ 53
Net cash used in investing activities	(108)	(39)
Net cash used in financing activities	(102)	(105)
Effect of changes in exchange rates	(7)	(1)
Net cash decrease	\$(68)	\$(92)

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 for the first three months of 2015 was \$149 million, increasing compared to \$53 million in the prior year period. Net cash from operating activities for the first three months of 2015 compared to the year-ago period benefited from an increased net result adjusted for non-cash items, coupled with the more favorable changes in net working capital.

Net cash used in investing activities. Investing activities used \$108 million of cash in the first three months of 2015, due to payments for the purchase of tangible and intangible assets and the payment for disposal of equity investment. The increase in net cash used in investing activities compared to the \$39 million in prior-year period was primarily due to lack of proceeds from the sale of marketable securities and the absence of proceeds from the sale of businesses.

Payments for purchase of tangible assets, net of proceeds, totaled \$89 million compared to \$112 million registered in the prior year period.

Net cash used in financing activities. Net cash used in financing activities was \$102 million for the first three months of 2015, substantially similar compared to the \$105 million used for the first three months of 2014 and consisted of a \$20 million repayment of long-term debt and \$82 million of dividends paid to stockholders.

Free Cash Flow (non U.S. GAAP measure).

We also present Free Cash Flow, which is a non U.S. 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, 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 and proceeds received in the sale of businesses. We believe Free Cash Flow, a non U.S. 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 U.S. GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. Free Cash Flow reconciles with the total cash flow and the net cash increase (decrease) by including the payment for purchases (and proceeds from the sale) of marketable securities and net cash variation from joint ventures deconsolidation, the net cash from (used in) financing activities and the effect of changes in exchange rates. In addition, our definition of Free Cash Flow may differ from definitions used by other companies. Free Cash Flow is determined as follows from our Consolidated Statements of Cash Flows:

	Three Months Ended	
	March 29, 2015	March 28, 2014
	(Unaudited, in millions)	
Net cash from operating activities	\$149	\$53
Net cash used in investing activities	(108)	(39)
Excluding:		
Payment for purchase and proceeds from sale of marketable securities, change in short term deposits, restricted cash, net and net variation for JV deconsolidation	-	(65)
Payment for purchase and proceeds from sale of tangible and intangible assets (1)	(108)	(104)
Free Cash Flow (non U.S. GAAP measure)	\$41	\$(51)

(1) Reflects the total of the following line items reconciled with our Consolidated Statements 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, Proceeds received in sale of businesses.

Free Cash Flow was positive \$41 million for the first three months of 2015, compared to negative \$51 million for the first three months of 2014.

Net Financial Position (non U.S. GAAP measure).

Our Net Financial Position represents the balance between our total financial resources and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities, short-term deposits and restricted cash, and our total financial debt includes bank overdrafts, short-term debt and long-term debt, as represented in our Consolidated Balance Sheets. Net Financial Position is not a U.S. GAAP measure but we believe it provides useful information for investors 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. Our Net Financial Position for each period has been determined as follows from our Consolidated Balance Sheets:

	March 28, 2015	As at December 31, 2014(1)	March 29, 2014
	(Unaudited, in millions)		
Cash and cash equivalents	\$ 1,949	\$ 2,017	\$ 1,744
Marketable securities	338	334	-
Short-term deposits	-	-	1
Total financial resources	2,287	2,351	1,745
Short-term debt	(200)	(202)	(225)
Long-term debt	(1,575)	(1,599)	(908)
Total financial debt	(1,775)	(1,801)	(1,133)
Net Financial Position	\$ 512	\$ 550	\$ 612

(1) The December 31, 2014 net financial position was restated following the early adoption of ASU 2015-03, consisting in a balance sheet reclassification of debt issuance costs (now reported as deduction of issued debt and not as non-current assets).

Our Net Financial Position as of March 28, 2015 was a net cash position of \$512 million, decreasing compared to the net financial position of \$550 million at December 31, 2014, following the dividends payment.

Cash and cash equivalents amounted to \$1,949 million as at March 28, 2015, as a result of our cash flow evolution as presented above.

Financial debt was \$1,775 million as at March 28, 2015, composed of (i) \$200 million of current portion of long-term debt and (ii) \$1,575 million long-term debt. The breakdown of our total financial debt included: (i) \$870 million in European Investment Bank loans (the “EIB Loans”), (ii) \$889 million in the Senior Bonds, (iii) \$15 million in loans from other funding programs, and (iv) \$1 million of capital leases.

The EIB Loans are comprised of four long-term amortizing credit facilities as part of our R&D funding programs. The first for R&D in France was drawn in U.S. dollars from 2006 to 2008 for a total amount of \$341 million, of which \$28 million remained outstanding as of March 28, 2015. The second for R&D projects in Italy, was drawn in U.S. dollars in 2008 for a total amount of \$380 million, of which \$109 million remained outstanding as of March 28, 2015. The third, 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 the equivalent of \$321 million remained outstanding as of March 28, 2015. The fourth, signed in the first quarter of 2013, is a €350 million multicurrency loan which also supports our R&D programs. It was drawn in U.S. dollars for an amount of \$471 million, of which \$412 million is outstanding as of March 28, 2015. At March 28, 2015, the amounts available under our back-up and uncommitted credit facilities were unutilized.

The Senior Bonds were issued on July 3, 2014, for a principal amount of \$1,000 million (Tranche A for \$600 million and Tranche B for \$400 million), due 2019 and 2021, respectively, for net proceeds of approximately \$994 million. Tranche A bonds were issued as zero-coupon bonds while Tranche B bonds bear a 1% per annum nominal interest, payable semi-annually. The conversion price at issuance was approximately \$12 on each tranche. The Senior Bonds are convertible by the bondholders if certain conditions are satisfied on a net-share settlement basis, except if an alternative settlement is elected by us. We can also redeem the Senior Bonds prior to their maturity in certain circumstances. Upon initial recognition, the proceeds were allocated between debt and equity by determining the fair value of the liability component using an income approach. The liability component will accrete to par value until maturity based on the effective interest rate (Tranche A: 2.40% and Tranche B: 3.22%, including 1% p.a. nominal interest). In the computation of diluted EPS, the Senior Bonds will be dilutive only for the portion of net-share settlement underlying the conversion premium when the conversion option is in the money.

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

Our current rating with rating agencies are as follow: Moody’s: “Baa3” with stable outlook; S&P: “BBB” with negative outlook; Fitch (on an unsolicited basis): “BBB-” with stable outlook.

As of March 28, 2015, debt payments at redemption value by period were as follows:

	Total	2015	Payments Due by Period				2019	Thereafter
			2016	2017	2018			
Long-term debt (including current portion)	\$ 1,887	\$ 181	\$ 191	\$ 115	\$ 114	\$ 713	\$ 573	

Financial Outlook: Capital Investment

Our policy is to modulate our capital spending according to the evolution of the semiconductor market. Based on current visibility on demand, we anticipate our capital expenditure to be approximately \$600 million in 2015, to be adjusted based on demand thereafter. The most important of our 2015 capital expenditure projects are expected to be: (a) for our front end facilities: (i) in our 300 mm fab in Crolles, technology evolution and mix evolution to support the production ramp up of new technologies; (ii) mix evolution, and a few selective programs capacity growth, mainly in the area of analog processes; (iii) qualification and ramp-up of technologies in 200 mm in Singapore and Catania Catania; and (iv) quality, safety, maintenance, and productivity and cost savings investments in both 150 mm and 200 mm front end fabs;

(b) for our back end facilities, capital expenditures will mainly be dedicated to: (i) capacity growth on certain package families, to sustain market demand and secure service to strategic customers; (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; and (c) an overall capacity adjustment in final testing and wafers probing (EWS) to meet increased demand and changed product mix.

We will continue to monitor our level of capital spending by taking into consideration factors such as trends in the semiconductor industry and capacity utilization. We expect to need significant financial resources in the coming years for capital expenditures and for our investments in manufacturing and R&D. We plan to fund our capital requirements from cash provided by operating activities, available funds and support from third parties, and may have recourse to borrowings under available credit lines and, to the extent necessary or attractive based on market conditions prevailing at the time, the issuance of debt, convertible bonds or additional equity securities. A substantial deterioration of our economic results, and consequently of our profitability, could generate a deterioration of the cash generated by our operating activities. Therefore, there can be no assurance that, in future periods, we will generate the same level of cash as in prior years to fund our capital expenditure plans for expanding/upgrading our production facilities, our working capital requirements, our R&D and manufacturing costs.

In support of our R&D activities, we signed the Nano2017 program with the French government, which was approved by the European Union in the second quarter of 2014 and, in our role as Coordinator and Project Leader of Nano2017, we have been allocated an overall funding budget of about €400 million for the period 2013-2017, subject to the conclusion of agreements every year with the public authorities and linked to the achievement of technical parameters and objectives. The Nano2017 contract contains certain covenants which, in the event they are not fulfilled, may affect our ability to access such funding.

As a result of our exit from the ST-Ericsson joint venture, our exposure is limited to covering 50% of ST-Ericsson's needs to complete the wind-down, which are estimated to be negligible, based on our current visibility of the ST-Ericsson liquidation balance.

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.

Contractual Obligations, Commercial Commitments and Contingencies

Our contractual obligations, commercial commitments and contingencies are mainly comprised of: operating leases for land, buildings, plants and equipment; purchase commitments for equipment, outsourced foundry wafers and for software licenses; long-term debt obligations; pension obligations and other long-term liabilities.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at March 28, 2015.

Impact of Recently Issued U.S. Accounting Standards

See Note 5 Recent Accounting Announcements to our Consolidated Financial Statements.

Backlog and Customers

During the first quarter of 2015, our booking plus net frames orders decreased compared to the fourth quarter of 2014, mainly impacted by the first quarter's shorter calendar. We entered the second quarter 2015 with a backlog slightly higher than the level we had when entering in the first quarter 2015. Backlog (including frame orders) is subject to possible cancellation, push back and lower ratio of frame orders being translated into firm orders and, thus, it is not necessarily indicative of the amount of billings or growth to be registered in subsequent periods.

In the first three months of 2015, no customer accounted for more than 10% of our total net revenues. There is no guarantee that any customer will continue to generate revenues for us at the same levels as in prior periods. If we were to lose one or more of our key customers, or if they were to significantly reduce their bookings, not confirm planned delivery dates on frame orders in a significant manner or fail to meet their payment obligations, our operating results and financial condition could be adversely affected.

Disclosure Controls and Procedures

Evaluation

Our management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (“Disclosure Controls”) as of the end of the period covered by this report. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this periodic report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis.

The evaluation of our Disclosure Controls included a review of the controls’ objectives and design, our implementation of the controls and their effect on the information generated for use in this periodic report. In the course of the controls evaluation, we reviewed identified data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed at least on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 6-K and Form 20-F. The components of our Disclosure Controls are also evaluated on an ongoing basis by our Internal Audit Department, which reports directly to our Audit Committee. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this periodic report, our Disclosure Controls were effective.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

No system of internal control over financial reporting, including one determined to be effective, may prevent or detect all misstatements. It can provide only reasonable assurance regarding financial statement preparation and presentation. Also, projections of the results of any evaluation of the effectiveness of internal control over financial reporting into future periods are subject to inherent risk that the relevant controls may become inadequate due to changes in circumstances or that the degree of compliance with the underlying policies or procedures may deteriorate.

Other Reviews

We have sent this report to our Audit Committee, which had an opportunity to raise questions with our management and independent auditors before we submitted it to the Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements

Some of the statements contained in this Form 6-K that are not historical facts, particularly in “Business Overview” and in “Liquidity and Capital Resources—Financial Outlook: Capital Investment”, are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended) that are based on management’s current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those anticipated by such statements due to, among other factors:

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

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward-looking terminology, such as “believes”, “expects”, “may”, “are expected to”, “should”, “would be”, “seeks” or “anticipates” or similar expressions or the negative thereof or variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Some of these risk factors are set forth and are discussed in more detail in “Item 3. Key Information — Risk Factors” in our Form 20-F. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in our Form 20-F as anticipated, believed or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this Form 6-K to reflect subsequent events or circumstances.

Unfavorable changes in the above or other factors listed under “Item 3. Key Information — Risk Factors” from time to time in our SEC filings, could have a material adverse effect on our business and/or financial condition.

STMICROELECTRONICS N.V.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Comprehensive Income for Three Months Ended March 28, 2015 and March 29, 2014 (unaudited)	F-2
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STMicroelectronics N.V.
CONSOLIDATED STATEMENTS OF INCOME

In million of U.S. dollars except per share amounts	Three months ended (Unaudited)	
	March 28, 2015	March 29, 2014
Net sales	1,693	1,801
Other revenues	12	24
Net revenues	1,705	1,825
Cost of sales	(1,139)	(1,226)
Gross profit	566	599
Selling, general and administrative	(222)	(228)
Research and development	(369)	(378)
Other income and expenses, net	35	15
Impairment, restructuring charges and other related closure costs	(29)	(12)
Operating loss	(19)	(4)
Interest expense, net	(5)	(2)
Income (loss) on equity-method investments	4	(8)
Gain on financial instruments, net	-	1
Loss before income taxes and noncontrolling interest	(20)	(13)
Income tax expense	(1)	(9)
Net loss	(21)	(22)
Net loss (income) attributable to noncontrolling interest	(1)	(2)
Net loss attributable to parent company	(22)	