SUMMIT FINANCIAL GROUP INC
Form 4
March 10, 2014

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Hott Jeffrey E.

(Last) (First) (Middle)

3293 PETERSBURG PIKE

(Street)

FRANKLIN, WV 26807

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SUMMIT FINANCIAL GROUP INC [SMMF]

3. Date of Earliest Transaction (Month/Day/Year)
03/06/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/06/2014		S		5,329	D	$ 10.5	6,950	D	
Common Stock								89,960	I	By EE Hott, Inc.
Common Stock								480	I	By Spouse
Common Stock								21,100	I	By Franklin Oil
Common Stock								400	I	As Cust for Son

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amou Underlying Secur (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Am Nu Sha
8% Non-Cumulative Convertible Preferred Stock, Series 2009	$ 5.5							03/01/2010 (1)	06/01/2019	Common Stock	9,0
8% Non-Cumulative Convertible Preferred Stock, Series 2009	$ 5.5							03/01/2010 (1)	06/01/2019	Common Stock	9,0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Hott Jeffrey E. 3293 PETERSBURG PIKE FRANKLIN, WV 26807	X			

Signatures

Teresa D. Ely, Lmtd POA, Attorney-in-Fact	03/10/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The 2009 Series Preferred Stock may be converted at the holder's option on any dividend payment date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Proceeds from matured short-term deposits
250
Restricted cash
(32)
Disposal of financial instrument
26
Investment in intangible and financial assets
(138) (91) (208)
Proceeds received in business combinations
1,155
Payment for business acquisitions, net of cash and cash equivalents acquired
(18) (1,694)
Net cash from (used in) investing activities
290 (2,417) (1,737)
Cash flows from financing activities:

Proceeds from long-term debt
1 663 102
Buyback of convertible debt
(103)
Repayment of long-term debt
(134) (187) (125)
Increase (decrease) in short-term facilities
(20) 20
Capital increase
2
Repurchase of common stock
(313)
Dividends paid to shareholders
(158) (240) (269)
Dividends paid to noncontrolling interests
(5) (10) (6)
Purchase of equity from noncontrolling interests
(92)
Other financing activities
(2)
Net cash used in financing activities
(513) (67) (296)
Effect of changes in exchange rates
(14) (84) 41
Net cash increase (decrease)
579 (846) 196
Cash and cash equivalents at beginning of the period

1,009 1,855 1,659

Cash and cash equivalents at end of the period

1,588 1,009 1,855

Supplemental cash information:

Interest paid

34 63 52

Income tax paid (refund)

(141) 154 133

The accompanying notes are an integral part of these audited consolidated financial statements

Table of Contents

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
In millions of U.S. dollars, except per share amounts

	Common Stock	Capital Surplus	Treasury Stock	Accumulated Result	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of December 31, 2006	**1,156**	**2,021**	**(332)**	**6,086**	**816**	**52**	**9,799**
Cumulative effect of FIN 48 adoption				**(8)**			**(8)**
Capital increase		**2**					**2**
Stock-based compensation expense		**74**	**58**	**(58)**			**74**
Comprehensive income (loss):							
Net income (loss)				**(477)**		**6**	**(471)**
Other comprehensive income, net of tax					**504**	**1**	**505**
Comprehensive income							**34**
Dividends, $0.30 per share				**(269)**		**(6)**	**(275)**
Balance as of December 31, 2007	**1,156**	**2,097**	**(274)**	**5,274**	**1,320**	**53**	**9,626**
Repurchase of common stock			**(313)**				**(313)**
Issuance of shares by subsidiary		**152**				**246**	**398**
Stock-based compensation expense		**75**	**105**	**(105)**			**75**
Comprehensive income (loss):							
Net income (loss)				**(786)**		**6**	**(780)**
Other comprehensive loss, net of tax					**(226)**	**(19)**	**(245)**
Comprehensive loss							**(1,025)**
Dividends, $0.36 per share				**(319)**		**(10)**	**(329)**
Balance as of December 31, 2008	**1,156**	**2,324**	**(482)**	**4,064**	**1,094**	**276**	**8,432**
Purchase of equity from noncontrolling interest		**119**				**(211)**	**(92)**

Business combination						**1,411**	**1,411**
Stock-based compensation expense		**38**	**105**	**(105)**			**38**
Comprehensive income (loss):							
Net loss				**(1,131)**		**(270)**	**(1,401)**
Other comprehensive income, net of tax					**70**	**15**	**85**
Comprehensive loss							**(1,316)**
Dividends, $0.12 per share				**(105)**		**(5)**	**(110)**
Balance as of December 31, 2009	**1,156**	**2,481**	**(377)**	**2,723**	**1,164**	**1,216**	**8,363**

The accompanying notes are an integral part of these audited consolidated financial statements

F-7

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

1. THE COMPANY

STMicroelectronics N.V. (the Company) is registered in The Netherlands with its corporate legal seat in Amsterdam, the Netherlands, and its corporate headquarters located in Geneva, Switzerland.

The Company is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits (ICs) and discrete devices. The Company offers a diversified product portfolio and develops products for a wide range of market applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Within its diversified portfolio, the Company is focused on developing products that leverage its technological strengths in creating customized, system-level solutions with high-growth digital and mixed-signal content.

2. ACCOUNTING POLICIES

The accounting policies of the Company conform to generally accepted accounting principles in the United States of America (U.S. GAAP). All balances and values in the current and prior periods are in millions of dollars, except share and per-share amounts. Under Article 35 of the Company s Articles of Association, the financial year extends from January 1 to December 31, which is the period-end of each fiscal year.

2.1 Principles of consolidation

The consolidated financial statements of the Company have been prepared in conformity with U.S. GAAP. The Company s consolidated financial statements include the assets, liabilities, results of operations and cash flows of its majority-owned subsidiaries. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Intercompany balances and transactions have been eliminated in consolidation. In compliance with U.S. GAAP guidance, the Company assesses for consolidation any entity identified as a Variable Interest Entity (VIE) and consolidates any VIEs, for which the Company is determined to be the primary beneficiary, as described in Note 2.19.

When the Company owns some, but not all, of the voting stock of an entity, the shares held by third parties represent a noncontrolling interest. The consolidated financial statements are prepared based on the total amount of assets and liabilities and income and expenses of the consolidated subsidiaries. However, the portion of these items that does not belong to the Company is reported on the line Noncontrolling interest in the consolidated financial statements.

2.2 Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions. The primary areas that require significant estimates and judgments by management include, but are not limited to:

- sales returns and allowances,
- determination of best estimate of selling price for deliverables in multiple element sale arrangements,
- inventory reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory,

accruals for litigation and claims,

valuation at fair value of acquired assets including intangibles and assumed liabilities in a business combination, goodwill, investments and tangible assets as well as the impairment of their related carrying values,

the assessment in each reporting period of events, which could trigger interim impairment testing,

estimated value of the consideration to be received and used as fair value for asset groups classified as assets to be disposed of by sale and the assessment of probability to realize the sale,

measurement of the fair value of debt and equity securities classified as available-for-sale, including debt securities, for which no observable market price is obtainable,

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

the assessment of credit losses and other-than-temporary impairment charges on financial assets,

the valuation of noncontrolling interests, particularly in case of contribution in kind as part of a business combination,

restructuring charges,

assumptions used in calculating pension obligations,

assumptions used to measure and recognize a liability for the fair value of the obligation the Company assumes at the inception of a guarantee,

deferred income tax assets including required valuation allowances and liabilities as well as provisions for specifically identified income tax exposures and income tax uncertainties.

The Company bases the estimates and assumptions on historical experience and on various other factors such as market trends and latest available business plans that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. While the Company regularly evaluates its estimates and assumptions, the actual results experienced by the Company could differ materially and adversely from management s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations, cash flows and financial position could be significantly affected.

2.3 Foreign currency

The U.S. dollar is the reporting currency for the Company. The US dollar is the currency of the primary economic environment in which the Company operates since the worldwide semiconductor industry uses the U.S. dollar as a currency of reference for actual pricing in the market. Furthermore, the majority of the Company s transactions are denominated in U.S. dollars, and revenues from external sales in U.S. dollars largely exceed revenues in any other currency. However, labor costs are concentrated primarily in the countries of the Euro zone.

The functional currency of each subsidiary of the Company is either the local currency or the US dollar, depending on the basis of the economic environment in which each subsidiary operates. For consolidation purposes, assets and liabilities of these subsidiaries having the local currency as functional currency are translated at current rates of exchange at the balance sheet date. Income and expense items are translated at the monthly average exchange rate of the period. The currency translation adjustments (CTA) generated by the conversion of the financial position and results of operations from local functional currencies are reported as a component of Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity.

Assets, liabilities, revenues, expenses, gains or losses arising from transactions denominated in foreign currency are recorded in the functional currency of the recording entity at the exchange rate in effect during the month of the transaction. At each balance sheet date, recorded balances denominated in a currency other than the recording entity s functional currency are measured into the functional currency at the exchange rate prevailing at the balance sheet date. The related exchange gains and losses are recorded in the consolidated statements of income as Other income and expenses, net .

2.4 Financial assets

The Company classifies its financial assets in the following categories: held-for-trading and available-for-sale. The Company did not hold at December 31, 2009 any investment classified as held-to-maturity financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition and reassesses the appropriateness of the classification at each reporting date. On January 1, 2008 upon adoption of the new U.S. GAAP guidance allowing the election of fair value treatment for any or all financial assets, the Company did not elect to apply the fair value option to any financial assets. Unlisted equity securities with no readily determinable fair value are carried at cost, as described in Note 2.19. They are neither classified as held-for-trading nor as available-for-sale.

Regular purchases and sales of financial assets are recognized on the trade date the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value, and transaction costs are expensed in the consolidated statements of income. Available-for-sale financial assets and held-for-trading financial assets are subsequently carried at fair value. Financial assets are derecognized when the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership: the relevant gain (loss) is reported as a non-operating element on the consolidated statements of income.

The fair values of quoted debt and equity securities are based on current market prices. If the market for a financial asset is not active and if no observable market price is obtainable, the Company measures fair value by using assumptions and estimates. These assumptions and estimates include the use of recent arm s length transactions; for debt securities without available observable market price, the Company establishes fair value by reference to publicly available indices of securities with the same rating and comparable underlying collaterals or industries exposure, which the Company believes approximates the orderly exit value in the current market. In measuring fair value, the Company makes maximum use of market inputs and relies as little as possible on entity-specific inputs.

Held-for-trading financial assets

A financial asset is classified in this category if it is a security acquired principally for the purpose of selling in the short term or if it is a derivative instrument not designated as a hedge. Assets in this category are classified as current assets when they are expected to be realized within twelve months of the balance sheet date. As described in Note 2.5, the Company enters into derivative transactions to hedge currency exposures resulting from its operating activities. For mark-to-market gains or losses on its trading derivatives that do not qualify as hedging instruments, gains and losses arising from changes in the fair value of the derivatives are reported in the consolidated statements of income within Other income and expenses, net in the period in which they arise, since the transactions for such instruments would only occur within the Company s operating activities and, as such, should be included in operating income. Gains and losses arising from changes in the fair value of financial assets not related to the operating activities of the Company, such as discontinued fair value hedge on interest rate risk exposure or discontinued cash flow hedge for which the hedged forecasted transaction is not probable of occurrence anymore, are presented in the consolidated statements of income as a non-operating element within Gain (loss) on financial assets in the period in which they arise.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as held-for-trading. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Changes in the fair value, including declines determined to be temporary, of securities classified as available-for-sale are recognized as a separate component of Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity. The Company ceases to defer gains or losses in the consolidated equity and reports an income or impairment charge in the consolidated statements of income as a non-operating element when the Company will be required to sell the security. The cumulative loss or gain is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. If a credit loss exists, but the Company does not intend to sell the impaired security and is not more likely than not to be required to sell before recovery, the impairment is other than temporary and is separated into the estimated amount relating to credit loss, and the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings on the line Other-than-temporary impairment charge and realized losses on financial assets , with the remainder of the loss amount recognized in accumulated other comprehensive income (loss). Impairment losses recognized in the consolidated statements of income are not reversed through earnings. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets classified as available-for-sale is impaired.

When securities classified as available for sale are sold, the accumulated fair value adjustments previously recognized in equity are reported as a non-operating element on the consolidated statements of income as gains or losses on financial assets. The cost of securities sold and the amount reclassified out of accumulated other comprehensive income into earnings is determined based on the specific identification of the securities sold.

2.5 Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the gain or loss resulting from the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

derivative instrument depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

(a) hedges of the fair value of recognized liabilities (fair value hedge); or

(b) hedges of a particular risk associated with a highly probable forecasted transaction (cash flow hedge)

The Company documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivative instruments that are not designated as hedges are classified as held-for-trading financial assets, as described in Note 2.4.

Derivative financial instruments classified as held for trading

The Company conducts its business on a global basis in various major international currencies. As a result, the Company is exposed to adverse movements in foreign currency exchange rates. The Company enters into foreign currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at the Company s subsidiaries. These instruments do not qualify as hedging instruments as per U.S. GAAP guidance, and are marked-to-market at each period-end with the associated changes in fair value recognized in Other income and expenses, net in the consolidated statements of income, as described in Note 2.4.

Cash Flow Hedges

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Company also hedges certain Euro-denominated forecasted transactions that cover a large part of its projected research and development, selling, general and administrative expenses as well as a portion of its projected front-end manufacturing production costs of semi-finished goods. The foreign currency forward contracts and currency options used to hedge foreign currency exposures are reflected at their fair value in the consolidated balance sheet and meet the criteria for designation as cash flow hedge. The criteria for designating a derivative as a hedge include the instrument s effectiveness in risk reduction and, in most cases, a one-to-one matching of the derivative instrument to its underlying transaction, which enables the Company to conclude, based on the fact that, at inception, the critical terms of the hedging instrument and the hedged forecasted transaction are the same, that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. Foreign currency forward contracts and currency options used as hedges are effective at reducing the Euro/U.S. dollar currency fluctuation risk and are designated as a hedge at the inception of the contract and on an on-going basis over the duration of the hedge relationship.

For derivative instruments designated as cash flow hedge, the gain or loss from the effective portion of the hedge is reported as a component of Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity and is reclassified into earnings in the same period in which the hedged transaction affects earnings, and within the same consolidated statements of income line item as the impact of the hedged transaction. For these derivatives, ineffectiveness appears if the hedge relationship is not perfectly effective or if the cumulative gain or loss on the derivative hedging instrument exceeds the cumulative change in the expected future cash flows on the hedged transactions. Effectiveness on transactions hedged through purchased currency options is measured on the full fair value of the option, including the time value of the option.

When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity is immediately transferred to the consolidated statements of income within Other income and expenses, net . If the de-designated derivative is still related to operating activities, the changes in fair value subsequent to the discontinuance continue to be reported within Other income and expenses, net in the consolidated statements of income, as described in Note 2.4. If upon de-designation, the derivative instrument is held in view to be sold with no direct relation with current operating activities, changes in the fair value of the derivative instrument following de-designation are reported as a non-operating element on the line Gain (loss) on financial assets in the consolidated statements of income. When a designated hedging instrument is either terminated early or an improbable or ineffective portion of the hedge is identified, the gain or loss deferred in Accumulated other comprehensive income

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

(loss) in the consolidated statements of changes in equity is recognized immediately in Other income and expenses, net in the consolidated statements of income when it is probable that the forecasted transaction will not occur by the end of the originally specified time period.

In order to optimize its hedging strategy, the Company can be required to cease the designation of certain cash flow hedge transactions and enter into a new designated cash flow hedge transaction with the same hedged forecasted transaction but with a new hedging instrument. De-designation and re-designation are formally authorized and limited to the de-designation of purchased currency options with re-designation of the cash flow hedge through subsequent forward contract when the Euro/US dollar exchange rate is decreasing, the intrinsic value of the option is nil, the hedged transaction is still probable of occurrence and meets at re-designation date all criteria for hedge accounting. At de-designation date, the net derivative gain or loss related to the de-designated cash flow hedge deferred in Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity continues to be reported in net equity. From de-designation date, the change in fair value of the de-designated hedging item is recognized each period in the consolidated statements of income on the line Other income and expenses, net , as described in Note 2.4. The net derivative gain or loss related to the de-designated cash flow hedge deferred in net equity since de-designation date is reclassified to earnings in the same period in which the hedged transaction affects earnings, and within the same consolidated statements of income line item as the impact of the hedged transaction.

The principles regulating the hedging strategy for derivatives designated as cash flow hedge are established as follows: (i) for R&D and Corporate costs between 50% and 80% of the total forecasted transactions; (ii) for manufacturing costs between 40% and 70% of the total forecasted transactions. The maximum length of time over which the Company hedges its exposure to the variability of cash flows for forecasted transactions is 14 months.

Fair Value Hedges

To the extent that cancellable swaps held as a hedge against the Company s convertible bonds meet the criteria for designation as a fair value hedge, both the interest rate swaps and the hedged portion of the bonds are reflected at their fair values in the consolidated balance sheets. The criteria for designating a derivative as a hedge include evaluating whether the instrument is highly effective at offsetting changes in the fair value of the hedged item attributable to the hedged risk. Hedged effectiveness is assessed on both a prospective and retrospective basis at each reporting period. Any ineffectiveness of the hedge relationship is recorded as a gain or loss on derivatives as a component of Other income and expenses, net , in the consolidated statements of income. At the point that the cancellable swaps no longer meet the criteria for designation as a fair value hedge, the swaps will continue to be marked to fair value. At such point, the changes in the fair value of the swaps are recorded in Gain (loss) on financial assets . Also, the associated bonds will no longer be marked to fair value and the difference between fair value and amortized costs will be amortized to earnings as a component of interest expense. Results on the sale of the swaps are recognized in the line Gain (loss) on financial assets in the consolidated statements of income, as discussed in Note 25.

2.6 Revenue Recognition

Revenue is recognized as follows:

Net sales

Revenue from products sold to customers is recognized when all the following conditions have been met: (a) persuasive evidence of an arrangement exists; (b) delivery has occurred; (c) the selling price is fixed or determinable; and (d) collection is reasonably assured. This usually occurs at the time of shipment.

Consistent with standard business practice in the semiconductor industry, price protection is granted to distribution customers on their existing inventory of the Company s products to compensate them for declines in market prices. The ultimate decision to authorize a distributor refund remains fully within the control of the Company. The Company accrues a provision for price protection based on a rolling historical price trend computed on a monthly basis as a percentage of gross distributor sales. This historical price trend represents differences in recent months between the invoiced price and the final price to the distributor, adjusted if required, to accommodate a significant move in the current market price. The short outstanding inventory time period, visibility into the standard inventory product pricing (as opposed to certain customized products) and long distributor pricing history

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

have enabled the Company to reliably estimate price protection provisions at period-end. The Company records the accrued amounts as a deduction of revenue at the time of the sale.

The Company s customers occasionally return the Company s products for technical reasons. The Company s standard terms and conditions of sale provide that if the Company determines that products are non-conforming, the Company will repair or replace the non-conforming products, or issue a credit or rebate of the purchase price. Quality returns are not related to any technological obsolescence issues and are identified shortly after sale in customer quality control testing. Quality returns are usually associated with end-user customers, not with distribution channels. The Company provides for such returns when they are considered as probable and can be reasonably estimated. The Company records the accrued amounts as a reduction of revenue.

The Company s insurance policy relating to product liability only covers physical damage and other direct damages caused by defective products. The Company does not carry insurance against immaterial non consequential damages. The Company records a provision for warranty costs as a charge against cost of sales, based on historical trends of warranty costs incurred as a percentage of sales, which management has determined to be a reasonable estimate of the probable losses to be incurred for warranty claims in a period. Any potential warranty claims are subject to the Company s determination that the Company is at fault for damages, and such claims usually must be submitted within a short period following the date of sale. This warranty is given in lieu of all other warranties, conditions or terms expressed or implied by statute or common law. The Company s contractual terms and conditions limit its liability to the sales value of the products which gave rise to the claims.

While the majority of the Company s sales agreements contain standard terms and conditions, the Company may, from time to time, enter into agreements that contain multiple elements or non-standard terms and conditions, which require revenue recognition judgments. Where multiple elements exist in an arrangement, the arrangement is allocated to the different elements based upon verifiable objective evidence of the fair value of the elements for periods 2008 and prior, while allocation is based on verifiable objective evidence, third party evidence or management s best estimate of selling price of the separable deliverables beginning in 2009. In 2009, the Company early adopted new US GAAP guidance for multiple deliverable arrangements. This new guidance removes the previous requirements of allocating revenue to delivered elements only to the extent that there was verifiable objective evidence of the fair value of all undelivered elements, and now requires the use of relative fair values based on either vendor specific objective evidence or third party evidence of fair values. If neither of these is available, the guidance requires the use of management s best estimate of selling price for each separable deliverable. The early adoption of this new guidance was retroactively adopted back to January 1, 2009; however, it did not have a material effect on the consolidated statements of income of the Company for the year ended December 31, 2009. These arrangements generally do not include performance-, cancellation-, termination- or refund-type provisions.

Other revenues

Other revenues consist of license revenue, service revenue related to transferring licenses, patent royalty income, and sale of scrap and manufacturing by-products.

Funding

Funding received by the Company is mainly from governmental agencies and income is recorded as recognized when all contractually required conditions are fulfilled. The Company s primary sources for government funding are French, Italian, other European Union (EU) governmental entities and Singapore agencies. Such funding is generally provided to encourage research and development activities, industrialization and local economic development. The EU has developed model contracts for research and development fundings that require beneficiaries to disclose the results to third parties on reasonable terms. The conditions for receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with European Commission regulations, as well as specifications regarding objectives and results. Certain specific contracts contain obligations to maintain a minimum level of employment and investment during a certain period of time. 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. In accordance with SAB 104 and the Company s revenue recognition policy, funding related to these contracts is recorded when the conditions required by the contracts are met. The Company s funding programs are classified under three general categories: funding for research and development activities, capital investment, and loans.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Funding for research and development activities is the most common form of funding that the Company receives. Public funding for research and development is recorded as Other income and expenses, net in the Company s consolidated statements of income. Public funding for research and development is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions are met. Furthermore, following the enactment of the French Finance Act for 2008, which included several changes to the research tax credit regime (Crédit Impôt Recherche), French research tax credits that in prior years were recorded as a reduction of tax expense were deemed to be grants in substance. Unlike other research and development funding, the amounts to be received are determinable in advance and accruable as the funded research expenditures are made. They were thus reported, starting from January 1, 2008, as a reduction of research and development expenses. The 2008 French research tax credits were classified as long term receivables in the consolidated balance sheet as at December 31, 2008. The 2009 French research tax credits were classified as current receivables in the consolidated balance sheet as at December 31, 2009. The research tax credits are to be reimbursed in cash by the French tax authorities within three years in case they are not deducted from income tax payable during this period of time. The Company considers such cash settlement features of the French research tax credits as long-term receivables.

Capital investment funding is recorded as a reduction of Property, plant and equipment, net and is recognized in the Company s consolidated statements of income according to the depreciation charges of the funded assets during their useful lives. The Company also receives capital funding in Italy, which is recovered through the reduction of various governmental liabilities, including income taxes, value-added tax and employee-related social charges. The funding has been classified as long-term receivable and is reflected in the balance sheet at its discounted net present value. The subsequent accretion of the discount is recorded as non-operating income in Interest income (expense), net .

The Company receives certain loans, mainly related to large capital investment projects, at preferential interest rates. The Company records these loans as debt in its consolidated balance sheet.

2.7 Advertising costs

Advertising costs are expensed as incurred and are recorded as selling, general and administrative expenses. Advertising expenses for 2009, 2008 and 2007 were $9 million, $10 million and $12 million respectively.

2.8 Research and development

Research and development expenses include costs incurred by the Company, the Company s share of costs incurred by other research and development interest groups, and costs associated with co-development contracts. Research and development expenses do not include marketing design center costs, which are accounted for as selling expenses and process engineering, pre-production or process transfer costs which are recorded as cost of sales. Research and development costs are charged to expense as incurred. The amortization expense recognized on technologies and licenses purchased by the Company from third parties to facilitate the Company s research is recorded as research and development expenses. Research and development expenses also include charges originated from purchase accounting, such as in-process research and development recognized on business combinations concluded before January 1, 2009 and amortization of acquired intangible assets. Finally, starting January 1, 2008 the research and development expenses are reported net of research tax credits received in the French jurisdiction, as described in Note 2.6.

2.9 Start-up and phase-out costs

Start-up costs represent costs incurred in the start-up and testing of the Company s new manufacturing facilities, before reaching the earlier of a minimum level of production or 6-months after the fabrication line s quality qualification. Start-up costs are included in Other income and expenses, net in the consolidated statements of income. Similarly, phase-out costs for facilities during the closing stage are also included in Other income and expenses, net in the consolidated statements of income. The costs of phase-outs are associated with the latest stages of facilities closure when the relevant production volumes become immaterial.

2.10 Income taxes

The provision for current taxes represents the income taxes expected to be paid or the benefit expected to be received related to the current year income or loss in each individual tax jurisdiction. Deferred tax assets and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

liabilities are recorded for all temporary differences arising between the tax and book bases of assets and liabilities and for the benefits of tax credits and operating loss carry-forwards. Deferred income tax is determined using tax rates and laws that are enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The effect on deferred tax assets and liabilities from changes in tax law is recognized in the period of enactment. Deferred income tax assets are recognized in full, but the Company assesses whether it is probable that future taxable profit will be available against which temporary differences can be utilized. A valuation allowance is provided where necessary to reduce deferred tax assets to the amount for which management considers the possibility of recovery to be more likely than not. The Company utilizes the flow-through method to account for its investment credits, reflecting the credits as a reduction of tax expense in the year they are recognized. Similarly, research and development tax credits are classified as a reduction of tax expense in the year they are recognized. As described in Note 2.6, French research tax credits are recorded as grants starting from January 1, 2008 and reported as a reduction of research and development expenses. French research tax credits prior to January 1, 2008 were recorded as a reduction of tax expense and were reported as deferred tax assets as at December 31, 2008. No French research tax credits were reported as deferred tax assets as at December 31, 2009.

Deferred taxes on the undistributed earnings of the Company s foreign subsidiaries are provided for unless the Company intends to indefinitely reinvest the earnings in the subsidiaries. Additionally, a distribution of the related earnings would not have any material tax impact. Thus, the Company did not provide for deferred taxes on the earnings of those subsidiaries.

A deferred tax is recognized on compensation for the grant of stock awards to the extent that such charge constitutes a temporary difference in the Company s local tax jurisdictions. The measurement of the deferred tax asset is based on an estimate of the future tax deduction, for the amount of the compensation cost recognized for book purposes. Changes in the stock price do not thus impact the deferred tax asset or do not result in any adjustments prior to vesting. When the actual tax deduction is determined, generally upon vesting, it is compared to the estimated tax benefit as recognized over the vesting period. When a windfall tax benefit is determined (as the excess tax benefit of the actual tax deduction over the deferred tax asset) the excess tax benefit is recorded in equity on the line Capital surplus on the consolidated statements of changes in equity. In case of shortfall, only the actual tax benefit is to be recognized in the consolidated statements of income. The Company writes off the deferred tax asset at the level of the actual tax deduction by charging first capital surplus to the extent of the pool of windfall benefits from prior years and then earnings. When the settlement of an award results in a net operating loss (NOL) carryforward, or increase existing NOLs, the excess tax benefit and the corresponding credit to capital surplus is not recorded until the deduction reduces income tax payable.

At each reporting date, the Company assesses all material open income tax positions in all tax jurisdictions to determine any uncertain tax positions. The Company uses a two-step process for the evaluation of uncertain tax positions. The recognition threshold in step one permits the benefit from an uncertain tax position to be recognized only if it is more likely than not, or 50 percent assured, that the tax position will be sustained upon examination by the taxing authorities. The measurement methodology in step two is based on a cumulative probability approach, resulting in the recognition of the largest amount that is greater than 50 percent likely of being realized upon settlement with the taxing authority. The Company classifies accrued interest and penalties related to uncertain tax positions as components of income tax expense in its consolidated statements of income. Uncertain tax positions, unrecognized tax benefits and related accrued interest and penalties are further described in Note 21.

2.11 Earnings per share (EPS)

Basic earnings per share are computed by dividing net income (loss) attributable to parent company shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the treasury stock method by dividing net income (adding-back interest expense, net of tax effects, related to convertible debt if determined to be dilutive) by the weighted average number of common shares and common share equivalents outstanding during the period. The weighted average number of shares used to compute diluted earnings per share include the incremental shares of common stock relating to stock-options granted, nonvested shares and convertible debt to the extent such incremental shares are dilutive. Nonvested shares with performance or market conditions are included in the computation of diluted earnings per share if their conditions have been satisfied at the balance sheet date and if the awards are dilutive. If all necessary conditions have not been satisfied by the end of the period, the number of nonvested shares included in the computation of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

diluted EPS shall be based on the number of shares, if any that would be issuable if the end of the reporting period were the end of the contingency period and if the result were dilutive.

2.12 Cash and cash equivalents

Cash and cash equivalents represent cash on hand and deposits with external financial institutions with an original maturity of ninety days or less that are readily convertible in cash. Bank overdrafts are not netted against cash and cash equivalents and are shown as part of current liabilities on the consolidated balance sheets.

2.13 Restricted cash

Restricted cash includes collateral deposits used as security under arrangements for financing of certain entities.

2.14 Trade accounts receivable

Trade accounts receivable are recognized at their sales value, net of allowances for doubtful accounts. The Company maintains an allowance for doubtful accounts for potential estimated losses resulting from its customers inability to make required payments. The Company bases its estimates on historical collection trends and records a provision accordingly. In addition, the Company is required to evaluate its customers financial condition periodically and records an additional provision for any specific account the Company estimates as doubtful. The carrying amount of the receivable is thus reduced through the use of an allowance account, and the amount of the loss is recognized on the line Selling, general and administrative in the consolidated statements of income. When a trade accounts receivable is uncollectible, it is written-off against the allowance account for trade accounts receivables. Subsequent recoveries, if any, of amounts previously written-off are credited against Selling, general and administrative in the consolidated statements of income.

In the events of sale of receivables and factoring, the Company derecognizes the receivables and accounts for them as a sale only to the extent that the Company has surrendered control over the receivables in exchange for a consideration other than beneficial interest in the transferred receivables.

2.15 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is based on the weighted average cost by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on the Company s manufacturing performance. In the case of underutilization of manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and cost of completion.

The Company performs on a continuous basis inventory write-off of products, which have the characteristics of slow-moving, old production date and technical obsolescence. Additionally, the Company evaluates its product inventory to identify obsolete or slow-selling stock and records a specific provision if the Company estimates the inventory will eventually become obsolete. Provisions for obsolescence are estimated for excess uncommitted inventory based on the previous quarter sales, orders backlog and production plans.

2.16 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is not amortized but is tested annually for impairment, or more frequently if indicators of impairment exist. Goodwill subject to potential impairment is tested at a reporting unit level, which represents a component of an operating segment for which discrete financial information is available and is subject to regular review by segment management. This impairment test determines whether the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of relevant net assets allocated to such reporting unit, including its allocated goodwill. If lower, the implied fair value of the reporting unit goodwill is then compared to the carrying value of the goodwill and an impairment charge is recognized for any excess. In determining the fair value of a reporting unit, the Company uses a market approach with financial metrics of comparable public companies and estimates the expected discounted future cash flows associated with the reporting unit. Significant

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

management judgments and estimates are used in forecasting the future discounted cash flows, including: the applicable industry s sales volume forecast and selling price evolution, the reporting unit s market penetration and its revenues evolution, the market acceptance of certain new technologies and products, the relevant cost structure, the discount rates applied using a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values.

2.17 Intangible assets

Intangible assets subject to amortization include the intangible assets purchased from third parties recorded at cost and the intangible assets acquired in business combinations recorded at fair value, which include trademarks, technologies and licenses, contractual customer relationships and computer software.

Trademarks and technology licenses

Separately acquired trademarks and licenses are recorded at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over the estimated useful lives. The estimate useful lives on licenses range from 3 to 7 years while trademarks have a useful life ranging from 2 to 3 years.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Contractual customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationships, which ranges from 4 to 12 years.

Computer software

Separately acquired computer software is recorded at historical cost. Costs associated with maintaining computer software programmes are recognized as expenses as incurred. The capitalization of costs for internally generated software developed by the Company for its internal use begins when preliminary project stage is completed and when the Company, implicitly or explicitly, authorizes and commits to funding a computer software project. It must be probable that the project will be completed and will be used to perform the function intended. Computer software recognized as assets are amortised over their estimated useful lives, which does not exceed 4 years.

Intangible assets subject to amortization are reflected net of any impairment losses. The carrying value of intangible assets subject to amortization is evaluated whenever changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the consolidated statements of income for the amount by which the asset s carrying amount exceeds its fair value. The Company evaluates the remaining useful life of an intangible asset at each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

2.18 Property, plant and equipment

Property, plant and equipment are stated at historical cost, net of government funding and any impairment losses. Major additions and improvements are capitalized, minor replacements and repairs are charged to current operations.

Land is not depreciated. Depreciation on fixed assets is computed using the straight-line method over their estimated useful lives, as follows:

Buildings	33 years
Facilities & leasehold improvements	5-10 years
Machinery and equipment	3-10 years
Computer and R&D equipment	3-6 years
Other	2-5 years

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

In 2008, the Company launched its first 300-mm production facility. Consequently, the Company assessed the useful life of its 300-mm manufacturing equipment, based on relevant economic and technical factors. The conclusion was that the appropriate depreciation period for such 300-mm equipment was 10 years. This policy was applied starting January 1, 2008.

The Company evaluates each period whether there is reason to suspect that tangible assets or groups of assets might not be recoverable. Several impairment indicators exist for making this assessment, such as: significant changes in the technological, market, economic or legal environment in which the Company operates or in the market to which the asset is dedicated, or available evidence of obsolescence of the asset, or indication that its economic performance is, or will be, worse than expected. In determining the recoverability of assets to be held and used, the Company initially assesses whether the carrying value of the tangible assets or group of assets exceeds the undiscounted cash flows associated with these assets. If exceeded, the Company then evaluates whether an impairment charge is required by determining if the asset s carrying value also exceeds its fair value. This fair value is normally estimated by the Company based on independent market appraisals or the sum of discounted future cash flows, using market assumptions such as the utilization of the Company s fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies. The Company also evaluates, and adjusts if appropriate, the assets useful lives, at each balance sheet date or when impairment indicators exist.

Assets are classified as assets held for sale when the following conditions have been met for the assets to be disposed of by sale: management has approved the plan to sell; assets are available for immediate sale; assets are actively being marketed; sale is probable within one year; price is reasonable in the market and it is unlikely that there will be significant changes in the assets to be sold or a withdrawal to the plan to sell. Assets classified as held for sale are reported as current assets at the lower of their carrying amount or fair value less selling costs and are not depreciated during the selling period. Costs to sell include incremental direct costs to transact the sale that would not have been incurred except for the decision to sell. When the held-for-sale accounting treatment requires an impairment charge for the difference between the carrying amount and the fair value, such impairment is reflected on the consolidated statements of income on the line Impairment, restructuring charges and other related closure costs . If the long-lived assets no longer meet the held-for-sale model, they are reported as assets held for use and thus reclassified from current assets to the line Property, plant and equipment, net in the consolidated balance sheet. The assets are measured at the lower of their fair value at the date of the subsequent decision not to sell and their carrying amount prior to their classification as assets held for sale, adjusted for any depreciation that would have been recognized if the long-lived assets had not been classified as assets held for sale. The fair value at the date of the decision not to sell is based on the discounted cash flows expected from the use of the assets. Any required adjustment to the carrying value of the asset that is reclassified as held and used is recorded in the income statement at the time of the reclassification and reported in the same income statement caption that was used to report adjustments to the carrying value of the asset during the time it was held for sale (line Impairment, restructuring charges and other related closure costs). When property, plant and equipment are retired or otherwise disposed of, the net book value of the assets is removed from the Company s books and the net gain or loss is included in Other income and expenses, net in the consolidated statements of income.

Leasing arrangements in which a significant portion of the risks and rewards of ownership are retained by the Company are classified as capital leases. Capital leases are included in Property, plant and equipment, net and depreciated over the shorter of the estimated useful life or the lease term. Leasing arrangements classified as operating leases are arrangements in which the lessor retains a significant portion of the risks and rewards of ownership of the leased asset. Payments made under operating leases are charged to the consolidated statements of income on a straight-line basis over the period of the lease.

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.19 Investments

For investments in public companies that have readily determinable fair values and for which the Company does not exercise significant influence, the Company classifies these investments as held-for-trading or available-for-sale as described in Note 2.4. Investments in equity securities without readily determinable fair values and for which the Company does not have the ability to exercise significant influence are accounted for under the cost method. Under the cost method of accounting, investments are carried at historical cost and are adjusted only for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

declines in value. The value of a cost method investment is estimated on a non-recurring basis when there are identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. Other-than-temporary impairment losses are immediately recorded in the consolidated statements of income and are based on the Company s assessment of any significant and sustained reductions in the investment s fair value. For unquoted equity securities, assumptions and estimates used in measuring fair value include the use of recent arm s length transactions when they reflect the orderly exit price of the investments. Gains and losses on investments sold are determined on the specific identification method and are recorded as a non-operating element on the line Gain (loss) on financial assets in the consolidated statements of income.

Equity investments are all entities over which the Company has the ability to exercise significant influence but not control, generally representing a shareholding of between 20% and 50% of the voting rights. These investments are accounted for by the equity method of accounting and are initially recognized at cost. Equity investments also include entities which the Company determines to be variable interest entities, as described below, if the Company has the ability to exercise significant influence over the entity s operations even if the Company owns less than 20% and is not the primary beneficiary. Equity investments are presented on the face of the consolidated balance sheet on the line Equity investments . The Company s share in its equity investments profit and loss is recognized in the consolidated statements of income as Loss on equity investments and in the consolidated balance sheets as an adjustment against the carrying amount of the investments. When the Company s share of losses in an equity investment equals or exceeds its interest in the investee, including any unsecured receivable, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the investee. At each period-end, the Company assesses whether there is objective evidence that its interests in the equity investments are impaired. Once a determination is made that an other-then-temporary impairment exists, the Company writes down the carrying value of the equity investment to its fair value at the balance sheet date, which establishes a new cost basis. The fair value of an equity investment is measured on a non-recurring basis using a combination of an income approach, based on discounted cash flows, and a market approach with financial metrics of comparable public companies.

The Company assesses entities identified as a Variable Interest Entity (VIE) and consolidates the VIEs, if any, for which the Company is determined to be the primary beneficiary. The primary beneficiary of a VIE is the party that absorbs the majority of the entity s expected losses, receives the majority of its expected residual returns, or both as a result of holding variable interests. Assets, liabilities, and the noncontrolling interest of newly consolidated VIEs are initially measured at fair value in the same manner as if the consolidation resulted from a business combination.

For business combinations concluded before January 1, 2009, the purchase method of accounting was used to account for a business combination if the acquired entity met the definition of a business. If the acquired entity was a development stage entity and had not commenced planned principal operations, it was presumed not to be a business, and the individual assets and liabilities were recognized at their relative fair values with no goodwill recognized in the consolidated balance sheet. In case of acquisition of a business, the cost of the acquisition was measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the acquisition. If part of the consideration was contingent on a future event, the additional cost was not generally recognized until the contingency was resolved, the amount was determinable, or beyond a reasonable doubt. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date. Any acquired in-process research and development (IPR&D) was expensed immediately in the consolidated statements of income since it had no alternative future use. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired was recorded as goodwill. If the cost of acquisition was lower than the fair value of the net assets of the entity acquired, the difference was used to reduce proportionately the fair value assigned and allocated on a pro-rata basis to all assets other than current and financial assets, assets to be sold, prepaid pension assets and deferred taxes. Any negative goodwill remaining was recognized as an extraordinary gain. Goodwill arising from a purchase of less than 100% of a business was valued as the difference between the purchase price paid by the Company and its proportionate share of the fair values of the identifiable net assets acquired, while the noncontrolling interest was reported based on the book value of net assets acquired. Consequently, there was no step up for the noncontrolling interests share of the excess of the fair value of net assets over book value. When the Company acquired a business and a portion of the consideration was a noncontrolling interest in one or more of the Company s businesses, the Company valued the net assets of the subsidiaries in which the interest was being given at fair value and recorded the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

difference between fair value and book value related to the interest on the line Issuance of shares by subsidiary in the consolidated statements of changes in equity.

The purchase accounting method applied to all business combinations concluded on or after January 1, 2009, was on the basis of the amended purchase accounting guidance. The net of the acquisition-date amount of the identifiable asset acquired, equity instruments issued, and liabilities assumed is measured at fair value on the acquisition date. Any contingent purchase price, and contingent assets and liabilities are recorded at fair value on the acquisition date, regardless of the likelihood of payment and acquisition-related transaction costs are expensed as incurred. Restructuring costs relating to the acquired business are expensed as incurred. Acquired in-process research and development (IPR&D) costs are no longer written off to earnings upon the acquisition; instead, IPR&D is capitalized and recorded as an intangible asset on the acquisition date, subject to impairment testing until the research or development is completed or abandoned. The excess of the aggregate of the consideration transferred and the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed is recorded as goodwill. In case of a bargain purchase, the Company reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed; the noncontrolling interest in the acquiree, if any; the Company s previously held equity interest in the acquiree, if any; and the consideration transferred. If after this review, a bargain purchase is still indicated, it is recognized in earnings attributed to the Company. The purchase of additional interests in a partially owned subsidiary is treated as an equity transaction as well as all transactions concerning the sale of subsidiary stock or the issuance of stock by the partially owned subsidiary as long as there is no change in control of the subsidiary. If as a consequence of selling subsidiary shares, the Company no longer controls the subsidiary, the Company recognizes a gain or loss in earnings.

2.20 Employee benefits

(a) Pension obligations

The Company sponsors various pension schemes for its employees. These schemes conform to local regulations and practices in the countries in which the Company operates. They are generally funded through payments to insurance companies, trustee-administered funds or state institutions, determined by periodic actuarial calculations. Such plans include both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity for which the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The overfunded or underfunded status of the defined benefit plans are calculated as the difference between plan assets and the projected benefit obligations. Overfunded plans are not netted against underfunded plans and are shown separately in the financial statements. Significant estimates are used in determining the assumptions incorporated in the calculation of the pension obligations, which is supported by input from independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees expected average remaining working lives. Past-service costs are recognized immediately in earnings, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. The net periodic benefit cost of the year is determined based on the assumptions used at the end of the previous year.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

(b) Other post-retirement obligations

The Company provides post-retirement benefits to some of its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(c) Termination benefits

Termination benefits are payable when employment is involuntarily terminated, or whenever an employee accepts voluntary termination in exchange for these benefits. For the accounting treatment and timing recognition of the involuntarily termination benefits, the Company distinguishes between one-time termination benefit arrangements and on-going termination benefit arrangements. A one-time termination benefit arrangement is one that is established by a termination plan that applies to a specified termination event or for a specified future period. These one-time involuntary termination benefits are recognized as a liability when the termination plan meets certain criteria and has been communicated to employees. If employees are required to render future service in order to receive these one-time termination benefits, the liability is recognized ratably over the future service period. Termination benefits other than one-time termination benefits are termination benefits for which criteria for communication are not met but that are committed to by management, or termination obligations that are not specifically determined in a new and single plan. These termination benefits are all legal, contractual and past practice termination obligations to be paid to employees in case of involuntary termination. These termination benefits are accrued for at commitment date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated.

In the case of special termination benefits proposed to encourage voluntary termination, the Company recognizes a provision for voluntary termination benefits at the date on which the employee irrevocably accepts the offer and the amount can be reasonably estimated.

(d) Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing plans when it is contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Other long-term employee benefits

The Company provides long-term employee benefits such as seniority awards in certain subsidiaries. The entitlement to these benefits is usually conditional on the employee completing a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to earnings in the period of change. These obligations are valued annually by independent qualified actuaries.

(f) Share-based compensation

Nonvested shares

The Company grants nonvested shares to senior executives, selected employees and members of the Supervisory Board. The shares are granted for free to employees and at their nominal value for the members of the Supervisory Board. The awards granted to employees contingently vest upon achieving certain market or performance conditions and upon completion of an average three-year service period. Shares granted to the Supervisory Board vest unconditionally along the same vesting period as employees and are not forfeited even if the service period is not completed. The Company measures the cost of share-based service awards based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period. Compensation is recognized only for the awards that ultimately vest. The compensation cost is recorded through earnings over the vesting period against equity, under Capital surplus in the consolidated statement of changes in equity. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

compensation cost is calculated based on the number of awards expected to vest, which includes assumptions on the number of awards to be forfeited due to the employees failing to provide the service condition, and forfeitures following the non-completion of one or more performance conditions. When the stock-award plan contains a market condition feature, the market condition is reflected in the estimated fair value of the award at grant date.

Liabilities for the Company s portion of payroll taxes are not accrued for over the vesting period but are recognized at vesting, which is the event triggering the measurement of employee-related social charges, based on the intrinsic value of the share at vesting date, and payment of the social contributions in most of the Company s local tax jurisdictions.

2.21 Long-term debt

(a) Convertible debt

Zero-coupon convertible bonds are recorded at principal amount in long-term debt and are subsequently stated at amortized cost.

Debt issuance costs are reported as non-current assets on the line Other investments and other non-current assets of the consolidated balance sheets. They are subsequently amortized through earnings on the line Interest income, net of the consolidated statements of income until the first redemption right of the holder. Outstanding bond amounts are classified in the consolidated balance sheet as Current portion of long-term debt in the year of the redemption right of the holder.

(b) Bank loans and senior bonds

Bank loans, including non-convertible senior bonds, are recognized at historical cost, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. The Company may from time to time enter into repurchase agreements with certain financial institutions and may give as collateral certain available-for-sale debt securities. The Company retains control over the pledged debt securities and consequently does not de-recognize the financial assets from its consolidated balance sheet upon transfer of the collateral. The Company accounts for such transactions as secured borrowings and recognizes the cash received upon transfer by recording a liability for the obligation to return the cash to the lending financial institution within a term which does not exceed three months. Such obligation is extinguished when the Company repurchases the pledged securities in accordance with the terms of the repurchase agreements.

2.22 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company s shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received net of directly attributable incremental transaction costs and the related income tax effect is included in equity.

2.23 Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a business during a period except those changes resulting from investment by shareholders and distributions to shareholders. In the accompanying consolidated financial statements, Accumulated other comprehensive income (loss) consists of temporary unrealized gains or losses on securities classified as available-for-sale, the unrealized gain (loss) on derivatives designated as cash flow hedge and the impact of recognizing the overfunded and underfunded status of defined benefit plans , all net of tax, as well as foreign currency translation adjustments.

F-22

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

2.24 Provisions

Provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlements is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of the outflow with respect to any one item included in the same class of obligations may be small.

The Company, when acting as a guarantor, recognizes, at the inception of a guarantee, a liability for the fair value of the obligation the Company assumes under the guarantee. When the guarantee is issued in conjunction with the formation of a partially owned business or a venture accounted for under the equity method, the recognition of the liability for the guarantee results in an increase to the carrying amount of the investment. The liabilities recognized for the obligations of the guarantees undertaken by the Company are measured subsequently on each reporting date, the initial liability being reduced as the Company, as a guarantor, is released from the risk underlying the guarantee.

2.25 Recent accounting pronouncements

(a) Accounting pronouncements effective in 2009

The fair value measurement guidance specifically related to nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis, such as impaired long lived assets or goodwill, was previously deferred by the Financial Accounting Standards Board (FASB) and became effective as of January 1, 2009. For goodwill impairment testing and the use of fair value of tested reporting units, the Company reviewed its goodwill impairment model to measure fair value relying on external inputs and market participant s assumptions rather than exclusively using discounted cash flows generated by each reporting entity. Such fair value measurement corresponds to a level 3 fair value hierarchy in the amended guidance, as described in Note 25. This new fair value measurement basis, when applied in a comparable market environment as in the last impairment campaign, had no significant impact on the results of the goodwill impairment tests as performed in 2009. However, as a result of the continuing downturn in market conditions and the general business environment, this new measurement of the fair value of the reporting units, when used in future goodwill and impairment testing, could generate impairment charges as the fair value will be estimated on business indicators that could reflect a distressed market.

In December 2007, the FASB issued guidance related to business combinations and noncontrolling interests in consolidated financial statements. The guidance significantly changed how business acquisitions are accounted for and changed the accounting and reporting for minority interests, which are recharacterized as noncontrolling interests and classified as a component of equity. The significant changes from past practice are as follows: the new guidance expands the definitions of a business and business combination; it requires the recognition of contingent consideration at fair value on the acquisition date; acquisition-related transaction costs and restructuring costs are expensed as incurred; it changes the way certain assets are valued and requires retrospective application of measurement period adjustments. Additionally, for all business combinations (whether partial, full, or step acquisitions), the entity that acquires the business records 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values. The significant changes from past practice related to noncontrolling interests include that they are now considered as equity and transactions between the parent company and the noncontrolling interests are treated as equity transactions as far as these transactions do not create a change in control. Additionally, the guidance requires the recognition of noncontrolling interests at fair value rather than at book value as in past practice in cases of partial acquisitions. Such guidance is effective for fiscal years beginning on or after December 15, 2008 and was adopted by the Company on January 1, 2009. The business combination guidance has been applied prospectively. The noncontrolling interest guidance required retroactive adoption of the presentation and disclosure requirements for existing noncontrolling interests. All other requirements of the noncontrolling interest guidance was applied prospectively. Acquisition-related costs, which amounted to $7 million and were capitalized as at December 31, 2008, were immediately recorded in earnings in the first quarter of 2009. Additionally, presentation and disclosures of noncontrolling interests generated a reclassification in all reporting periods as at January 1, 2009 from the mezzanine line Minority interests in the previously filed consolidated balance sheet as at December 31, 2008 to equity for a total amount of $276 million. No significant

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

changes were recorded upon adoption in valuation allowance for acquired deferred tax assets and the resolution of assumed uncertain tax positions on past business combinations.

In March 2008, the FASB amended the guidance on disclosures about derivative instruments and hedging activities intended to improve financial reporting about derivative instruments and hedging activities and to enable investors to better understand how these instruments and activities affect an entity s financial position, financial performance and cash flows through enhanced disclosure requirements. This amendment is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company adopted the amendment in the first quarter of 2009 and included the new disclosure requirements in Note 25.

In November 2008, additional guidance was issued related to equity method investment accounting considerations. The guidance addresses a certain number of matters associated with the impact that the December 2007 amended guidance on business combinations and noncontrolling interests might have on the accounting for equity method investments. This additional guidance is effective for financial statements issued for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008, with no early application permitted. This guidance must be applied prospectively to new investments acquired after the effective date and was adopted by the Company in the first quarter of 2009. There was no material effect on its financial position and results of operations as a result of adoption.

In November 2008, additional guidance was issued on accounting for defensive intangible assets. This additional guidance applies to all defensive assets, either acquired from a third party or through a business combination. However, it excludes from its scope in-process research and development acquired in a business combination. The additional guidance states that a defensive asset should be considered a separate unit of accounting and should not be combined with the existing asset whose value it may enhance. A useful life should be assigned that reflects the acquiring entity s consumption of the defensive asset s expected benefits. The guidance is effective prospectively to intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with no early application permitted. The Company adopted the guidance in the first quarter of 2009. The Company did not acquire significant defensive intangible assets.

In April 2009, the FASB issued clarifying guidance on the determination of fair values when volumes and levels of activity for assets or liabilities have significantly decreased and on identifying transactions that are not orderly. The guidance clarifies the issue of determining the fair values of assets and liabilities in non-active markets and that distressed or forced sales are not considered to represent fair value. It also requires additional disclosures in both interim and annual financial statements of the inputs and valuation techniques used in measuring fair value and disclosure of any changes in valuation techniques. The clarifying guidance is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted in certain circumstances for periods ending after March 15, 2009. The Company adopted the guidance in the second quarter of 2009 and included all required disclosures in its consolidated financial statements beginning in the period ended June 27, 2009. This guidance did not have any impact on the Company s financial position and results of operations.

In April 2009, the FASB also issued clarifying guidance on the recognition and presentation of other-than-temporary impairments. This guidance amends the impairment guidance for certain debt securities and requires an investor to assess the likelihood of selling the security prior to recovering its cost basis. If an investor is able to meet the criteria to assert that it will not have to sell the security before recovery, impairment charges related to credit losses, or the inability to collect cash flows sufficient to amortized cost basis, would be recognized in earnings, while impairment charges related to non-credit losses would be reflected in other comprehensive income. The guidance, which is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 required adoption through a cumulative effect adjustment. It also requires additional disclosures for both annual and interim periods on debt and equity securities. The Company adopted the guidance in the second quarter of 2009 and included all required disclosures in its consolidated financial statements beginning in the period ended June 27, 2009. The adoption did not have any impact on the Company s financial position and results of operations.

In June 2009, the FASB issued guidance on subsequent events, which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Although there is new terminology, the guidance is based on the same principles as those that existed prior to adoption. The guidance also includes a new required disclosure of the date through which an entity has evaluated subsequent events. The guidance is effective for interim and annual periods

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

ending after June 15, 2009 and was adopted by the Company in the second quarter of 2009 with no material impact on the consolidated financial statements.

In June 2009, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 112 (SAB 112), which updates and amends the SEC staff s previous interpretive guidance relating to business combinations and noncontrolling interests. Specifically, SAB 112 updates various sections of the Staff Accounting Bulletin Series to bring it into conformity with the FASB guidance on business combinations and noncontrolling interests. The Company adopted SAB 112 in the second quarter of 2009, which did not have a material impact on the Company s financial position and results of operations.

In July 2009, the FASB issued the Accounting Standards Codification (Codification). The Codification is a single authoritative source for U.S. GAAP. While not intended to change U.S. GAAP, the Codification significantly changes the way in which the accounting literature is organized. It is structured by accounting topic to identify the guidance that applies to a specific accounting issue. The Codification is effective for financial statements that cover interim and annual periods ending after September 15, 2009. The Company has adopted the Codification in its interim consolidated financial statements for the period ending September 26, 2009.

In October 2009, the FASB updated the Codification to provide share lenders with guidance on how to account for own-share lending arrangements. Specifically, a share lender should record as debt issuance cost the fair value of a share lending arrangement. The outstanding shares should be excluded from basic and diluted earnings per share, unless the counterparty defaults. When a default is probable, expense should be recognized with an offset to equity for the fair value of the shares less estimated recoveries. The guidance is effective for new share lending arrangements for interim and annual periods beginning on or after June 15, 2009. For existing arrangements, the guidance is effective for fiscal years beginning on or after December 15, 2009 and must be applied retrospectively for arrangements outstanding as of the effective date. The Company does not hold any share lending arrangements and thus the guidance did not have any impact on the Company s financial position and results of operations upon adoption.

In October 2009, the FASB also released clarifying guidance on arrangements with multiple deliverables. The new guidance requires companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction s economics through the use of relative fair values based on either vendor specific objective evidence or third party evidence of fair values. If neither of these is available, the guidance requires the use of management s best estimate of selling price. The residual method of allocating arrangement consideration is no longer permitted. The new guidance also removes non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance. It finally requires expanded qualitative and quantitative disclosures. The new guidance is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted as early as interim periods ended September 30, 2009. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. The Company has early adopted the guidance on a prospective basis, with effect as of January 1, 2009. The adoption resulted in no material effects to the Company s financial position, timing of revenue recognition, units of accounting, allocation of consideration or results of operations and does not result in the restatement of any prior interim periods.

(b) Accounting pronouncements expected to impact the Company s operations that are not yet effective and have not been adopted early by the Company

In June 2009, the FASB issued amendments to the guidance on accounting for transfers of financial assets and the guidance on consolidation of variable interest entities. The amendment regarding accounting for transfers of financial assets includes: (i) eliminating the qualifying special-purpose entity (QSPE) concept; (ii) a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; (iii) clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; (iv) a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and (v) extensive new disclosures. The amendment regarding consolidation of variable interest entities includes: (i) the elimination of exemption for QSPEs; (ii) a new approach for determining who should consolidate a variable-interest entity and (iii) changes to when it is necessary to reassess who should consolidate a variable-interest entity. Both amendments are effective as of the beginning of an entity s first fiscal year beginning after November 15, 2009 and for interim periods within that first year. Earlier adoption is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

prohibited. The Company will adopt the amendments as of January 1, 2010 and does not expect any significant impact on the Company s financial position and results of operations.

In September 2009, the FASB issued final guidance on measuring the fair value of liabilities. It amends the Codification primarily as follows: (i) it sets forth the types of valuation techniques to be used to value a liability when a quoted price in an active market is not available; (ii) clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability; (iii) clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The amended guidance is effective for the first reporting period beginning after issuance. The Company will adopt the amendment as of January 1, 2010 and does not expect any significant impact on the Company s financial position and results of operations.

3. MARKETABLE SECURITIES

Changes in the value of marketable securities, as reported in current and non-current assets on the consolidated balance sheets as at December 31, 2009 and December 31, 2008 are detailed in the table below:

	December 31, 2008	**Increase in fair value included in OCI* for available-for-sale marketable securities**	**Other than temporary impairment charge and realized losses on marketable securities**	**Purchase**	**Sale**	**Foreign exchange result through P&L**	**Foreign exchange result through OCI**	**December 31, 2009**
	In millions of U.S. dollars							
Aaa debt securities issued by the U.S. Treasury				1,060	(720)			**340**
Aaa debt securities issued by foreign governments				670	(543)	14	3	**144**
Senior debt Floating Rate Notes issued by financial	651	8			(108)		(3)	**548**

institutions							
Auction Rate Securities	242	15	(140)		(75)		**42**
Total	893	23	(140)	1,730	(1,446)	14	**1,074**

* Other Comprehensive Income

The floating rate notes and the government bonds are reported as current assets on the line Marketable Securities on the consolidated balance sheet as at December 31, 2009, since they represent investments of funds available for current operations. The auction-rate securities, which have a final maturity up to 40 years, were purchased in the Company s account by Credit Suisse Securities LLC contrary to the Company s instructions; they are classified as non-current assets on the line Non-current marketable securities on the consolidated balance sheet as at December 31, 2009. On February 16, 2009, the Company announced that an arbitration panel of the Financial Industry Regulatory Authority (FINRA), in a full and final resolution of the issues submitted for determination, awarded the Company, in connection with such unauthorized auction rate securities, approximately $406 million, comprising compensatory damages, as well as interest, attorney s fees and consequential damages, which were assessed against Credit Suisse. In addition, the Company is entitled to retain an interest award of approximately $27 million, out of which $25 million has already been paid, plus interest at the rate of 4.64% on the par value of the portfolio from December 31, 2008 until the award is paid in full. The Company has petitioned the United States District Court for the Southern District of New York seeking enforcement of the award. Credit Suisse has responded by seeking to vacate the FINRA award. Upon receipt of the award, the Company will transfer ownership of the portfolio of unauthorized auction rate securities to Credit Suisse. Until the award is executed, the Company will continue to own the Auction Rate Securities and, consequently, will account for them in the same manner as in the prior periods. In December 2009, Credit Suisse, because of its contingent interest in certain securities held by us and issued by Deutsche Bank, requested that we either tender the securities or accept that the amount that would be received by us pursuant to such tender ($75 million) be deducted from the sum to be collected by us if and when the FINRA award is confirmed and enforced. Pursuant to legal advice, and while reserving our legal rights, we participated in the tender offer and paid $0.49 per dollar of face value. As a result, we sold Auction Rate Securities with a face value of $154 million, collected $75 million and registered $68 million as realized losses on financial assets. Losses as a result of this transaction should be recovered upon collection of the award. The

F-26

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Company is seeking confirmation of the award from the United States District Court of the Southern District of New York.

No significant gain or loss was included in earnings as a result of floating rate notes sales. Out of the fifteen investment positions in floating-rate notes, with the only exception of a senior floating rate note of Euro 15 million issued by Lehman Brothers whose impairment was recorded as other-than-temporary in 2008, nine positions are in an unrealized loss position, which has been considered as temporary. For all floating rate notes, except the Lehman Brothers senior unsecured bonds described below, the Company expects to recover the debt securities entire amortized cost basis. Since the duration of the floating rate note portfolio is less than two years on average and the securities have a minimum Moody s rating of A3 (with the only exception of the Lehman Brothers senior unsecured bonds), the Company expects the value of the securities to return to par as the final maturity is approaching. In addition, the Company does not expect to be required to sell the securities before maturity. As such, no credit loss has been identified on these instruments. Thus, under the new clarifying guidance on other-than-temporary impairments issued in April 2009, as described in details in Note 2.25, these declines in fair value are considered as temporary. As a result, the change in fair value is recognized as a separate component of Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity and no cumulative effect adjustment was recorded in 2009 upon adoption of such guidance. The Company estimated the fair value of these financial assets based on publicly quoted market prices, which corresponds to a level 1 fair value measurement hierarchy.

For the Lehman Brothers senior unsecured bonds, the Company has been measuring fair value since Lehman Brothers Chapter 11 filing on September 15, 2008 based on information received from a major credit rating entity. Such fair value information relies on historical recovery rates and is assessed to correspond to a level 3 fair value hierarchy. At the date of Lehman Brothers Chapter 11 filing, the Company did not expect to recover the entire amortized cost basis of the securities and reported in earnings an other-than-temporary impairment charge representing 50% of the face value of the debt securities. Since all of this other-than-temporary impairment charge corresponded to credit losses, no cumulative effect adjustment was recorded in 2009 upon adoption of the new accounting guidance on recognition and presentation of other-than-temporary impairment charges. As at December 31, 2009, the Company assessed that it expected to recover the impaired amortized cost basis of the Lehman Brothers debt securities amounting to $11 million and no additional other-than-temporary impairment charge was recorded on the Lehman Brothers senior unsecured bonds in 2009.

The Company invested in 2009 $1,730 million in French and U.S. government bonds, of which $1,263 million was sold or matured in 2009. In 2009, the Company realized in earnings a $14 million exchange gain upon the sale of Euro 100 million French Government bonds. The change in fair value of the $484 million government debt securities classified as available-for-sale was not material as at December 31, 2009. The Company estimated the fair value of these financial assets based on publicly quoted market prices, which corresponds to a level 1 fair value measurement hierarchy. The duration of the government bonds portfolio is less than five months on average and the securities are rated Aaa by Moody s.

Until the FINRA award is executed, the ownership of the auction-rate securities must be considered as a separate unit of accounting for impairment assessment. Consequently, upon adoption of the new accounting guidance on recognition and presentation of other-than-temporary impairment charges, the Company determined that in the assumption that the FINRA award was not executed the Company would not expect to recover the entire amortized cost basis of the securities resulting in an impairment of the securities based on credit losses. Consequently, the Company reported an other-than-temporary decline in fair value amounting to $72 million in 2009, which was immediately reported in the consolidated statement of income on the line Other-than-temporary impairment charge on financial assets . As this impairment assessment was in line with past accounting practice, no cumulative effect adjustment was recorded in 2009 upon adoption of the new accounting guidance. From the first quarter of 2008, the fair value measure of these securities, which corresponds to a level 3 fair value hierarchy, was based on a theoretical model using yields obtainable for comparable assets. The value inputs for the evaluation of these securities were publicly available indexes of securities with the same rating, similar duration and comparable/similar underlying collaterals or industries exposure (such as ABX for the collateralized debt obligation, ITraxx and IBoxx for the credit-linked notes), which the Company believes approximates the orderly exit value in the current market. In 2009, the value of the remaining ARS securities increased in value by $15 million, which has been recorded as a separate component of Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity. The estimated value of these securities could further decrease due to a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

deterioration of the corporate industry indexes used for the evaluation. Fair value measurement information is further detailed in Note 25.

4. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, net consisted of the following:

	December 31, 2009	December 31, 2008
Trade accounts receivable	**1,386**	1,089
Less valuation allowance	**(19)**	(25)
Total	**1,367**	1,064

Bad debt expense in 2009, 2008 and 2007 was $2 million, $1 million and $1 million respectively. In 2009, 2008 and 2007, one customer, the Nokia group of companies, represented 16.1%, 17.5% and 21.1% of consolidated net revenues, respectively.

In 2009, $11 million of receivables due to ST Ericsson in 2009 were sold without recourse, with a financial cost of less than 0.2% of the factored amount. The Company enters into factoring transactions to accelerate the realization in cash of some trade accounts receivable.

5. INVENTORIES, NET

Inventories, net of reserve, consisted of the following:

	December 31, 2009	December 31, 2008
Raw materials	**73**	76
Work-in-process	**769**	1,124
Finished products	**433**	640
Total	**1,275**	1,840

As at December 31, 2008, inventories included $203 million related to the consolidation of the NXP wireless business. The fair value adjustment arising from the purchase accounting for the acquisition as discussed in Note 7 was totally expensed in cost of sales as at December 31, 2008.

6. OTHER RECEIVABLES AND ASSETS

Other receivables and assets consisted of the following:

	December 31, 2009	**December 31, 2008**
Receivables from government agencies	**208**	125
Taxes and other government receivables	**272**	238
Advances	**79**	83
Prepayments	**50**	64
Loans and deposits	**14**	18
Interest receivable	**10**	16
Financial instruments	**36**	37
Held-for-trading cancellable swaps		34
Other current assets	**84**	70
Total	**753**	685

Due to the high volatility in the interest rates generated by the recent financial turmoil, the Company assessed in 2008 that the swaps, entered into to hedge the fair value of a portion of the convertible bonds due 2016, had been no longer effective since November 1, 2008 and the fair value hedge relationship was discontinued. Consequently, the swaps were classified as held-for-trading financial assets and reported at fair value as a component of Other receivables and current assets in the consolidated balance sheet as at December 31, 2008 since the Company intended to hold the derivative instruments for a short period of time which will not exceed twelve months. An

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

unrealized gain was recognized in earnings from discontinuance date totaling $15 million and was reported on the line Gain (loss) on financial assets of the consolidated statement of income for the year ended December 31, 2008. During the first quarter of 2009, the Company sold these cancellable swaps and generated a loss of $8 million, which is included in the line Gain (loss) on financial assets .

7. BUSINESS COMBINATIONS

Genesis Microchip Inc.

On January 17, 2008, the Company acquired effective control of Genesis Microchip Inc. (Genesis Microchip) under the terms of a tender offer announced on December 11, 2007. Payment of approximately $340 million for the acquired shares was made through a wholly-owned subsidiary of the Company that was merged with and into Genesis Microchip promptly thereafter and received $170 million of cash and cash equivalents from Genesis Microchip. Additional direct costs associated with the acquisition amounting to approximately $6 million were paid in 2008. On closing, Genesis Microchip became part of the Company s Home Entertainment & Displays business activity which is part of the Automotive Consumer Computer and Communications Infrastructure Product Groups segment. The acquisition of Genesis Microchip was performed to expand the Company s leadership in the digital TV market. Genesis Microchip will enhance the Company s technological capabilities for the transition to fully digital solutions in the segment and strengthen its product intellectual property portfolio.

Purchase price allocation resulted in the recognition of $11 million in marketable securities, $14 million in property, plant and equipment, $44 million of deferred tax assets, net of valuation allowance, while intangible assets included $44 million of core technologies, $27 million related to customer relationships, $2 million of trademarks, $15 million of goodwill primarily related to the workforce, and not deductible for tax purposes, and $2 million of liabilities net of other assets. During the course of 2008, the company reduced its estimate of direct cost associated with the acquisition and made a corresponding reduction in the amount of purchased goodwill. The Company also recorded in 2008 $21 million of acquired IP R&D with no alternative future use that the Company immediately wrote off. Such in-process research and development charge was recorded on the line research and development expenses in the consolidated statement of income in the first quarter of 2008. The core technologies have an average useful life of approximately four years, the customers relationship of seven years and the trademarks of approximately two years. The Company obtained a third party independent appraisal to assist in making its purchase price allocation although the Company takes full responsibility for such allocation.

NXP Wireless

On August 2, 2008, ST-NXP Wireless, a joint venture owned 80% by the Company, began operations based on contributions of the wireless businesses of the Company and NXP, as the noncontrolling interest holder. The Company paid to NXP $1.55 billion for the 80% stake, which included a control premium, and received cash from the NXP businesses of $33 million. The consideration also included a contribution in kind, measured at fair value, corresponding to a 20% interest in the Company s wireless business. Additional direct costs associated with the acquisition amounted to $21 million and were fully paid as at December 31, 2009. On closing, ST-NXP Wireless was determined to be included in the Wireless segment.

Purchase price allocation resulted in the recognition of $308 million in property, plant and equipment, $72 million of tax receivables net of valuation allowances, inventory of $282 million which includes $88 million of step-up in value that increased charges against earnings in 2008 as the inventory was sold, deferred tax liabilities of $14 million, restructuring reserves of $44 million and $42 million in liabilities, net of other assets. In addition, intangible assets recognized included core technologies of $223 million, customer relationships of $405 million, and acquired IP R&D of $76 million. Such IP R&D did not have any alternative future use and was written-off immediately in the consolidated statement of income in 2008 to the line Research and development. The resulting goodwill in the transaction was $669 million at acquisition date. During 2009 the Company made final adjustments to the acquisition related goodwill and reduced its value by $12 million with offsetting adjustments in property, plant and equipment, tax receivables and net other assets and liabilities. The goodwill deductible for tax purposes amounts to approximately $108 million. The core technologies have useful lives ranging from approximately three and a half to six and a half years and the customer relationships average useful lives were estimated at 12 years. To assist in making the purchase price allocation for the contribution from the noncontrolling interest holder, the Company obtained a third party independent appraisal although the Company remains fully responsible for the allocation. The contribution by the Company was carried over at its book value. The restructuring reserves represent

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

estimated redundancy costs incurred to achieve the rationalization of the combined organization as anticipated as part of the transaction and cover approximately 500 people, including sub-contractors. The plan affects mainly employees in Belgium, China, Germany, India, the Netherlands, Switzerland and the United States of America.

On February 1, 2009, the Company exercised its option to purchase the 20% noncontrolling interest of NXP in ST-NXP wireless for a price of $92 million. Transactions with noncontrolling interests are summarized in the table below:

	Twelve Months Ended	
	December 31, 2009	**December 31, 2008**
	In millions of U.S. dollars	
Net loss attributable to parent company	**(1,131)**	(786)
Transfers (to) from noncontrolling interests:		
Increase in parent company s capital surplus for purchase of outstanding 20% of ST-NXP shares	**119**	
Change from net loss attributable to parent company and transfers (to) from noncontrolling interests	**(1,012)**	(786)

Ericsson Mobile Platforms

On February 3, 2009, the Company closed a transaction to combine the businesses of Ericsson Mobile Platforms (EMP) and ST-NXP Wireless into a new venture, ST-Ericsson. ST-Ericsson combines the resources of the two companies and focuses on developing and delivering a complete portfolio of mobile platforms wireless semiconductor solutions across the broad spectrum of mobile technologies. The operations of ST-Ericsson are conducted through two groups of companies. The parent of one of the groups is ST-Ericsson Holding AG (JVS), which is owned 50% plus a controlling share by ST. JVS is responsible for the full commercial operation of the combined businesses, namely sales, marketing, supply and the full product responsibility. The parent of the other group, ST-Ericsson AT Holding AG (JVD), is owned 50% plus a controlling share by Ericsson and is focused on fundamental R&D activities. Both JVS and JVD are variable interest entities. The Company has determined that it is the primary beneficiary of JVS and therefore consolidates JVS, but that it is not the primary beneficiary of JVD and therefore accounts for its noncontrolling interest in JVD under the equity method of accounting. JVD is discussed further in Note 11. In addition to the contributions by ST and Ericsson of their respective businesses to the venture entities, the consideration received from Ericsson included $1,155 million in cash, of which $700 million was paid directly to the Company. The transaction has been accounted for as a business combination under the amended business combination guidance adopted by the Company as of January 1, 2009.

The purchase accounting results are the following, in millions of U.S. dollars:

<u>Consideration transferred:</u>	
Noncontrolling interest in the Company s business contributed	1,105
Cash received by the Company	(700)

Equity investment in JVD	(99)
Total consideration transferred	**306**
Acquisition related costs included in SG&A	**9**
Assets acquired and liabilities assumed:	
Cash in JVS	445
Other current assets and liabilities net	(47)
Customer relationships	48
Property, plant and equipment	23
Total identifiable net assets	**469**
Noncontrolling interest in EMP business acquired	(306)
Goodwill	143
Total	**306**

The goodwill arises principally due to expected synergies and the value of the assembled workforce. It is tax deductible for an amount of $26 million. In connection with this transaction, the Company recognized acquisition

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

costs of $9 million, which were included in selling, general and administrative expenses in 2009. The customer relationships have a useful life of four years. There are no contingent assets or liabilities recognized in the transaction.

The fair value of the noncontrolling interests was determined by the Company with the assistance of a third party evaluation of the fair values of the businesses contributed. Due to lack of comparable market transactions, the EMP business was valued using a discounted cash flow approach. The primary inputs used to measure the fair value were the stand alone business plan for the five-year period 2009-2013, including certain cost synergies of the venture, and the weighted average cost of capital, which was determined to be 8.9%. This represents a Level 3 measurement of fair value in the fair value measurement hierarchy. The resulting value of the EMP business was then allocated between the two entities of the venture as follows: (a) specifically identifiable assets as well as customer-related intangibles and the cost synergies were allocated to the portion of the EMP business contributed to JVS, and (b) specifically identifiable assets as well as the value of the usage rights of the technology were allocated to the portion of the EMP business contributed to JVD. The fair value of the Company s contribution of its ST-NXP Wireless business to JVS was determined based upon the valuation of the EMP business contributed to JVS and JVD and the cash consideration that was agreed upon between the Company and Ericsson to compensate for the difference in fair values between the two companies contributions. This valuation is therefore also considered Level 3. Due to the significant minority rights of the Company and Ericsson in JVD and JVS respectively, no control premium or discount was assigned in the valuation of the noncontrolling interests. Upon closing, JVS was determined to be included in the reportable segment Wireless .

The unaudited proforma information below assumes that JVS was created on January 1, 2009 and 2008 and incorporates the results of JVS beginning on those dates. The unaudited twelve months ended December 31, 2009 and December 31, 2008 information has been adjusted to incorporate the results of JVS on January 1, 2009 and January 1, 2008. Such results include estimated results of the business acquired, adjustments to conform to the Company s accounting policies, additional depreciation and amortization resulting from the step up to the fair values of the tangible and intangible assets, consequential tax effects and noncontrolling interest adjustments. These amounts are presented for information purposes only and are not indicative of the results of operations that would have been achieved had the acquisition taken place as of January 1, 2009 and January 1, 2008.

	Twelve Months Ended	
Pro forma Statements of Income (unaudited)	**December 31, 2009**	**December 31, 2008**
	In millions of U.S. dollars	
Net revenues	**8,536**	10,485
Gross profit	**2,640**	4,027
Operating expenses	**(3,688)**	(4,308)
Operating loss	**(1,048)**	(281)
Net loss attributable to parent company	**(1,113)**	(798)
Loss per share (basic)	**(1.27)**	(0.89)
Loss per share (diluted)	**(1.27)**	(0.89)

Twelve Months Ended

Statements of Income, as reported	December 31, 2009	December 31, 2008
	In millions of U.S. dollars	
Net revenues	**8,510**	9,842
Gross profit	**2,626**	3,560
Operating expenses	**(3,649)**	(3,758)
Operating loss	**(1,023)**	(198)
Net loss attributable to parent company	**(1,131)**	(786)
Loss per share (basic)	**(1.29)**	(0.88)
Loss per share (diluted)	**(1.29)**	(0.88)

Net revenues of the EMP business for the period from the acquisition date of February 3, 2009 to December 31, 2009 included in the consolidated statement of income were $300 million. Net income (loss) during this period is no

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

longer separately identifiable, as the EMP business was immediately integrated across a large number of legal entities combining the cost structures of the EMP and ST-NXP Wireless businesses.

8. GOODWILL

Following the segment reorganization as described in Note 27, the Company has restated its results in prior periods for illustrative comparisons of its allocation of goodwill by product segment.

Changes in the carrying amount of goodwill were as follows:

	Automotive Consumer Computer and Communication Infrastructure (ACCI)	Wireless Sector (Wireless)	Industrial and Multisegment Sector (IMS)	Other	Total
December 31, 2007	41	147	100	2	290
Business Combination	15	669			684
PGI goodwill impairment	(4)			(2)	(6)
Incard goodwill impairment			(7)		(7)
Foreign currency translation	(1)		(2)		(3)
December 31, 2008	51	816	91		958
Business Combination		131			131
Vision goodwill impairment	(6)				(6)
Foreign currency translation	(2)	(11)	1		(12)
December 31, 2009	43	936	92		1,071

Gross goodwill recognized amounted to respectively $1,138 million and $1,019 million as at December 31, 2009 and 2008. Accumulated impairment amounted to respectively $67 million and $61 million as at December 31, 2009 and 2008.

On February 3, 2009, the Company closed a transaction to combine the businesses of Ericsson Mobile Platforms (EMP) and ST-NXP Wireless into a new venture, named ST-Ericsson. An amount of $143 million of the purchase price for this transaction was allocated to goodwill. This business combination is discussed in details in Note 7. Additionally, at the beginning of the third quarter of 2009, the Company made final adjustments to the NXP business combination and decreased goodwill by $12 million.

In 2008, the Company acquired 100% of Genesis Microchip Inc. and 80% of the NXP wireless business. Amounts of $15 million and $669 million, respectively, of the purchase price for these two transactions were allocated to goodwill. These business combinations are discussed in details in Note 7.

During the first half of 2009, the Company performed an impairment test on goodwill and based on this test, impairment charge totaling $6 million was recorded on the line Impairment, restructuring charges and other related closure costs of the consolidated statement of income for the period ended December, 2009. This impairment charge is further described in Note 19.

In the third quarter of 2009 and 2008, the Company performed its annual impairment test on goodwill and indefinite long-lived assets, which did not evidence any additional impairment charge to be recorded in 2009 and charges totaling $13 million were recorded on the line Impairment, restructuring charges and other related closure costs of the consolidated statement of income for the year ended December 31, 2008. These impairment charges are further described in Note 19.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

9. OTHER INTANGIBLE ASSETS

Other intangible assets consisted of the following:

December 31, 2009	Gross Cost	Accumulated Amortization	Net Cost
Technologies & licences	**787**	**(501)**	**286**
Contractual customer relationships	**485**	**(70)**	**415**
Purchased software	**302**	**(226)**	**76**
Other intangible assets	**119**	**(77)**	**42**
Total	**1,693**	**(874)**	**819**

December 31, 2008	Gross Cost	Accumulated Amortization	Net Cost
Technologies & licences	707	(365)	342
Contractual customer relationships	436	(22)	414
Purchased software	253	(200)	53
Other intangible assets	125	(71)	54
Total	1,521	(658)	863

The line Other intangible assets in the table above consists primarily of internally developed software. The amortization expense on capitalized software costs in 2009, 2008 and 2007 was $20 million, $15 million, and $11 million, respectively.

On February 3, 2009, the Company closed a transaction to combine the businesses of Ericsson Mobile Platforms (EMP) and ST-NXP Wireless into a new venture, named ST-Ericsson. An amount of $48 million of the purchase price for this transaction was allocated to customer relationships. This business combination is discussed in details in Note 7.

The amortization expense in 2009, 2008 and 2007 was $208 million, $141 million, and $82 million, respectively.

The estimated amortization expense of the existing intangible assets for the following years is:

Year

2010	**235**
2011	**215**
2012	**155**
2013	**58**
2014	**39**
Thereafter	**117**
Total	**819**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

December 31, 2009	Gross Cost	Accumulated Depreciation	Net Cost
Land	**96**		**96**
Buildings	**1,004**	**(294)**	**710**
Capital leases	**79**	**(61)**	**18**
Facilities & leasehold improvements	**3,158**	**(2,332)**	**826**
Machinery and equipment	**13,765**	**(11,632)**	**2,133**
Computer and R&D equipment	**544**	**(458)**	**86**
Other tangible assets	**252**	**(146)**	**106**
Construction in progress	**106**		**106**
Total	**19,004**	**(14,923)**	**4,081**

December 31, 2008	Gross Cost	Accumulated Depreciation	Net Cost
Land	89		89
Buildings	1,001	(264)	737
Capital leases	68	(53)	15
Facilities & leasehold improvements	3,153	(2,115)	1,038
Machinery and equipment	13,700	(11,037)	2,663
Computer and R&D equipment	528	(440)	88
Other tangible assets	187	(127)	60
Construction in progress	49		49
Total	**18,775**	**(14,036)**	**4,739**

As described in note 7, an amount of $23 million of the purchase price for the business of Ericsson Mobile Platforms (EMP) was allocated to property, plant and equipment.

Upon the acquisition of Genesis, the Company recorded in January 2008 property, plant and equipment totaling $14 million. The integration of NXP wireless business in 2008 resulted in the consolidation of long-lived assets totaling $302 million, of which $25 million corresponded to fair value step-up on the Company s 80% interest.

In 2008, as described in Note 19, the Company recorded $77 million impairment charge on long-lived assets of the Company s manufacturing sites in Carrollton (Texas) and in Phoenix (Arizona), of which $75 million on Phoenix site that had previously been designated for closure as part of the 2007 restructuring plan.

The depreciation charge in 2009, 2008 and 2007 was $1,159 million, $1,225 million and $1,331 million, respectively.

Capital investment funding has totaled $4 million, $4 million and $9 million in the years ended December 31, 2009, 2008 and 2007, respectively. Public funding reduced depreciation charges by $22 million, $25 million and $33 million in 2009, 2008 and 2007 respectively.

For the years ended December 31, 2009, 2008 and 2007 the Company made equipment sales for cash proceeds of $10 million, $8 million and $4 million respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

11. EQUITY INVESTMENTS

Equity investments as at December 31, 2009 and 2008 were as follows:

	2009		2008	
	Carrying value	Ownership Percentage	Carrying value	Ownership Percentage
	(In millions of USD, except percentages)			
Numonyx Holdings B.V	193	48.6%	496	48.6%
ST-Ericsson AT Holding	67	49.9%		
Other equity investments	13		14	
Total	**273**		**510**	

Numonyx

In 2007, the Company entered into an agreement with Intel Corporation and Francisco Partners L.P. to create a new independent semiconductor company from the key assets of the Company s Flash Memory Group and Intel s flash memory business (FMG deconsolidation). Under the terms of the agreement, the Company would sell its flash memory assets, including its NAND joint venture interest with Hynix as described below and other NOR resources, to the new company, which was called Numonyx Holdings B.V. (Numonyx), while Intel would sell its NOR assets and resources. In connection with this announcement, the Company reported in 2007 an impairment charge of $1,106 million to adjust the value of these assets to fair value less costs to sell.

The Numonyx transaction closed on March 30, 2008. At closing, through a series of steps, the Company contributed its flash memory assets and businesses as previously announced, for 109,254,191 common shares of Numonyx, representing a 48.6% equity ownership stake valued at $966 million, and $156 million in long-term subordinated notes, as described in Note 12. As a consequence of the final terms and balance sheet at the closing date and additional agreements on assets to be contributed, coupled with changes in valuation for comparable Flash memory companies, the Company incurred an additional pre-tax loss of $190 million for the year ended December 31, 2008, which was reported on the line Impairment, restructuring charges and other related closure costs of the consolidated statement of income.

Upon creation, Numonyx entered into financing arrangements for a $450 million term loan and a $100 million committed revolving credit facility from two primary financial institutions. The loans have a four-year term. Intel and the Company have each granted in favor of Numonyx a 50% debt guarantee not joint and several. In the event of default, the banks will exercise the Company s rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the assets. The debt guarantee was evaluated under the FASB guidance on guarantee liabilities. It resulted in the recognition of a $69 million liability, corresponding to the fair value of the guarantee at inception of the transaction. The same amount was also added to the value of the equity investment. The debt guarantee obligation was reported on the line Other non-current liabilities in the consolidated balance sheet as at December 31, 2009 and 2008. As at December 31, 2009, the guarantee was not exercised. As at December 31 2009, Numonyx was current on their debt obligations, not in default of any debt covenants and did not expect to be in default on these obligations in the foreseeable future.

The Company accounts for its share in Numonyx under the equity method based on the actual results of the venture. In the valuation of Numonyx investment under the equity method, the Company applies a one-quarter lag reporting. For the year ended December 31, 2009 the Company reported on the line Earnings (loss) on equity investments on the Company s consolidated statement of income $171 million of equity loss in Numonyx equity investment, that represents the Company s proportional share of the loss reported by Numonyx in the fourth quarter of 2008 and the three first quarters of 2009, a benefit of $69 million related to the amortization of basis differences arising principally from impairment charges recorded by the Company in prior periods. Furthermore, the Company evaluates on a quarterly basis the fair value of the investment in Numonyx based upon a combination of (i) an income approach, using net equity adjusted for net debt, and (ii) a market approach, using the metrics of comparable public companies, both in relation to actual results and the most updated available forecast. In the first quarter of 2009, the Company recorded an impairment charge of $200 million considered as other-than-temporary, resulting from a re-assessment by the Company of the fair value of its investment in Numonyx following the deterioration of both the global economic situation and the memory market segment, as well as a revision by Numonyx of its 2009 projected results. At December 31, 2009 the Company s investment in Numonyx, including the amount of the debt guarantee, amounted to $193 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

The Company s current maximum exposure to loss as a result of its involvement with Numonyx is limited to its equity investment, its investment in subordinated notes and its debt guarantee obligation.

Summarized unaudited financial information for Numonyx, as of September 26, 2009 and for the twelve months then ended that, because of the one-quarter lag discussed above, correspond to the amounts included in the Company s Consolidated Financial Statements as of December 31, 2009 and for the twelve months then ended, are as follows:

	In million of US dollars
Statement of Income Information:	
Net sales	1,673
Gross profit	289
Net income (loss)	(352)
Financial Position Information:	
Current assets	1,322
Noncurrent assets	1,220
Current liabilities	348
Noncurrent liabilities	894
Net worth	1,300

ST-Ericsson AT Holding

As disclosed in Note 7, on February 3, 2009, the Company announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms (EMP) and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Company received an interest in ST-Ericsson AT Holding AG (JVD). JVD, in which the Company owns 50% less a controlling share held by Ericsson, is the parent company of a group of entities that perform fundamental R&D activities for the ST-Ericsson venture. The Company has determined that JVD is a variable interest entity, but has determined that the Company is not the primary beneficiary of the entity. Accordingly, the Company accounts for its noncontrolling interest in JVD under the equity method of accounting. The Company s investment in JVD at the date of the transaction was valued at $99 million. In 2009, the line Loss on equity investments in the Company s consolidated statement of income included a charge of $32 million related to JVD. This amount includes the amortization of basis differences. The Company s current maximum exposure to loss as a result of its involvement with JVD is limited to its equity investment, which was shown at $67 million on the consolidated balance sheet at December 31, 2009.

Hynix-Numonyx Joint Venture

In 2004, the Company signed a joint venture agreement with Hynix Semiconductor Inc. to build a front-end memory manufacturing facility in Wuxi City, Jiangsu Province, China. Under the agreement, Hynix Semiconductor Inc. contributed $500 million for a 67% equity interest and the Company contributed $250 million for a 33% equity interest. Additionally, the Company originally committed to grant $250 million in long-term financing to the new joint venture guaranteed by the subordinated collateral of the joint venture s assets. On March 30, 2008, the investment in the joint venture, which amounted to $291 million at the time, was transferred to Numonyx upon the formation of that entity. Due to regulatory and withholding tax issues the Company could not directly provide the joint venture with the

$250 million long-term financing as originally planned. As a result, in 2006, the Company entered into a ten-year term debt guarantee agreement with an external financial institution through which the Company guaranteed the repayment of the loan by the joint venture to the bank. The guarantee agreement includes the Company placing up to $250 million in cash on a deposit account. The guarantee deposit will be used by the bank in case of repayment failure from the joint venture, with $250 million as the maximum potential amount of future payments the Company, as the guarantor, could be required to make. In the event of default and failure to repay the loan from the joint venture, the bank will exercise the Company s rights, subordinated to the repayment to senior lenders, to recover the amounts paid under the guarantee through the sale of the joint venture s assets. The $250 million, which has been on deposit since 2007, has been reported as Restricted cash on the consolidated balance sheet as at December 2009 and 2008. The debt guarantee resulted in the recognition of a $17 million liability, corresponding to the fair value of the guarantee at inception of the transaction. The debt guarantee obligation continues to be reported on the line Other non-current liabilities in the consolidated balance sheet as at December 31, 2009, since the terms of FMG deconsolidation did not include the transfer of the guarantee. As at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

December 31, 2009, the guarantee was not exercised. To the best of management s knowledge as at December 31, 2009, the joint venture was current on their debt obligations, not in default of any debts covenants and did not expect to be in default on these obligations in the foreseeable future. The Company s current maximum exposure to loss as a result of its involvement with the joint venture is limited to its indirect investment through Numonyx and the debt guarantee obligation.

12. OTHER INVESTMENTS AND OTHER NON-CURRENT ASSETS

Other investments and other non-current assets consisted of the following:

	December 31, 2009	December 31, 2008
Investments carried at cost	**29**	32
Available-for-sale equity securities	**10**	5
Long-term notes from equity investment	**173**	168
Held-for-trading equity securities	**7**	7
Long-term receivables related to funding	**8**	8
Long-term receivables related to tax refund	**170**	206
Debt issuance costs, net	**4**	7
Prepaid for pension	**2**	1
Deposits and other non-current assets	**39**	43
Total	**442**	477

Investments carried at cost are equity securities with no readily determinable fair value. In 2009, the Company incurred other-than-temporary impairment charge on one of its investments for $3 million that was recorded on the line Impairment, restructuring charges and other related closure costs in the consolidated statements of income for the year ended December 31, 2009. The impairment is based on a review of the valuation of the entity upon liquidation. In 2008, the Company incurred other-than-temporary impairment charges on two of its investments, which totaled $6 million and were recorded on the line Impairment, restructuring charges and other related closure costs in the consolidated statements of income for the year ended December 31, 2008. For one investment, the impairment charge was based on the valuation for the underlying investment of a new round of third party financing. For the other one, the valuation at fair value was based on the valuation of the entity upon liquidation. The aggregate carrying amount of cost method investments that the investor did not evaluate for impairment in 2009 and 2008 because there was no triggering event is $29 million and $32 million, respectively.

The Company entered into a joint venture agreement in 2002 with Dai Nippon Printing Co, Ltd for the development and production of Photomask in which the Company holds a 19% equity interest. The joint venture, DNP Photomask Europe S.p.A, was initially capitalized with the Company s contribution of 2 million of cash. Dai Nippon Printing Co, Ltd contributed 8 million of cash for an 81% equity interest. In the event of the liquidation of the joint-venture, the Company is required to repurchase the land at cost, and the facility at 10% of its net book value, if no suitable buyer is identified. No provision for this obligation has been recorded to date. At December 31, 2009, the Company s total contribution to the joint venture is $10 million. The Company continues to maintain its 19% ownership of the joint venture, and therefore continues to account for this investment under the cost method. The Company has identified the joint venture as a Variable Interest Entity (VIE), but has determined that it is not the primary beneficiary of the VIE. The Company s current maximum exposure to loss as a result of its involvement with the joint venture is limited to its equity investment.

Long-term receivables related to funding are mainly public grants to be received from governmental agencies in Italy and France as part of long-term research and development, industrialization and capital investment projects.

Long-term receivables related to tax refund correspond to tax benefits claimed by the Company in certain of its local tax jurisdictions, for which collection is expected beyond one year.

The Company received upon the creation of Numonyx long-term subordinated notes amounting to $156 million at inception, bearing interest at market rates and with a maturity as at March 30, 2038. These long-term notes yield 9.5% interest, generally payable in kind for seven years and in cash thereafter. In liquidation events in which proceeds are insufficient to pay off the term loan, revolving credit facilities and the Francisco Partners preferential

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

payout rights, the subordinated notes will be deemed to have been retired. These notes are also classified as available-for-sale financial assets. The nominal value of the notes was accreted since inception by $27 million of paid-in-kind interests receivable, of which $16 million was recognized in 2009. Changes in fair value were recognized as a separate component of Accumulated other comprehensive income (loss) in the consolidated statements of changes in equity and corresponded to a pre-tax cumulative $11 million deferred loss as of December 31, 2009. This decline in fair value was assessed to be temporary as the Company expects to recover the debt securities entire amortized cost basis, and, in compliance with the accounting guidance on other-than-temporary impairment charges on debt securities, it does not intend to sell the securities or is not more likely than not to be required to sell them before recovery. Consequently, no cumulative effect adjustment was recorded upon adoption of the new accounting guidance. Fair value measurement, which corresponds to a level 3 fair value measurement hierarchy, is based on publicly available swap rates for fixed income obligations with similar maturities. Fair value measurement information is further detailed in Note 25.

13. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	December 31, 2009	December 31, 2008
Payroll	**325**	319
Social charges	**149**	146
Taxes other than income taxes	**80**	91
Advances	**47**	51
Payables to equity investments	**30**	7
Obligations for capacity rights	**21**	29
Financial instruments	**34**	5
Provision for restructuring	**180**	197
Pension and long-term benefits	**30**	21
Royalties	**35**	14
Acquisition-related expenses	**0**	17
Others	**118**	99
Total	**1,049**	996

The terms of the agreement for the inception of Numonyx included rights granted to Numonyx to use certain assets retained by the Company. As at December 31, 2009 and 2008 the value of such rights totaled $65 million and $87 million respectively, of which $18 million and $24 million respectively were reported as a current liability. The remaining obligations for capacity rights is due to the terms of the agreement for the integration of NXP wireless business that included rights for NXP to obtain products from the Company at preferential pricing.

Other payables and accrued liabilities also include individually insignificant amounts as of December 31, 2009 and December 31, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

14. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31, 2009	December 31, 2008
Bank loans:		
2.10% due 2009, floating interest rate at Libor + 0.40%		50
1.79% due 2010, floating interest rate at Libor + 1.0%	**40**	50
Funding program loans:		
2.00% (weighted average), due 2009, fixed interest rate		4
0.90% (weighted average), due 2010, fixed interest rate	**12**	24
3.27% (weighted average), due 2012, fixed interest rate	**6**	10
0.50% (weighted average), due 2013, fixed interest rate	**3**	2
0.50% (weighted average), due 2014, fixed interest rate	**8**	10
0.50% (weighted average), due 2016, fixed interest rate	**2**	
3.24% (weighted average), due 2017, fixed interest rate	**67**	72
0.27% due 2014, floating interest rate at Libor + 0.017%	**100**	120
0.31% due 2015, floating interest rate at Libor + 0.026%	**56**	65
0.33% due 2016, floating interest rate at Libor + 0.052%	**136**	136
0.57% due 2016, floating interest rate at Libor + 0.317%	**180**	180
0.49% due 2016, floating interest rate at Libor + 0.213%	**200**	200
Capital leases:		
5.39% (weighted average), due 2011, fixed interest rate	**8**	13
6.00% (weighted average), due 2014, fixed interest rate	**9**	
5.29% (weighted average), due 2017, fixed interest rate	**2**	2
Senior Bonds:		
1.12%, due 2013, floating interest rate at Euribor + 0.40%	**720**	703
Convertible debt:		
-0.50% convertible bonds due 2013		
1.50% convertible bonds due 2016	**943**	1,036
Total long-term debt	**2,492**	2,677
Less current portion	**(176)**	(123)
Total long-term debt, less current portion	**2,316**	2,554

Long-term debt is denominated in the following currencies:

	December 31,	December 31,

	2009	2008
U.S. dollar	**1,666**	1,840
Euro	**826**	837
Other		
Total	**2,492**	2,677

The European Investment Bank s loans denominated in EUR, but drawn in USD, are classified as USD denominated debt. The 2008 figures have been updated accordingly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Aggregate future maturities of total long-term debt outstanding (including current portion) are as follows:

	December 31, 2009
2010	**176**
2011	**1,063**
2012	**119**
2013	**836**
2014	**114**
Thereafter	**184**
Total	**2,492**

In August 2003, the Company issued $1,332 million principal amount at issuance of zero coupon unsubordinated convertible bonds due 2013 with a negative yield of 0.5%. Pursuant to the terms of the convertible bonds due 2013, the Company repurchased the largest part of the bonds in August 2006. The outstanding long-term debt corresponding to the 2013 convertible debt was not material as at December 31, 2009 corresponding to the remaining 188 bonds valued at August 5, 2010 redemption price. At any time the Company may redeem for cash at their negative accreted value all or a portion of the remaining convertible bonds subject to the level of the Company s share price.

In February 2006, the Company issued $1,131 million principal amount at maturity of zero coupon senior convertible bonds due in February 2016. The bonds were issued at 100% of principal with a yield to maturity of 1.5% and resulted in net proceeds to the Company of $974 million less transaction fees. The bonds are convertible by the holder at any time prior to maturity at a conversion rate of 43.833898 shares per one thousand dollar face value of the bonds corresponding to 42,694,216 equivalent shares. This conversion rate has been adjusted from 43.363087 shares per one thousand dollar face value of the bonds as at May 21, 2007, as the result of the extraordinary cash dividend approved by the Annual General Meeting of Shareholders held on May 14, 2008. This new conversion has been effective since May 19, 2008. Upon a change of control, the holders can also redeem the convertible bonds on February 23, 2011 at a price of $1,077.58, on February 23, 2012 at a price of $1,093.81 and on February 24, 2014 at a price of $1,126.99 per one thousand dollar face value of the bonds. The Company can call the bonds at any time after March 10, 2011 subject to the Company s share price exceeding 130% of the accreted value divided by the conversion rate for 20 out of 30 consecutive trading days. The Company may redeem for cash at the principal amount at issuance plus accumulated gross yield all, but not a portion, of the convertible bonds at any time if 10% or less of the aggregate principal amount at issuance of the convertible bonds remain outstanding in certain circumstances or in the event of changes to the tax laws of the Netherlands or any successor jurisdiction. During December 2009 the Company repurchased 98 thousand bonds corresponding to $106 million principal amount for a total cash consideration of $103 million, realizing a gain on the repurchase of $3 million. During January 2010, the Company repurchased around 200 thousand bonds corresponding to $215 million principal amount for a total cash consideration of $212 million, realizing a gain on the repurchase of $3 million. The total of bonds repurchased in December and January represented approximately 30% of the total amount originally issued. The repurchased bonds have been cancelled in accordance with their terms. In 2006, the Company entered into cancellable swaps with a combined notional value of $200 million to hedge the fair value of a portion of these convertible bonds. As a result of these cancellable swap hedging transactions, which are described further in Note 25, the yield on the $200 million principal amount of the hedged convertible bonds has changed from a nominal interest rate of 1.50% to an effective yield of -0.27% as at November 1, 2008, date on which the fair value hedge relationship was discontinued, as described in Note 6.

In March 2006, STMicroelectronics Finance B.V. (ST BV), a wholly owned subsidiary of the Company, issued floating rate senior bonds with a principal amount of 500 million at an issue price of 99.873%. The notes, which mature on March 17, 2013, pay a coupon rate of the three-month Euribor plus 0.40% on the 17th of June, September, December and March of each year through maturity. In the event of changes to the tax laws of the Netherlands or any successor jurisdiction, ST BV or the Company may redeem the full amount of senior bonds for cash. In the event of certain change in control triggering events, the holders can cause ST BV or the Company to repurchase all or a portion of the bonds outstanding.

The Company entered in 2008 into repurchase agreements with certain financial institutions and gave as collateral $262 million principal amount of floating rate notes classified as available-for-sale. The Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

retained control over the pledged debt securities and consequently did not de-recognize the financial assets from its consolidated balance sheet upon transfer of the collateral. The Company accounted for such transactions as secured borrowings and recognized the cash received upon transfer by recording a liability for the obligation to return the cash to the lending financial institution within a term which did not exceed 57 days. Such obligation, with a weighted average interest rate of 2.94%, amounted to $249 million and was extinguished during 2008 when the Company repurchased the pledged securities in accordance with the terms of the repurchase agreements.

Credit facilities

The Company had unutilized committed medium term credit facilities with core relationship banks totalling $500 million. In addition, the aggregate amount of the Company s and its subsidiaries total available short-term credit facilities, excluding foreign exchange credit facilities, was approximately $759 million as at December 31, 2009. In addition, ST-Ericsson had $25 million of unutilized committed line from Ericsson as parent company. The Company also had two committed credit facilities with the European Investment Bank as part of R&D funding programs. The first one, for a total of 245 million for R&D in France was fully drawn in U.S. dollars for a total amount of $341 million, of which $49 million were paid back as at December 31, 2009. The second one, signed on July 21, 2008, for a total amount of 250 million for R&D projects in Italy, was fully drawn in U.S. dollars for $380 million as at December 31, 2009. The Company maintains also uncommitted foreign exchange facilities totalling $714 million at December 31, 2009. At December 31, 2009 and 2008, amounts available under the short-term lines of credit were not reduced by any borrowing.

15. POST-RETIREMENT AND OTHER LONG-TERM EMPLOYEES BENEFITS

The Company and its subsidiaries have a number of defined benefit pension plans, mainly unfunded, and other long-term employees benefits covering employees in various countries. The defined benefit plans provide for pension benefits, the amounts of which are calculated based on factors such as years of service and employee compensation levels. The other long-term employees plans provide for benefits due during the employees period of service after certain seniority levels. The Company uses a December 31 measurement date for the majority of its plans. Eligibility is generally determined in accordance with local statutory requirements. For Italian termination indemnity plan (TFR), generated before July 1, 2007, the Company continues to measure the vested benefits to which Italian employees are entitled as if they retired immediately as of December 31, 2009, in compliance with U.S. GAAP guidance on determining vested benefit obligations for defined benefit pension plans.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

The changes in benefit obligation and plan assets were as follows:

	Pension Benefits		Other Long-Term Benefits	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Change in benefit obligation:				
Benefit obligation at beginning of year	**587**	590	**42**	42
Service cost	**22**	20	**4**	4
Interest cost	**25**	32	**2**	3
Employee contributions	**4**	3		
Benefits paid	**(25)**	(35)	**(2)**	(8)
Effect of settlement	**(16)**	(5)	**(3)**	
Effect of curtailment	**(2)**	(1)		
Actuarial (gain) loss	**29**	15	**(1)**	1
Transfer in	**12**	70	**1**	8
Transfer out	**(5)**	(53)	**(1)**	(5)
Plan amendment		(3)		
Foreign currency translation adjustment	**23**	(46)	**1**	(3)
Benefit obligation at end of year	**654**	587	**43**	42
Change in plan assets:				
Plan assets at fair value at beginning of year	**262**	278		
Expected return on plan assets	**16**	18		
Employer contributions	**46**	16		
Employee contributions	**5**	2		
Benefits paid	**(13)**	(11)		
Effect of settlement	**(14)**	(2)		
Actuarial gain (loss)	**25**	(59)		
Transfer in	**7**	54		
Transfer out	**(6)**	(5)		
Foreign currency translation adjustments	**11**	(28)		
Other		(1)		
Plan assets at fair value at end of year	**339**	262		
Funded status	**(315)**	(325)	**(43)**	(42)
Net amount recognized in the balance sheet consisted of the following:				
Non current assets	**2**	1		
Current liabilities	**(8)**	(5)	**(9)**	(2)
Non Current liabilities	**(309)**	(321)	**(34)**	(40)
Net amount recognized	**(315)**	(325)	**(43)**	(42)

The components of accumulated other comprehensive income (loss) before tax effects were as follows:

	Actuarial (gains)/losses	Prior service cost	Total
Other comprehensive income as at December 31, 2007	12	10	22
Net amount generated/arising in current year	74	(2)	72
Amortization	(3)	(2)	(5)
Foreign currency translation adjustment	(9)		(9)
Other comprehensive income as at December 31, 2008	**74**	**6**	**80**
Net amount generated/arising in current year	4		4
Amortization	(6)	(2)	(8)
Foreign currency translation adjustment	4		4
Effect of curtailment/settlement	(4)		(4)
Other comprehensive income as at December 31, 2009	**72**	**4**	**76**

In 2010, we expect to amortize $4 million of actuarial losses and $1 million of past service cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

The components of the net periodic benefit cost included the following:

	Pension Benefits			Other Long-term Benefits		
	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Service cost	**22**	20	19	**4**	4	3
Interest cost	**25**	32	28	**2**	3	2
Expected return on plan assets	**(16)**	(18)	(15)			
Amortization of actuarial net loss (gain)	**6**	2	(3)	**(1)**	1	(4)
Amortization of prior service cost	**2**	2	2			31
Effect of settlement	**2**	(3)				
Effect of curtailment	**(2)**	(1)	(1)			
Net periodic benefit cost	**39**	34	30	**5**	8	32

The weighted average assumptions used in the determination of the benefit obligation and the plan asset for the pension plans and the other long term benefits were as follows:

Assumptions	**December 31, 2009**	**December 31, 2008**	**December 31, 2007**
Discount rate	**5.11%**	5.23%	5.43%
Salary increase rate	**3.08%**	3.46%	3.24%
Expected long-term rate of return on funds for the pension expense of the year	**5.28%**	5.69%	6.34%

The discount rate was determined by comparison against long-term corporate bond rates applicable to the respective country of each plan. In developing the expected long-term rate of return on assets, the Company modelled the expected long-term rates of return for broad categories of investments held by the plan against a number of various potential economic scenarios.

The Company s pension plan asset allocation at December 31, 2009 and 2008 are as follows:

Percentage of Plan Assets at December

Asset Category	**2009**	**2008**
Equity securities	**38%**	36%
Bonds securities remunerating regular interest	**33%**	37%
Real estate	**9%**	6%
Other	**20%**	21%
Total	**100%**	100%

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

The Company s detailed pension plan asset allocation including the fair-value measurements of those plan assets as at December 31, 2009 is as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	27	27		
Equity securities	128	111	17	
Government debt securities	57	57		
Corporate debt securities	56	52	4	
Derivatives	22	16	6	
Investment funds	1		1	
Real estate	30	3	20	7
Other (mainly insurance assets contracts and reserves)	18	1	12	5
TOTAL	**339**	**267**	**60**	**12**

The Company s investment strategy for its pension plans is to maximize the long-term rate of return on plan assets with an acceptable level of risk in order to minimize the cost of providing pension benefits while maintaining adequate funding levels. The Company s practice is to periodically conduct a review in each subsidiary of its asset allocation strategy. A portion of the fixed income allocation is reserved in short-term cash to provide for expected benefits to be paid. The Company s equity portfolios are managed in such a way as to achieve optimal diversity and in certain jurisdictions they are entirely managed by the multi-employer funds. The Company does not manage any assets internally.

After considering the funded status of the Company s defined benefit plans, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make contributions to its pension plans in any given year in excess of required amounts. The Company contributions to plan assets were $46 million and $16 million in 2009 and 2008 respectively and the Company expects to contribute cash of $18 million in 2010.

The Company s estimated future benefit payments as of December 2009 are as follows:

Years	Pension Benefits	Other Long-term Benefits
2010	41	3
2011	21	2

2012	28	2
2013	28	3
2014	37	3
From 2015 to 2019	192	17

The Company has certain defined contribution plans, which accrue benefits for employees on a pro-rata basis during their employment period based on their individual salaries. The Company accrued benefits related to defined contribution pension plans of $13 million and $11 million, as of December 31, 2009 and 2008 respectively. The annual cost of these plans amounted to approximately $81 million, $72 million and $66 million in 2009, 2008 and 2007, respectively. Major changes as compared to previous periods are mainly related to the acquisition of the NXP wireless business and the formation of the ST-Ericsson joint-venture. The benefits accrued to the employees on a pro-rata basis, during their employment period are based on the individuals salaries.

16. SHAREHOLDERS EQUITY

16.1 Outstanding shares

The authorized share capital of the Company is EUR 1,810 million consisting of 1,200,000,000 common shares and 540,000,000 preference shares, each with a nominal value of EUR 1.04. As at December 31, 2009 the number of shares of common stock issued was 910,319,305 shares (910,307,305 at December 31, 2008).

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

As of December 31, 2009 the number of shares of common stock outstanding was 878,333,566 (874,276,833 at December 31, 2008).

16.2 Preference shares

The 540,000,000 preference shares, when issued, will entitle a holder to full voting rights and to a preferential right to dividends and distributions upon liquidation.

On January 22, 2008, a new option agreement was concluded between the Company and Stichting Continuïteit ST. This new option agreement provides for the issuance of 540,000,000 preference shares. Any such shares should be issued by the Company to the Foundation, upon its request and in its sole discretion, upon payment of at least 25% of the par value of the preference shares to be issued. The issuing of the preference shares is conditional upon (i) the Company receiving an unsolicited offer or there being the threat of such an offer; (ii) the Company s Managing and Supervisory Boards deciding not to support such an offer and; (iii) the Board of the Foundation determining that such an offer or acquisition would be contrary to the interests of the Company and its stakeholders. The preference shares may remain outstanding for no longer than two years. There were no preference shares issued as of December 31, 2009.

16.3 Treasury stock

Following the authorization by the Supervisory Board, announced on April 2, 2008, to repurchase up to 30 million shares of its common stock, the Company acquired 29,520,220 shares as at December 31, 2008, for a total amount of approximately $313 million, also reflected at cost as a reduction of the shareholders equity. This repurchase intends to cover the transfer of shares to employees upon vesting of future share based remuneration programs.

The treasury shares have been designated for allocation under the Company s share based remuneration programs of non-vested shares including such plans as approved by the 2005, 2006, 2007, 2008 and 2009 Annual General Meeting of Shareholders. As of December 31, 2009, 10,934,481 of these treasury shares were transferred to employees under the Company s share based remuneration programs of which 4,044,733 in the year ended December 31, 2009, following the full vesting of the 2006 stock-award plan, the vesting of the first and second tranches of the 2007 stock-award plan, the vesting of the first tranche of the 2008 stock-award plan together with the acceleration of the vesting of a limited number of stock-awards.

As of December 31, 2009, the Company owned a number of treasury shares equivalent to 31,985,739.

16.4 Stock option plans

In 1995, the Shareholders voted to adopt the 1995 Employee Stock Option Plan (the 1995 Plan) whereby options for up to 33,000,000 shares may be granted in installments over a five-year period. Under the 1995 Plan, the options may be granted to purchase shares of common stock at a price not lower than the market price of the shares on the date of grant. At December 31, 2008, under the 1995 plan, 42,300 of the granted options originally vested 32% after two years, 32% after three years and 36% after four years following the date of the grant. The options expire 10 years after the date of grant. During 2005, the vesting periods for all options under the plan were accelerated with no impact on the consolidated statements of income.

In 1996, the Shareholders voted to adopt the Supervisory Board Option Plan whereby each member of the Supervisory Board was eligible to receive, during the three-year period 1996-1998, 18,000 options for 1996 and 9,000 options for both 1997 and 1998, to purchase shares of common stock at the closing market price of the shares on the date of the grant. In the same three-year period, the professional advisors to the Supervisory Board were eligible to receive 9,000 options for 1996 and 4,500 options for both 1997 and 1998. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant.

In 1999, the Shareholders voted to renew the Supervisory Board Option Plan whereby each member of the Supervisory Board may receive, during the three-year period 1999-2001, 18,000 options for 1999 and 9,000 options for both 2000 and 2001, to purchase shares of capital stock at the closing market price of the shares on the date of the grant. In the same three-year period, the professional advisors to the Supervisory Board may receive 9,000 options for 1999 and 4,500 options for both 2000 and 2001. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

In 2001, the Shareholders voted to adopt the 2001 Employee Stock Option Plan (the 2001 Plan) whereby options for up to 60,000,000 shares may be granted in installments over a five-year period. The options may be granted to purchase shares of common stock at a price not lower than the market price of the shares on the date of grant. In connection with a revision of its equity-based compensation policy, the Company decided in 2005 to accelerate the vesting period of all outstanding unvested stock options. The options expire ten years after the date of grant.

In 2002, the Shareholders voted to adopt a Stock Option Plan for Supervisory Board Members and Professionals of the Supervisory Board. Under this plan, 12,000 options can be granted per year to each member of the Supervisory Board and 6,000 options per year to each professional advisor to the Supervisory Board. Options would vest 30 days after the date of grant. The options expire ten years after the date of grant.

A summary of the stock option activity for the plans for the three years ended December 31, 2009, 2008 and 2007 follows:

		Price Per Share	
	Number of Shares	Range	Weighted Average
Outstanding at December 31, 2006	56,325,252	$ 12.03 - $62.01	$ 30.50
Options granted:			
2001 Plan			
Supervisory Board Plan			
Options expired	(7,566,170)	$ 24.88	$ 24.88
Options forfeited	(1,861,960)	$ 16.73 - $62.01	$ 31.19
Options exercised	(131,487)	$ 17.08 - $19.18	$ 18.90
Outstanding at December 31, 2007	46,765,635	$ 16.73 - $62.01	$ 31.42
Options granted:			
2001 Plan			
Supervisory Board Plan			
Options expired	(5,923,552)	$ 44.00 - $62.01	$ 59.1
Options forfeited	(1,410,650)	$ 16.73 - $62.01	$ 27.9
Options exercised			
Outstanding at December 31, 2008	39,431,433	$ 16.73 - $39.00	$ 27.35
Options granted:			
2001 Plan			
Supervisory Board Plan			
Options expired			
Options forfeited	(1,487,601)	$ 17.08 - $39.00	$ 27.69
Options exercised			
Outstanding at December 31, 2009	**37,943,832**	**$ 16.73 - $39.00**	**$ 27.33**

Stock options exercisable following acceleration in 2005 of vesting for all outstanding unvested stock options were as follows:

	December 31, 2009	December 31, 2008	December 31, 2007
Options exercisable	**37,943,832**	39,431,433	46,765,635
Weighted average exercise price	**$ 27.33**	$ 27.35	$ 31,42

The weighted average remaining contractual life of options outstanding as of December 31, 2009, 2008 and 2007 was 2.9, 3.9 and 4.3 years, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options exercisable as of December 31, 2009 were as follows:

Number of shares	Option price range	Weighted average exercise price	Weighted average remaining contractual life
133,966	$ 16.73 - $17.31	$ 17.05	4.7
19,744,709	$ 19.18 - $24.88	$ 21.02	3.8
167,350	$ 25.90 - $29.70	$ 26.96	3.3
17,897,807	$ 31.09 - $39.00	$ 34.37	1.8

16.5 Nonvested share awards

On April 29, 2006 the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 66,000 non vested shares to the members of the Supervisory Board and professionals of the Supervisory Board (The 2006 Supervisory Board Plan), of which 15,000 awards were immediately waived. These awards are granted at the nominal value of the share of 1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In 2007, the first tranche of the plan, representing 17,000 shares vested as at April 27, 2007. In 2008, the second tranche of the plan, representing 16,000 shares vested as at April 27, 2008. Furthermore, following the end of mandate of one of the members of the Board, 4,000 shares were accelerated in 2008. In 2009, the third tranche of the plan, representing 14,000 shares vested as at April 27, 2009. As of December 31 2009, no awards were outstanding under the 2006 Supervisory Board Plan.

On September 29, 2006 the Company granted 4,854,280 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock (The 2006 Employee Plan). The Compensation Committee and the Supervisory Board also authorized on September 29, 2006 the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. These additional shares were granted in 2006 and 2007, as detailed below. The shares were granted for free to employees, and vested upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in one of the Company s European subsidiaries for whom a subplan was simultaneously created on September 29, 2006 for statutory payroll tax purposes, the nonvested shares vested over the following requisite service period: 32% as at April 27, 2007, 32% as at April 27, 2008 and 36% as at April 27, 2009. The following requisite service period was required for the nonvested shares granted under the local subplan: 64% of the granted stock awards vested two years from grant date and 36% as at April 27, 2009. In addition, the sale by the employees of the shares included in the subplan, once vested, is restricted over an additional two-year period which is not considered as an extension of the requisite service period. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 1,120,234 shares, vested as at April 27, 2007. In addition, 10,120 shares were accelerated during the year, of which 340 under the subplan. In 2008, the second tranche of the original plan, representing 1,079,952 shares, vested as at April 27, 2008, and the first tranche of the subplan, representing 748,394 shares vested as at September 30, 2008. In addition, 30,590 shares were accelerated during the year, of which

5,941 under the subplan. These shares were transferred to employees from the treasury shares owned by the Company. In 2009, the third tranche of the original plan, representing 1,155,238 shares and the third tranche of the subplan, representing 400,149 shares vested as at April 27, 2009. In addition, 9,446 shares were accelerated during the year, of which 4,035 under the subplan. At December 31, 2009, no nonvested shares from the 2006 plan were outstanding.

On December 19, 2006, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted additional 62,360 shares to selected employees designated by the Managing Board of the Company as part of the 2006 Employee Plan. This additional grant had the same terms and conditions as the original plan. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 8,885 shares, vested as at April 27, 2007, and the first tranche of the subplan, representing 21,648 shares vested as at December 20, 2008. In 2008, the second tranche of the plan, representing 8,885 shares, vested as at April 27, 2008. In 2009, the third tranche of the plan, representing 9,264 shares and the third tranche of the subplan representing 12,147 shares vested as at April 27, 2009. As at December 31, 2009, no nonvested shares were outstanding as part of this additional grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

On February 27, 2007, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted additional 215,000 shares to selected employees designated by the Managing Board of the Company as part of the 2006 Employee Plan. This additional grant had the same terms and conditions as the original plan. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 50,031 shares, vested as at April 27, 2007. In addition, 1,196 shares were accelerated during the year. In 2008, the second tranche of the plan, representing 47,551 shares vested as at April 27, 2008. In addition, 598 shares were accelerated during the year. In 2009, the first tranche of the subplan, representing 36,122 shares vested as at February 28, 2009. The third tranche of the plan representing 51,514 shares and the third tranche of the subplan representing 20,174 shares vested as at April 27, 2009. In addition, 108 shares were accelerated during the year. As at December 31, 2009, no nonvested shares were outstanding as part of this additional grant.

On April 28, 2007, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board (The 2007 Supervisory Board Plan), of which 22,500 awards were immediately waived. These awards are granted at the nominal value of the share of 1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 45,000 shares, vested as at April 28, 2008. Furthermore, following the end of mandate of one of the members of the Board, 7,500 shares were accelerated in 2008. The second tranche of this plan, representing 45,000 shares, vested as at April 28, 2009. As of December 31, 2009, 45,000 awards were outstanding under the 2007 Supervisory Board Plan.

On June 18, 2007, the Company granted 5,691,840 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock (The 2007 Employee Plan). The Compensation Committee and the Supervisory Board also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company as detailed below. The shares were granted for free to employees, and will vest upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in two of the Company s European subsidiaries for whom a subplan was simultaneously created, the nonvested shares vest over the following requisite service period: 32% as at April 26, 2008, 32% as at April 26, 2009 and 36% as at April 26, 2010. The following requisite service period is required for the nonvested shares granted under the two local subplans: for the first one, 64% of the granted stock awards vest as at June 19, 2009 and 36% as at June 19, 2010. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. For the second subplan, 32% vest as at June 19, 2008, 32% as at April 26, 2009 and 36% as at April 26, 2010. In 2008, the Company failed to meet one performance condition during one semester. Consequently, one sixth of the shares granted, totaling 926,121 shares, of which 242,233 on the first subplan and 2,634 on the second subplan, was lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 1,097,124 shares, vested as at April 26, 2008. The first tranche of one of the local subplans, representing 4,248 shares, vested as at June 19, 2008. In addition, 31,786 shares were accelerated during the year, of which 2,999 under the subplans. These shares were transferred to employees from the treasury shares owned by the Company. The second tranche of the original plan, representing 1,048,429 shares and the second tranche of one of the local subplans, representing 3,914 shares, vested as at April 26, 2009. The first tranche of the other local subplan, representing 768,157 shares, vested as at June 19, 2009. In addition, 32,360 shares were accelerated during the year, of which 4,974 under the subplans. These shares were transferred to employees from the treasury shares owned by the Company. At December 31, 2009, 1,539,083 nonvested shares were outstanding, of which 409,491 under the first subplan and 4,395 under the second one.

On December 6, 2007, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 84,450 shares to selected employees designated by the Managing Board of the Company as part of the 2007 Employee Plan. This additional grant has the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 14,023 shares were lost for vesting, of which 498 on the subplan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 10,434 shares, vested as at April 26, 2008. In addition, 11,311 shares were accelerated during the year. The second tranche of the original plan, representing 21,585 shares, vested as at April 26, 2009. The first tranche of the subplan, representing 1,602 shares, vested as at December 7, 2009. At December 31, 2009, 24,711 nonvested shares were outstanding as part of this additional grant, of which 900 under the local subplan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

On February 19, 2008, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 135,550 shares to selected employees designated by the Managing Board of the Company as part of the 2007 Employee Plan. This additional grant has the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 22,559 shares were lost for vesting, of which 5,887 on the local subplan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 26,407 shares, vested as at April 26, 2008. In addition, 320 shares were accelerated during the year. The second tranche of the original plan, representing 21,978 shares, vested as at April 26, 2009. In addition, 567 shares were accelerated during the year. At December 31, 2009, 37,534 nonvested shares were outstanding as part of this additional grant, of which 12,821 under the local subplan.

On May 16, 2008, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board (The 2008 Supervisory Board Plan), of which 22,500 awards were immediately waived. These awards are granted at the nominal value of the share of 1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. In compliance with the graded vesting of the grant, the first tranche of this plan, representing 47,500 shares, vested as at May 16, 2009. As of December 31, 2009, 95,000 awards were outstanding under the 2008 Supervisory Board Plan.

On July 22, 2008, the Company granted 5,723,305 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock (The 2008 Employee Plan). The Compensation Committee also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. The shares were granted for free to employees, and will vest upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in two of the Company s European subsidiaries for whom a subplan was simultaneously created, the nonvested shares vest over the following requisite service period: 32% as at May 14, 2009, 32% as at May 14, 2010 and 36% as at May 14, 2011. The following requisite service period is required for the nonvested shares granted under the two local subplans: for the first one, 64% of the granted stock awards vest as at July 23, 2010 and 36% as at May 14, 2011. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. For the second one, 32% vest as at July 22, 2009, 32% as at May 14, 2010 and 36% as at May 14, 2011. In 2009, based on the final calculations, it turned out that the Company failed to meet two performance conditions. Consequently, two third of the shares granted, totaling 3,747,193 shares, of which 1,020,134 on the first subplan and 35,598 on the second subplan, was lost for vesting. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 427,324 shares, vested as at May 14, 2009. The first tranche of one of the local subplans, representing 5,719 shares, vested as at July 23, 2009. In addition, 15,588 shares were accelerated during the year. These shares were transferred to employees from the treasury shares owned by the Company. At December 31, 2009, 1,399,373 nonvested shares were outstanding, of which 509,324 under the first local subplan and 11,906 under the second local subplan.

On February 27, 2009, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 50,400 shares to selected employees designated by the Managing Board of the Company as part of the 2008 Employee Plan. This additional grant has the same terms and conditions as the original plan. As a consequence of the failed performance condition explained above, 33,589 shares were lost for vesting, of which 11,365 on the first local subplan and 1,332 on the second local subplan. In compliance with the graded vesting of the grant, the first tranche of the original plan, representing 3,348 shares, vested as at May 14, 2009. At December 31, 2009, 12,329 nonvested shares were outstanding as part of this additional grant, of which 5,685 under the first local subplan and 668 under the second local subplan.

On May 20, 2009, the Compensation Committee (on behalf of the entire Supervisory Board and with its approval) granted 165,000 stock-based awards to the members of the Supervisory Board and professionals of the Supervisory Board (The 2009 Supervisory Board Plan), of which 7,500 awards were immediately waived. These awards are granted at the nominal value of the share of 1.04 and vest over the following period: one third after 12 months, one third after 24 months and one third after 36 months following the date of the grant. Nevertheless, they are not subject to any market, performance or service conditions. As such, their associated compensation cost was recorded immediately at grant. As of December 31 2009, 157,500 awards were outstanding under the 2009 Supervisory Board Plan.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

On July 28, 2009, the Company granted 5,575,240 nonvested shares to senior executives and selected employees to be issued upon vesting from treasury stock (The 2009 Employee Plan). The Compensation Committee also authorized the future grant of additional shares to selected employees upon nomination by the Managing Board of the Company. The shares were granted for free to employees, and will vest upon completion of three internal performance conditions, each weighting for one third of the total number of awards granted. Except for employees in one of the Company s European subsidiaries for whom a subplan was simultaneously created, the nonvested shares vest over the following requisite service period: 32% as at May 20, 2010, 32% as at May 20, 2011 and 36% as at May 20, 2012. The following requisite service period is required for the nonvested shares granted under the local subplan: 64% of the granted stock awards vest as at July 29, 2011 and 36% as at May 20, 2012. In addition, the sale by the employees of the shares once vested is restricted over an additional two-year period, which is not considered as an extension of the requisite service period. At December 31, 2009, 5,532,440 nonvested shares were outstanding, of which 1,438,185 under the subplan.

On November 30, 2009, the Managing Board of the Company, as authorized by the Supervisory Board of the Compensation Committee, granted additional 8,300 shares to selected employees designated by the Managing Board of the Company as part of the 2009 Employee Plan. This additional grant has the same terms and conditions as the original plan. At December 31, 2009, 8,300 nonvested shares were outstanding as part of this additional grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

A summary of the nonvested share activity for the years ended December 31, 2009 and December 31, 2008 is presented below:

Nonvested Shares	Number of Shares	Exercise price	
Outstanding as at December 31, 2007	10,510,030	$	0- 1.04
Awards granted:			
2007 Employee Plan	135,550	$	0
2008 Employee Plan	5,723,305	$	0
2008 Supervisory Board Plan	165,000		1.04
Awards forfeited:			
2005 Employee Plan	(7,900)	$	0
2006 Employee Plan	(62,162)	$	0
2007 Employee Plan	(141,201)	$	0
2008 Employee Plan	(56,185)	$	0
2008 Supervisory Board Plan	(22,500)		1.04
Awards cancelled on failed vesting conditions:			
2007 Employee Plan	(962,703)	$	0
Awards vested:			
2005 Employee Plan	(903,381)	$	0
2005 Supervisory Board Plan	(17,000)		1.04
2006 Employee Plan	(1,937,618)	$	0
2006 Supervisory Board Plan	(20,000)		1.04
2007 Employee Plan	(1,181,630)	$	0
2007 Supervisory Board Plan	(52,500)		1.04
Outstanding as at December 31, 2008	11,169,105	$	0- 1.04
Awards granted:			
2008 Employee Plan	50,400	$	0
2009 Employee Plan	5,583,540	$	0
2009 Supervisory Board Plan	165,000		1.04
Awards forfeited:			
2006 Employee Plan	(8,507)	$	0
2007 Employee Plan	(52,896)	$	0
2008 Employee Plan	(73,057)	$	0
2009 Employee Plan	(42,800)	$	0
2009 Supervisory Board Plan	(7,500)		1.04
Awards cancelled on failed vesting conditions:			
2008 Employee Plan	(3,780,782)	$	0
Awards vested:			
2006 Employee Plan	(1,694,162)	$	0
2006 Supervisory Board Plan	(14,000)		1.04
2007 Employee Plan	(1,898,592)	$	0
2007 Supervisory Board Plan	(45,000)		1.04
2008 Employee Plan	(451,979)	$	0

2008 Supervisory Board Plan	(47,500)		1.04
Outstanding as at December 31, 2009	**8,851,270**	**$**	**0- 1.04**

The Company recorded compensation expense for the nonvested share awards based on the fair value of the awards at the grant date. The fair value of the awards granted in 2005 represents the $16.61 share price at the date of the grant. On the 2005 Employee Plan, the fair value of the nonvested shares granted, since they are affected by a market condition, reflects a discount of 49.50%, using a Monte Carlo path-dependent pricing model to measure the probability of achieving the market condition.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

The following assumptions were incorporated into the Monte Carlo pricing model to estimate the 49.50% discount:

	2005 Employee Plan
Historical share price volatility	27.74%
Historical volatility of reference index	25.5%
Three-year average dividend yield	0.55%
Risk-free interest rates used	4.21%-4.33%

Consistent with fair value calculations of stock option grants in prior years, the Company has determined the historical share price volatility to be the most appropriate estimate of future price activity. The weighted average grant-date fair value of nonvested shares granted to employees under the 2005 Employee Plan was $8.50.

In 2006, the Company accounted for the impact of the modification of the 2005 Employee Plan with the creation of a local subplan in compliance with U.S. GAAP guidance. Such modification did not generate any incremental cost since, when measured as at the modification date, the fair value was discounted at 100% due to the nil probability as at March 2006 to achieve the market condition.

The grant date fair value of nonvested shares granted to employees under the 2006 Employee Plan was $17.35. On the 2006 Employee Plan, the fair value of the nonvested shares granted did not reflect any discount since they are not affected by a market condition. On February 27, 2007, the Compensation Committee approved the statement that the three performance conditions were met. Consequently, the compensation expense recorded on the 2006 Employee Plan reflects the statement that all of the awards granted will vest, as far as the service condition is met.

The grant date fair value of nonvested shares granted to employees under the 2007 Employee Plan was $19.35. On the 2007 Employee Plan, the fair value of the nonvested shares granted did not reflect any discount since they are not affected by a market condition. On April 1, 2008, the Compensation Committee approved the statement that two performance conditions were fully met and that for one condition only one half of it was achieved. Consequently, the compensation expense recorded on the 2007 Employee Plan reflects the statement that five sixths of the awards granted will vest, as far as the service condition is met.

The grant date fair value of nonvested shares granted to employees under the 2008 Employee Plan was $10.64. On the 2008 Employee Plan, the fair value of the nonvested shares granted did not reflect any discount since they are not affected by a market condition. On March 23, 2009, the Compensation Committee approved the statement that one performance condition was fully met. Consequently, the compensation expense recorded on the 2008 Employee Plan reflects the statement that one third of the awards granted will vest, as far as the service condition is met.

The grant date fair value of nonvested shares granted to employees under the 2009 Employee Plan was $7.54. On the 2009 Employee Plan, the fair value of the nonvested shares granted did not reflect any discount since they are not affected by a market condition. On the contrary, the Company estimates the number of awards expected to vest by assessing the probability of achieving the performance conditions. At December 31, 2009, a final determination of the achievement of the performance conditions had not yet been made by the Compensation Committee of the Supervisory Board. However, the Company has estimated that two third of awards are expected to vest. Consequently, the compensation expense recorded for the 2009 Employee Plan reflects the vesting of two third of the awards granted, subject to the service condition being met. The assumption of the expected number of awards to be vested upon achievement of the performance conditions is subject to changes based on the final measurement of the conditions, which is expected to occur in the first quarter of 2010.

The following table illustrates the classification of pre-payroll tax and social contribution stock-based compensation expense included in the consolidated statements of income for the year ended December 31, 2009, December 31, 2008 and December 31, 2007, respectively:

	December 31, 2009	**December 31, 2008**	**December 31, 2007**
Cost of sales	**7**	15	14
Selling, general and administrative	**19**	37	37
Research and development	**11**	24	22
Loss on equity investment	**1**	2	
Total pre-payroll tax and social contribution compensation	**38**	78	73

F-52

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Compensation cost, excluding payroll tax and social contribution, capitalized as part of inventory was $2 million at December 31, 2009, $3 million at December 31, 2008 whereas it amounted to $6 million at December 31, 2007. As of December 31, 2009 there was $27 million of total unrecognized compensation cost related to the grant of nonvested shares, which is expected to be recognized over a weighted average period of approximately 16.3 months.

The total deferred income tax expense recognized in the consolidated statements of income related to unvested share-based compensation expense amounted to $8 million for the year ended December 31, 2009, including a shortfall recorded on the 2006 Employee Plan closed during 2009 due to the vesting fair value being significantly lower than the grant fair value. The total deferred income tax benefit recognized in the consolidated statements of income related to unvested share-based compensation expense amounted to $3 million and $9 million for the years ended December 31, 2008 and 2007, respectively.

16.6 Accumulated other comprehensive income (loss)

The accumulated balances related to each component of Other comprehensive income (loss) were as follows:

	Foreign currency translation income (loss)	Unrealized gain (loss) on available-for-sale financial assets, net of tax	Unrealized gain (loss) on derivatives, net of tax	Guidance on defined benefit plans adoption adjustment, net of tax	Accumulated other comprehensive income (loss)
Balance as of December 31, 2006	860	0	13	(57)	816
Other comprehensive income (loss)	467	(2)	(1)	40	504
Balance as of December 31, 2007	1,327	(2)	12	(17)	1,320
Other comprehensive income (loss)	(163)	(14)	(1)	(48)	(226)
Balance as of December 31, 2008	1,164	(16)	11	(65)	1,094
Other comprehensive income (loss)	**61**	**10**	**(5)**	**4**	**70**
Balance as of December 31, 2009	**1,224**	**(6)**	**6**	**(60)**	**1,164**

For the year ended December 31, 2009, the net amount of accumulated other comprehensive income reclassified as earnings was approximately $11 million related to cash flow hedge transactions outstanding as at December 31, 2008, for which the forecasted hedged transaction occurred in 2009.

16.7 Dividends

At the Company s Annual General meeting of Shareholders held on May 20, 2009, the distribution of a cash dividend of $105 million or $0.12 per common share to be paid in four equal installments was adopted by the Company s shareholders. Through December 31, 2009, payments were made for an amount of $79 million including the payment of $3 million for related withholding tax. The remaining $0.03 per share cash dividend to be paid in the first quarter of 2010 totaled $26 million and was reported as dividends payable to shareholders on the consolidated balance sheet as at December 31, 2009.

At the Annual General Meeting of Shareholders on May 14, 2008 shareholders adopted the distribution of $0.36 per share in cash dividends, payable in four equal quarterly installments. Through December 31, 2008, payments totaled $0.27 per share or approximately $240 million. The remaining $0.09 per share cash dividend to be paid in the first quarter of 2009 totaled $79 million and was reported as dividends payable to shareholders on the consolidated balance sheet as at December 31, 2008.

In 2008 the cash dividend paid was of $0.36 per share for a total amount of $319 million. In 2007, the cash dividend paid was $0.30 per share for a total amount of $269 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

17. EARNINGS (LOSS) PER SHARE

For the years ended December 31, 2009, 2008 and 2007, earnings (loss) per share (EPS) was calculated as follows:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Basic EPS			
Net income (loss)	**(1,131)**	(786)	(477)
Weighted average shares outstanding	**876,928,190**	891,955,940	898,731,154
Basic EPS	**(1.29)**	(0.88)	(0.53)
Diluted EPS			
Net income (loss)	**(1,131)**	(786)	(477)
Net income (loss) adjusted	**(1,131)**	(786)	(477)
Weighted average shares outstanding	**876,928,190**	891,955,940	898,731,154
Dilutive effect of stock options			
Dilutive effect of nonvested shares			
Dilutive effect of convertible debt			
Number of shares used in calculating diluted EPS	**876,928,190**	891,955,940	898,731,154
Diluted EPS	**(1.29)**	(0.88)	(0.53)

At December 31, 2009, if the Company had reported an income, outstanding stock options would have included anti-dilutive shares totalling approximately 37,943,832 shares. At December 31, 2008 and 2007, outstanding stock options included anti-dilutive shares totalling approximately 39,431,433 and 46,722,255 shares, respectively.

There was also the equivalent of 38,404,118 common shares outstanding for convertible debt, out of which 5,624 for the 2013 bonds and 38,398,494 for the 2016 bonds, with no dilutive effect. None of these bonds have been converted to shares during 2009.

18. OTHER INCOME AND EXPENSES, NET

Other income and expenses, net consisted of the following:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Research and development funding	**202**	83	97
Start-up and phase-out costs	**(39)**	(17)	(24)
Exchange gain, net	**11**	20	1
Patent costs, net of gain from settlement	**(5)**	(24)	(28)

Gain on sale of long-lived assets, net	**3**	4	2
Other, net	**(6)**	(4)	
Total	**166**	62	48

The Company receives significant public funding from governmental agencies in several jurisdictions. Public funding for research and development is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions have been met.

Start-up costs represent costs incurred in the start-up and testing of the Company s new manufacturing facilities, before reaching the earlier of a minimum level of production or six months after the fabrication line s quality certification. Phase-out costs for facilities during the closing stage are treated in the same manner.

Exchange gains and losses included in Other income and expenses, net represent the portion of exchange rate changes on transactions denominated in currencies other than an entity s functional currency and the changes in fair value of held-for-trading derivative instruments which are not designated as hedge and which have a cash flow effect related to operating transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Patent costs, net of settlement agreements, include legal and attorney fees and payment for claims, patent pre-litigation consultancy and legal fees, netted against settlements, which primarily includes reimbursements of prior patent litigation costs.

As at December 31, 2008 and 2007, the caption Other, net included a $3 million and a $7 million income respectively, net of attorney and consultancy fees that the Company received in its ongoing pursuit to recover damages related to the case with its former Treasurer as previously disclosed.

19. IMPAIRMENT, RESTRUCTURING CHARGES AND OTHER RELATED CLOSURE COSTS

Impairment, restructuring charges and other related closure costs incurred in 2009, 2008, and 2007 are summarized as follows:

Year Ended December 31, 2009	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
2007 restructuring plan	(25)	(69)	(32)	(126)
STE restructuring plan		(99)	(1)	(100)
Goodwill annual impairment test	(6)			(6)
Other restructuring initiatives	(4)	(53)	(2)	(59)
Total	**(35)**	**(221)**	**(35)**	**(291)**

Year Ended December 31, 2008	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
2007 restructuring plan	(77)	(79)	(8)	(164)
FMG deconsolidation	(190)	(2)	(24)	(216)
Goodwill annual impairment test	(13)			(13)

Other restructuring initiatives	(10)	(75)	(3)	(88)
Total	**(290)**	**(156)**	**(35)**	**(481)**

Year Ended December 31, 2007	**Impairment**	**Restructuring charges**	**Other related closure costs**	**Total impairment, restructuring charges and other related closure costs**
2007 restructuring plan	(11)	(62)		(73)
FMG deconsolidation	(1,107)		(5)	(1,112)
Other restructuring initiatives	(5)	(8)	(30)	(43)
Total	**(1,123)**	**(70)**	**(35)**	**(1,228)**

Impairment charges and disposal loss

In 2009, the Company recorded impairment charges for $35 million relating primarily to:

$25 million impairment linked to the 2007 restructuring plan. These impairment charges were triggered by the reclassification of the Company s long-lived assets of its manufacturing site in Carrollton (Texas) (previously designated for closure as part of the 2007 restructuring plan) on the line Assets held for sale on the consolidated balance sheets, pursuant to its decision to sell the facility. The reclassified assets are primarily property and other long-lived assets that satisfied all of the criteria required for the held-for-sale classification guidance. The carrying value of the assets to be sold totalled $51 million at the date of the reclassification, while fair value less costs to sell amounted to approximately $30 million, which generated an impairment charge of $21 million. Fair value less costs to sell was based on the consideration to be received upon the sale, which is expected to occur within one year. This fair value measure corresponds to a level 2 fair value hierarchy for nonfinancial assets measured at fair value on a nonrecurring basis, as described in Note 25. The Company also recorded impairment charges totalling

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

$4 million on certain specific equipment of the Company s manufacturing site in Phoenix (Arizona), for which no alternative future use existed within the Company. Fair value was estimated based on broker prices available for similar assets from past sales, which corresponds to a level 2 fair value hierarchy for nonfinancial assets measured at fair value on a nonrecurring basis, as described in Note 25.

The long-lived assets affected by the restructuring plans are owned by the Company and were assessed for impairment using the held-for-use model when they did not satisfy all of the criteria required for held-for-sale status. In 2009, 2008 and 2007, apart from assets held for sale within FMG deconsolidation and long-lived assets of the manufacturing site in Carrollton (Texas), the Company did not identify any significant tangible asset to be disposed of by sale.

$6 million impairment on goodwill, pursuant to the interim impairment test on goodwill performed during the first and second quarter of 2009. As a result of this testing and a decline in the business outlook for the Vision business acquired in 1999, the Company recorded a $6 million impairment charge. The Vision business is included in the Automotive Consumer Computer and Communication infrastructure Product Group reporting segment and is dedicated to image sensors, camera modules and image processors for mobile phones.

$3 million other-than-temporary impairment on an investment carried at cost based on the liquidation value of the investment.

$1 million of other non-cash charges.

In 2008, the Company recorded impairment charges and disposal loss for $290 million corresponding primarily to:

$190 million loss on FMG deconsolidation, which, together with the $1,107 million recorded in the year ended December 31, 2007, gives the total loss of the FMG deconsolidation of $1,296 million.

$75 million impairment charge on long-lived assets of the Company s manufacturing site Phoenix (Arizona).

$13 million impairment on goodwill, pursuant to the annual impairment test on goodwill and indefinite long-lived assets.

$6 million other-than-temporary impairment on investments carried at cost.

$4 million impairment on certain specific equipment with no alternative future use.

In 2007, the Company recorded impairment charges for $1,123 million corresponding primarily to $1,107 million impairment as a result of the signing of the definitive agreement for the FMG deconsolidation and upon meeting the criteria for assets held for sale, to adjust the value of the to-be-contributed assets to fair value less costs to sell. Fair value less costs to sell was based on the net consideration provided for in the agreement and significant estimates.

Restructuring charges and other related closure costs

The Company is currently engaged in two major restructuring plans, the STE restructuring plan and the 2007 restructuring plan that are briefly described hereafter. The Company is also engaged in various initiatives launched in 2008 and 2009 aimed at reducing the operating expenses through a workforce reduction.

In April 2009, ST-Ericsson announced a restructuring plan to be completed by mid-2010 (the STE restructuring plan). The main actions included in the restructuring plan are a re-alignment of product roadmaps to create a more agile and cost-efficient R&D organization and a reduction in workforce of 1,200 worldwide to reflect further integration activities following the merger. On December 3, 2009, ST-Ericsson expanded its restructuring plan, targeting additional annualized savings in operating expenses and spending, along with an extensive R&D efficiency program. The targeted time of completion of this new plan is the end of 2010.

The Company announced in 2007 that management committed to a restructuring plan aimed at redefining the Company s manufacturing strategy in order to be more competitive in the semiconductor market (the 2007 restructuring plan). In addition to the prior restructuring measures undertaken in the past years, this manufacturing plan would pursue, among other initiatives: the transfer of 150mm production from Carrollton (Texas) to Asia, the transfer of 200mm production from Phoenix (Arizona), to Europe and Asia and the restructuring of the

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

manufacturing operations in Morocco with a progressive phase out of the activities in Ain Sebaa site synchronized with a significant growth in Bouskoura site.

In 2009, the Company incurred restructuring charges and other related closure costs for $256 million relating primarily to:

$100 million for the STE restructuring plan for on-going termination benefits for involuntary leaves pursuant to the closure of certain locations in Europe, the Unites States of America and Asia.

$101 million for the 2007 restructuring plan primarily related to closure costs and one-time termination benefits to be paid to employees who render services until the complete closure of the Carrollton (Texas) and Phoenix (Arizona) fabs.

$55 million restructuring charges related to former committed restructuring initiatives. These restructuring charges consisted primarily of termination benefits in Asia and voluntary termination arrangements in certain European locations. Additionally, the Company paid $39 million related to the restructuring plan announced upon the integration of NXP wireless business, as described in Note 7. The amounts paid were charged against the liability recorded in 2008 in the purchase price allocation.

In 2008, the Company incurred restructuring charges and other related closure costs for $191 million relating primarily to:

$87 million for the 2007 restructuring plan primarily related to $75 million accrued one-time termination benefits for employees who provide services beyond the legal retention period until the complete closure of the manufacturing sites of Carrollton (Texas) and Phoenix (Arizona) and $12 million of other costs in Morocco and France.

$26 million of restructuring charges related to FMG disposal consisting primarily in phase-out costs.

$78 million of other restructuring initiatives, consisting primarily of $69 million in termination benefits for voluntary leaves and early retirement arrangements in certain European locations and $9 million final costs relating to the former restructuring plans of the Company.

In connection with the integration of Genesis and of the wireless business from NXP, the Company launched in 2008 new restructuring initiatives aimed at rationalizing its operations and its worldwide workforce. The restructuring provisions related to the newly integrated businesses amounted to $46 million at acquisition date, of which $44 million recorded on the ST-NXP business combination. The latter represented estimated redundancy costs that will be incurred to achieve the rationalization of the combined organization as anticipated as part of the transaction. It covers approximately 500 people including sub-contractors. The plan affects mainly employees in Belgium, China, Germany, India, the Netherlands, Switzerland and the United States.

In 2007, the company incurred restructuring charges and other related closure costs for $105 million relating primarily to:

$62 million for the 2007 restructuring plan

$5 million of other related closure costs incurred as a result of the FMG deconsolidation

$38 million on other restructuring initiatives (150 mm fab plan and the 2005 headcount reduction plan)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Changes to the restructuring provisions recorded on the consolidated balance sheet of the company in 2009 and 2008 are summarized as follows:

	STE Restructuring plan	2007 Restructuring plan	FMG disposal	Other restructuring initiatives	Total
Provision as at December 31, 2007		**60**	**2**	**20**	**82**
Charges incurred in 2008		87	51	78	**216**
Provision on business combinations				46	**46**
Amounts paid		(34)	(33)	(43)	**(110)**
Provision as at December 31, 2008		**113**	**20**	**101**	**234**
Charges incurred in 2009	100	101		55	**256**
Amounts paid	(17)	(156)	(20)	(103)	**(296)**
Provision as at December 31, 2009	**83**	**58**		**53**	**194**

Total impairment, restructuring charges and other related closure costs

The 150mm fab plan and related manufacturing initiatives were fully completed in 2008. The expected pre-tax charges to be incurred under the plan were estimated to total $330 million, while $347 million were incurred as of December 31, 2008.

The 2005 headcount reduction plan, which was fully completed as at December 31, 2008, was originally expected to result in pre-tax charges of $100 million, while $102 million were incurred as at December 31, 2008.

The 2007 restructuring plan is expected to result in pre-tax charges in the range of $270 to $300 million, of which $250 million have been incurred as of December 31, 2009. This plan is expected to be completed in the second half of 2010.

The STE restructuring plan, which is expected to result in a total pre-tax charge in the range of $135 million to $155 million, registered a total charge of $100 million as of December 31, 2009. This plan is expected to be completed by end of 2010.

In 2009, total amounts paid for restructuring and related closure costs amounted to $296 million. The total actual costs that the Company will incur may differ from these estimates based on the timing required to complete the restructuring plan, the number of people involved, the final agreed termination benefits and the costs associated with the transfer of equipment, products and processes.

20. INTEREST INCOME, NET

Interest income, net consisted of the following:

	Year Ended December 31, 2009	**Year Ended December 31, 2008**	**Year Ended December 31, 2007**
Income	**59**	132	156
Expense	**(50)**	(81)	(73)
Total	**9**	51	83

No borrowing cost was capitalized in 2009, 2008 and 2007. Interest income on floating rate notes classified as available-for-sale marketable securities amounted to $8 million for the year ended December 31, 2009, $37 million for the year ended December 31, 2008 and to $41 million for the year ended December 31, 2007. Interest income on auction rate securities totaled $7 million, $14 million and $24 million for the years ended December 31, 2009, 2008 and 2007 respectively. Interest income on Numonyx long term notes classified as available-for-sale amounted to $16 million for the year ended December 31, 2009 and $11 million for the year ended December 31, 2008.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

21. INCOME TAX

Income (loss) before income tax expense is comprised of the following:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Loss recorded in The Netherlands	**(376)**	(1,232)	(54)
Income (loss) from foreign operations	**(1,120)**	409	(440)
Loss before income tax expense	**(1,496)**	(823)	(494)

STMicroelectronics N.V. and its subsidiaries are individually liable for income taxes in their jurisdictions. Tax losses can only offset profits generated by the taxable entity incurring such loss.

Income tax benefit (expense) is comprised of the following:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
The Netherlands taxes current	**4**	(1)	(4)
Foreign taxes current	**(54)**	(25)	(121)
Current taxes	**(50)**	(26)	(125)
Foreign deferred taxes	**145**	69	148
Income tax benefit	**95**	43	23

The principal items comprising the differences in income taxes computed at the Netherlands statutory rate of 25.5% in 2009, 2008 and 2007, and the effective income tax rate are the following:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Income tax benefit computed at statutory rate	**382**	210	126
	(34)		(20)

Non-deductible, non-taxable and other permanent differences, net			
Loss on equity investment	**(84)**	(139)	
Valuation allowance adjustments	**(56)**	(18)	(1)
Impact of prior years adjustments	**21**	48	(17)
Effects of change in enacted tax rate on deferred taxes	**(7)**		(21)
Current year credits	**76**	66	63
Other tax and credits	**(4)**	2	(3)
Benefits from tax holidays	**2**	34	122
Current year tax risk	**(23)**	(31)	
Impact of FMG deconsolidation		(77)	(113)
Earnings of subsidiaries taxed at different rates	**(178)**	(52)	(113)
Income tax benefit (expense)	**95**	43	23

The lines Impact of prior years adjustments and Current year tax risk include amounts that are further disclosed in the uncertain tax position reconciliation table included in this note.

As detailed in Note 2.6, following the passage of the French Finance Act for 2008, which included several changes to the research tax credit regime, beginning on January 1, 2008, French research tax credits that in prior years were accounted for as a reduction in income tax expense were deemed to be grants in substance. These tax credits, totaling $146 million and $161 million, were reported as a reduction of research and development expenses in the statement of income for the years ended December 31, 2009 and 2008, respectively.

In 2009 and 2008, the line Earnings of subsidiaries taxed at different rates includes a decrease of $123 million and $99 million, respectively, related to significant losses in countries subject to tax holidays. In 2007, this line includes a $97 million decrease related to the FMG deconsolidation for amounts that were deductible in tax jurisdictions with statutory tax rates substantially below the Netherlands statutory rate. In 2009, the Company

F-59

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

received $121 million for research tax credits for the period prior to January 1, 2009 resulting in a decrease in deferred tax assets of the same amount.

The tax holidays represent a tax exemption period aimed to attract foreign technological investment in certain tax jurisdictions. The effect of the tax benefits on basic earnings per share was $0.00, $0.04, and $0.14 for the years ended December 31, 2009, 2008, and 2007, respectively. These agreements are present in various countries and include programs that reduce up to and including 100% of taxes in years affected by the agreements. The Company s tax holidays expire at various dates through the year ending December 31, 2019.

Deferred tax assets and liabilities consisted of the following:

	December 31, 2009	December 31, 2008
Tax loss carryforwards and investment credits	**639**	460
Inventory valuation	**34**	29
Impairment and restructuring charges	**95**	102
Fixed asset depreciation in arrears	**53**	64
Receivables for government funding	**18**	189
Tax allowances granted on past capital investments	**1,096**	1,086
Pension service costs	**41**	39
Stock awards	**11**	26
Commercial accruals	**7**	9
Other temporary differences	**62**	45
Total deferred tax assets	**2,056**	2,049
Valuation allowances	**(1,337)**	(1,283)
Deferred tax assets, net	**719**	766
Accelerated fixed asset depreciation	**(66)**	(86)
Acquired intangible assets	**(31)**	(61)
Advances of government funding	**(13)**	(17)
Other temporary differences	**(35)**	(32)
Deferred tax liabilities	**(145)**	(196)
Net deferred income tax asset	**574**	570

For a particular tax-paying component of the Company and within a particular tax jurisdiction, all current deferred tax liabilities and assets are offset and presented as a single amount, similarly to non-current deferred tax liabilities and assets. The Company does not offset deferred tax liabilities and assets attributable to different tax-paying components or to different tax jurisdictions.

As of December 31, 2009, the Company and its subsidiaries have gross deferred tax assets on tax loss carryforwards and investment credits that expire starting 2010, as follows:

Year

2010	**9**
2011	**23**
2012	**57**
2013	**16**
Thereafter	**534**
Total	**639**

The valuation allowance for a particular tax jurisdiction is allocated between current and non-current deferred tax assets for that jurisdiction on a pro rata basis. The Tax allowances granted on past capital investments mainly related to a 2003 agreement granting the Company certain tax credits for capital investments purchased through the year ending December 31, 2006. Any unused tax credits granted under the agreement will continue to increase yearly by a legal inflationary index (currently 1.45% per annum). The credits may be utilized through 2020 or later depending on the Company meeting certain program criteria. In addition to this agreement, starting in 2007 the

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Company continues to receive tax credits on the yearly capital investments, which may be used to offset that year s tax liabilities and increases by the legal inflationary rate. However, pursuant to the inability to utilize these credits currently and in future years, the Company did not recognize any deferred tax asset on such tax allowance. As a result, there is no financial impact to the net deferred tax assets of the Company.

The amount of deferred tax benefit (expense) recorded as a component of other comprehensive income (loss) was ($3) million and $17 million in 2009 and 2008 respectively and related primarily to the tax effects of the recognized unfunded status on defined benefits plans and unrealized gains on derivatives.

For the evaluation of uncertain income tax positions based on a more likely than not threshold, the Company applies a two-step process to determine if a tax position will be sustained upon examination by the taxing authorities. The recognition threshold in step one permits the benefit from an uncertain position to be recognized only if it is more likely than not, or 50 percent assured that the tax position will be sustained upon examination by the taxing authorities. The measurement methodology in step two is based on cumulative probability , resulting in the recognition of the largest amount that is greater than 50 percent likely of being realized upon settlement with the taxing authority.

A reconciliation of the 2009 beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 31, 2008	$ 153
Additions based on tax positions related to the current year	38
Additions for tax positions of prior years	10
Reductions for tax positions of prior years	(9)
Settlements	
Reductions for lapse of statute of limitations	
Foreign currency translation	1
Balance at December 31, 2009	**$ 193**

The reconciliation of unrecognized tax benefits in 2008 was as follows:

Balance at December 31, 2007	$ 99
Additions based on tax positions related to the current year	20
Additions for tax positions of prior years	58
Reductions for tax positions of prior years	(18)
Settlements	(3)
Reductions for lapse of statute of limitations	
Foreign currency translation	(3)
Balance at December 31, 2008	**$ 153**

The total amount of these unrecognized tax benefits would affect the effective tax rate, if recognized. It is reasonably possible that certain of the uncertain tax positions disclosed in the table above could increase by up to $71 million based upon tax examinations that are expected to be completed within the next 12 months.

Additionally, the Company elected to classify accrued interest and penalties related to uncertain tax positions as components of income tax expense in its consolidated statements of income. Interest and penalties are not material for the year or on a cumulative basis.

The tax years that remain open for review in the Company s major tax jurisdictions are from 1997 to 2009.

F-61

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

22. COMMITMENTS

The Company s commitments as of December 31, 2009 were as follows:

	Total	2010	2011	2012	2013	2014	Thereafter
				In million US$			
Operating leases	**$ 481**	$ 131	$ 98	$ 68	$ 43	$ 26	$ 115
Purchase obligations	**741**	604	62	37	20	18	
of which:							
Equipment purchase	***267***	*267*					
Foundry purchase	***182***	*182*					
Software, technology licenses and design	***292***	*155*	*62*	*37*	*20*	*18*	
Other obligations	**532**	263	135	125	6	2	1
Total	**1,754**	**998**	**295**	**230**	**69**	**46**	**116**

As a consequence of the Company s July 10, 2007 announcement concerning the planned closures of certain of its manufacturing facilities, the shutdown of its plants in the United States is ongoing and negotiations with some of its suppliers continue. As no final date has been set, some of the contracts as reported above have been terminated. The termination fees for the sites still in operation have not been taken into account.

Operating leases are mainly related to building and equipment leases. The amount disclosed is composed of minimum payments for future leases from 2010 to 2014 and thereafter. The Company leases land, buildings, plants and equipment under operating leases that expire at various dates under non-cancellable lease agreements. Operating lease expenses was $174 million, $92 million and $62 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Purchase obligations are primarily comprised of purchase commitments for equipment, for outsourced foundry wafers and for software licenses.

Other obligations primarily relate to firm contractual commitments with respect to partnership and cooperation agreements.

Other commitments

The Company has issued guarantees totalling $733 million related to its subsidiaries debt. Furthermore, the Company has umbrella facilities for an amount of $480 million extendable to its subsidiaries on a fully guaranteed basis. In addition, the Company and Intel have each granted in favor of Numonyx, in which the Company holds a 48.6% equity investment, a 50% guarantee not joint and several, for indebtedness related to the financing arrangements entered into by Numonyx for a $450 million term loan and a $100 million committed revolving credit facility.

Subject to the terms of the revolving facility agreement signed on December 4, 2009 between the Company and Telefonaktiebolaget LM Ericsson as lenders on one side and ST-Ericsson SA as borrower on the other side, the Company committed itself to make available to the borrower the amount of $25 million as a revolving facility.

23. CONTINGENCIES

The Company is subject to the possibility of loss contingencies arising in the ordinary course of business. These include but are not limited to: warranty cost on the products of the Company, breach of contract claims, claims for unauthorized use of third-party intellectual property, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. In determining loss contingencies, the Company considers the likelihood of a loss of an asset or the incurrence of a liability as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is probable that a liability has been incurred and when the amount of the loss can be reasonably estimated. The Company regularly reevaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Company. Changes in these evaluations could result in an adverse material impact on the Company s results of operations, cash flows or its financial position for the period in which they occur.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

24. CLAIMS AND LEGAL PROCEEDINGS

The Company has received and may in the future receive communications alleging possible infringements, in particular in the case of patents and similar intellectual property rights of others. Furthermore, the Company periodically conducts patent cross license discussions with other industry participants. The Company may become involved in costly litigation brought against the Company regarding patents, mask works, copy-rights, trade-marks or trade secrets. In the event that the outcome of any litigation would be unfavorable to the Company, the Company may be required to license the patents and/or other intellectual property rights at economically unfavorable terms and conditions, and possibly pay damages for prior use and/or face an injunction, all of which individually or in the aggregate could have a material adverse effect on the Company s results of operations, cash flows or financial position and ability to compete.

The Company is otherwise also involved in various lawsuits, claims, investigations and proceedings incidental to its business and operations.

The Company is currently one amongst several co-defendants to legal proceedings initiated with the International Trade Commission (the ITC) by Tessera Technologies, Inc (Tessera). See Item 8. Financial Information Legal Proceedings.

On December 4, 2009 the Company has received from the International Chamber of Commerce the notification of a request for arbitration filed by NXP Semiconductors Netherlands BV NXP against the Company, claiming in excess of $46 million in alleged compensation for so called underloading costs, pursuant to a Manufacturing Services Agreement entered into between NXP and ST-NXP Wireless, at the time of the creation of the Company s wireless semiconductor products joint venture with NXP, in August 2008. The Company is contesting this claim vigorously and filed its answer with the ITC on February 12, 2010. The arbitration tribunal has been constituted but has yet to meet.

The Company accrues loss contingencies when a loss is probable and can be estimated. The Company regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they need to be adjusted based on the current information available to the Company. Legal costs associated with claims are expensed as incurred. In the event of litigation which is adversely determined with respect to the Company s interests, or in the event the Company needs to change its evaluation of a potential third-party claim, based on new evidence or communications, a material adverse effect could impact its operations or financial condition at the time it were to materialize. As of December 31, 2009 provisions have been recorded by the Company with respect to legal proceedings when it is probable that a liability has been incurred and the associated amount can be reasonably estimated.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

25.1 Financial risk factors

The Company is exposed to changes in financial market conditions in the normal course of business due to its operations in different foreign currencies and its ongoing investing and financing activities. The Company s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company s financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury) reporting to the Chief Financial Officer. Simultaneously, a Treasury Committee, chaired by the CFO, steers treasury activities and ensures compliance with corporate policies approved by the Board of Directors. Treasury activities are thus regulated by the Company s policies, which define procedures, objectives and controls. The policies focus on the management of financial risk in terms of exposure to market risk, credit risk and liquidity risk. Treasury controls are subject to internal audits. Most treasury activities are centralized, with any local treasury activities subject to oversight from head treasury office. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the Company s operating units. It provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The majority of cash and cash equivalent is held in U.S. dollars and Euro 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. Marginal amounts are held in other currencies. Foreign

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

currency operations and hedging transactions are performed only to hedge exposures deriving from industrial and commercial activities.

Market risk

Foreign exchange risk

The Company conducts its business on a global basis in various major international currencies. As a result, the Company is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities at the Company s subsidiaries.

Management has set up a policy to require the Company s subsidiaries to hedge their entire foreign exchange risk exposure with the Company through financial instruments transacted by Corporate Treasury. To manage their foreign exchange risk arising from foreign-currency-denominated assets and liabilities, entities in the Company use forward contracts and purchased currency options, transacted by Corporate Treasury. Foreign exchange risk arises when recognized assets and liabilities are denominated in a currency that is not the entity s functional currency. These instruments do not qualify as hedging instruments. In addition, forward contracts and currency options are also used by the Company to reduce its exposure to U.S. dollar fluctuations in Euro-denominated forecasted intercompany transactions that cover a large part of its research and development, selling general and administrative expenses as well as a portion of its front-end manufacturing production costs of semi-finished goods. The derivative instruments used to hedge these forecasted transactions meet the criteria for designation as cash flow hedge. The hedged forecasted transactions are all highly probable of occurrence for hedge accounting purposes.

It is the Company s policy to keep the foreign exchange exposures in all the currency pairs hedged month by month against the monthly standard rate. Each month end, the forecasted flows for the coming month are hedged together with the fixing of the new standard rate. For this reason the hedging transactions will have an exchange rate very close to the standard rate at which the forecasted flows will be recorded on the following month. As such, the foreign exchange exposure of the Company, which consists in the balance sheet positions and other contractually agreed transactions, is always equivalent to zero and any movement of the foreign exchange rates will not therefore influence the exchange effect on consolidated statements of income items. Any discrepancy from the forecasted values and the actual results is constantly monitored and prompt actions are taken, as needed.

Derivative Instruments Not Designated as a Hedge

As described above, the Company enters into foreign currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at the Company s subsidiaries. These include receivables from international sales by various subsidiaries in foreign currencies, payables for foreign currency denominated purchases and certain other assets and liabilities arising in intercompany transactions.

The notional amount of these financial instruments totalled $717 million, $505 million and $254 million at December 31, 2009, 2008 and 2007, respectively. The principal currencies covered are the Euro, the Singapore dollar, the Japanese yen, the Swiss franc, the Swedish krona, the British pound and the Malaysian ringgit.

The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled. The risk of loss associated with purchased currency options is equal to the premium paid when the option is not exercised.

Foreign currency forward contracts and currency options not designated as cash flow hedge outstanding as of December 31, 2009 have remaining terms of 4 days to 3 months, maturing on average after 35 days.

Derivative Instruments Designated as a Hedge

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Company hedges certain Euro-denominated forecasted transactions that cover at year-end a large part of its research and development, selling, general and administrative expenses, as well as a portion of its front-end manufacturing costs of semi-finished goods through the use of currency forward contracts and currency options. The maximum length of time over which the Company hedges its exposure to the variability of cash flows for forecasted transactions is 12 months.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

For the year ended December 31, 2009 the Company recorded a reduction in cost of sales and operating expenses of $29 million and $42 million, respectively, related to the realized gain incurred on such hedged transactions. For the year ended December 31, 2008 the Company recorded a reduction in cost of sales of $4 million and an increase of operating expenses of $3 million related to the realized gain (loss) incurred on such hedged transactions. For the year ended December 31, 2007 the Company recorded a reduction in cost of sales and operating expenses of $16 million and $20 million, respectively, related to the realized gain incurred on such hedged transactions. No significant ineffective portion of the hedge was recorded on the line Other income and expenses, net of the consolidated statements of income for the years ended December 31, 2009, 2008 and 2007.

The notional amount of foreign currency forward contracts and currency options designated as cash flow hedges totalled $1,354, $763 and $482 million at December 31, 2009, 2008 and 2007, respectively. The forecasted transactions hedged at December 31, 2009 were determined to be probable of occurrence.

As of December 31, 2009, $6 million of deferred gains on derivative instruments, net of tax of $1 million, included in Accumulated other comprehensive income/(loss) were expected to be reclassified as earnings during the next twelve months based on the monthly forecasted research and development expenses, corporate costs and semi-finished manufacturing costs. No amount was reclassified as Other income and expenses, net into the consolidated statements of income from Accumulated other comprehensive income/(loss) in the consolidated statement of equity. As of December 31, 2008, $13 million of deferred gains on derivative instruments, net of tax of $2 million, included in Accumulated other comprehensive income/(loss) have been reclassified as earnings during the next six months based on the monthly forecasted research and development expenses, corporate costs and semi-finished manufacturing costs.

Foreign currency forward contracts and currency options designated as cash flow hedges outstanding as of December 31, 2009 have remaining terms of 8 days to 11 months, maturing on average after 119 days.

As at December 31, 2009, the Company had the following outstanding derivative instruments that were entered into to hedge Euro-denominated forecasted transactions:

	Notional amount for hedge on R&D and other operating expense forecasted costs	Notional amount for hedge on manufacturing forecasted costs
	In millions of Euros	
Forward contracts	388	272
Currency options	120	160

Cash flow and fair value interest rate risk

The Company s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Since all the liquidity of the Company is invested in floating rate instruments, the Company s interest rate risk arises from the mismatch of fixed rate liabilities and floating rate assets.

In 2006, the Company entered into cancellable swaps with a combined notional value of $200 million to hedge the fair value of a portion of the convertible bonds due 2016 carrying a fixed interest rate. The cancellable swaps converted the fixed rate interest expense recorded on the convertible bond due 2016 to a variable interest rate based upon adjusted LIBOR. As of December 31, 2007 the cancellable swaps met the criteria for designation as a fair value hedge and, as such, both the swaps and the hedged portion of the bonds were reflected at their fair values in the consolidated balance sheet. The criteria for designating a derivative as a hedge include evaluating whether the instrument is highly effective at offsetting changes in the fair value of the hedged item attributable to the hedged risk. Hedged effectiveness was assessed on both a prospective and retrospective basis at each reporting period. Any ineffectiveness of the hedge relationship was recorded as a gain or loss on derivatives as a component of Other income and expenses, net in the consolidated statements of income. The net gain (loss) recognized in Other income and expenses, net as a result of the ineffective portion of this fair value hedge amounted to $1 million gain and $1 million loss for the years ended December 31, 2008 and 2007, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

At December 31, 2008 the cancellable swaps were not designated as fair value hedge and were reported as held-for-trading financial assets on the line Other receivables and assets of the consolidated balance sheet, as described in Note 6. The Company determined that the swaps had been no longer effective at offsetting changes in the fair value of the hedged bonds since November 1, 2008 and the fair value hedge relationship was consequently discontinued on that date. Unrealised gain recognized in earnings from discontinuance date totalled $15 million and was reported on the line Gain(loss) on financial assets of the consolidated statements of income for the year ended December 31, 2008. The swaps were sold in 2009, as described in Note 6.

Information on fair value of derivative instruments and their location in the consolidated balance sheets as at December 31, 2009 and December 31, 2008 is presented in the table below:

	As at December 31, 2009		As at December 31, 2008	
Asset Derivatives	**Balance sheet location**	**Fair value**	**Balance sheet location**	**Fair value**
	In millions of U.S. dollars			
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Other receivables and assets	**24**	Other receivables and assets	19
Currency options	Other receivables and assets	**9**	Other receivables and assets	8
Total derivatives designated as hedging instruments		**33**		27
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Other receivables and assets	**3**	Other receivables and assets	10
Currency options	Other receivables and assets		Other receivables and assets	
Cancellable swaps			Other receivables and assets	34
Total derivatives not designated as hedging instruments:		**3**		44
Total Derivatives		**36**		71

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Liability Derivatives	As at December 31, 2009 Balance sheet location	Fair value	As at December 31, 2008 Balance sheet location	Fair value
	In millions of U.S. dollars			
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Other payables and accrued liabilities	**(19)**	Other payables and accrued liabilities	(3)
Currency options	Other payables and accrued liabilities	**(8)**	Other payables and accrued liabilities	(1)
Total derivatives designated as hedging instruments		**(27)**		(4)
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Other payables and accrued liabilities	**(7)**	Other payables and accrued liabilities	(1)
Currency options	Other payables and accrued liabilities		Other payables and accrued liabilities	
Total derivatives not designated as hedging instruments:		**(7)**		(1)
Total Derivatives		**(34)**		(5)

The effect on the consolidated statements of income for the year ended December 31, 2009 and December 31, 2008 of derivative instruments designated as fair value hedge is presented in the table below:

	Location of gain (loss) recognized in earnings on derivative	Amount of gain (loss) recognized in earnings on derivative December 31, 2009	December, 2008
	In millions of U.S. dollars		
Cancellable swaps	Interest income, net	**3**	
	Other income and expenses, net		1
	Gain(loss) on financial assets	(8)	15

The effect on the consolidated statements of income for the year ended December 31, 2009 and December 31, 2008 and on the Other comprehensive income (OCI) as reported in the statement of changes in equity as at

F-67

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

December 31, 2009 and December 31, 2008 of derivative instruments designated as cash flow hedge is presented in the table below:

	Gain (loss) deferred in OCI on derivative		Location of gain (loss) reclassified from OCI into earnings	Gain (loss) reclassified from OCI into earnings	
	December 31, 2009	December 31, 2008		December 31, 2009	December 31, 2008
			In millions of U.S. dollars		
Foreign exchange forward contracts	**2**	11	Cost of sales	**31**	**6**
Foreign exchange forward contracts	**1**	2	Selling, general and administrative	**7**	**(3)**
Foreign exchange forward contracts	**6**	4	Research and development	**38**	**(5)**
Currency options	**(1)**	1	Cost of sales	**(2)**	**(2)**
Currency options			Selling, general and administrative	**(1)**	**1**
Currency options	**(1)**		Research and development	**(2)**	**4**
Total	**7**	18		**71**	**1**

No significant ineffective portion of the cash flow hedge relationships and no amount excluded from effectiveness assessment was recorded on the line Other income and expenses, net of the consolidated statements of income for year ended December 31, 2009 and December 31, 2008.

The effect on the consolidated statements of income for the year ended December 31, 2009 and December 31, 2008 of derivative instruments not designated as a hedge is presented in the table below:

	Location of Gain Recognized in Earnings	Gain (Loss) Recognized in Earnings	
		December 31, 2009	December 31, 2008
	In millions of U.S. dollars		
Foreign exchange forward contracts	Other income and expenses, net	**20**	(36)

Credit risk

The Company selects 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 group not to exceed 20% of the total.

Due to the credit market turmoil, the Company has decided to further tighten the counterparty concentration and credit risk profile. The maximum outstanding counterparty risk has been reduced and currently does not exceed 15% for major international banks with large market capitalization.

The Company monitors the creditworthiness of its customers to which it grants 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 utilisation of credit limits is regularly monitored. Sales to customers are primarily settled in cash. At December 31, 2009 and 2008, one customer, the Nokia Group of companies, represented 20.8% and 16.7% of trade accounts receivable, net respectively. 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 and cash equivalents, short-term deposits and marketable securities, the availability of funding from committed credit facilities and the ability to close out market positions. The Company s objective is to maintain a significant cash position and a low debt to

F-68

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

equity ratio, which ensure adequate financial flexibility. Liquidity management policy is to finance the Company s investments with net cash provided from operating activities.

Management monitors rolling forecasts of the Company s liquidity reserve on the basis of expected cash flows.

25.2 Capital risk management

The Company s objectives when managing capital are to safeguard the Company s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

Consistent with others in the industry, the Company monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as the net financial position of the Company, defined as the difference between total cash position (cash and cash equivalents, marketable securities current and non-current-, short-term deposits and restricted cash) net of total financial debt (bank overdrafts, current portion of long-term debt and long-term debt), divided by total equity attributable to the shareholders of the Company.

25.3 Fair value measurement

The fair values of quoted financial instruments are based on current market prices. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the bid price. If the market for a financial asset is not active and if no observable market price is obtainable, the Company measures fair value by using significant assumptions and estimates. In measuring fair value, the Company makes maximum use of market inputs and relies as little as possible on entity-specific inputs.

The table below details financial assets (liabilities) measured at fair value on a recurring basis as at December 31, 2009:

		Fair Value Measurements Using		
	December 31, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Description				
In millions of U.S. dollars				
Available-for-sale marketable debt securities	**1,032**	1,021		11
Available-for-sale non-current marketable debt securities	**42**			42

Available-for-sale long term subordinated notes	**173**			173
Available-for-sale equity securities	**10**	10		
Equity securities held for trading	**7**	7		
Derivative instruments designated as cash flow hedge	**6**	6		
Derivative instruments not designated as hedge	**(4)**	(4)		

F-69

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

For assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the reconciliation between January 1, 2009 and December 31, 2009 is presented as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) In millions of U.S. dollars
January 1, 2009	421
Increase in fair value included in OCI for available-for-sale marketable securities	15
Other-than-temporary impairment charge and losses on auction-rate securities included in earnings on the line Other-than-temporary impairment charge on financial assets	(140)
Paid-in-kind interest on Numonyx subordinated notes	16
Change in fair value on Numonyx subordinated notes pre-tax	(11)
Settlements and redemptions	(75)
December 31, 2009	**226**
Amount of total losses for the period included in earnings attributable to assets still held at the reporting date	72

The table below details financial and non financial assets (liabilities) measured at fair value on a nonrecurring basis as at December 31, 2009:

		Fair Value Measurements Using		
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
In millions of U.S. dollars				
Investments in equity securities carried at cost	**29**			29
Numonyx equity investment	**193**			193
Assets held for sale	**31**		31	
Total	**253**		31	222

For assets (liabilities) measured at fair value on a non recurring basis using significant unobservable inputs (Level 3), the reconciliation between January 1, 2009 and December 31, 2009 is presented as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) In millions of U.S. dollars
January 1, 2009	528
Investments in equity securities carried at cost	(3)
Impairment in Numonyx equity	(200)
Equity share in Numonyx loss	(103)
December 31, 2009	**222**
Amount of total losses for the period included in earnings attributable to assets still held at the reporting date	(303)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

The following table includes additional fair value information on other financial assets and liabilities recorded at amortized cost as at December 31, 2009:

	2009		2008	
Description	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
	In millions of U.S. dollars			
Long-term debt				
Bank loans (including current portion)	**829**	**829**	938	937
Senior Bonds	**720**	**712**	703	580
Convertible debt	**943**	**918**	1,036	918
Total	**2,492**	**2,459**	2,677	2,435

The table below details securities that currently are in an unrealized loss position. The securities are segregated by investment type and the length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2009.

	December 31, 2009					
	Less than 12 months		More than 12 months		Total	
Description	**Fair Values**	**Unrealized Losses**	**Fair Values**	**Unrealized Losses**	**Fair Values**	**Unrealized Losses**
Senior debt floating rate notes	105	(2)	209	(7)	314	(9)
Long-term subordinated notes	173	(11)			173	(11)
Total	278	(13)	209	(7)	487	(20)

The methodologies used to estimate fair value are as follows:

Marketable securities

The fair value of floating rate notes is estimated based upon quoted market prices for the identical instruments. For Lehman Brothers senior unsecured bonds, fair value measurement was reassessed in 2008 from a Level 1 fair value measurement hierarchy to a Level 3 following Lehman Brothers Chapter 11 filing. Fair value measurement for these debt securities relies on an information received from a major credit rating entity based on historical recovery rates.

For auction rate securities, which are debt securities without available observable market price, the Company establishes fair value by reference to public available indexes of securities with the same rating and comparable or similar underlying collaterals or industries exposure, as described in details in Note 3.

Foreign exchange forward contracts and currency options

The fair value of these instruments is estimated based upon quoted market prices for identical instruments.

Cancellable swaps held for trading

The fair value of these instruments was estimated based on inputs other than quoted prices received from two market counterparties which held the derivative contracts, which the Company estimates reflected the orderly exit price of the instruments when correlated to other observable market data such as interest rates and yield curves observable at commonly quoted intervals.

Equity securities classified as available-for-sale

The fair values of these instruments are estimated based upon market prices for the same or similar instruments.

Equity securities held for trading

The fair value of these instruments is estimated based upon quoted market prices for the same instruments.

Equity securities carried at cost

The non-recurring fair value measurement was based on the valuation of the underlying investments on a new round of third party financing or upon liquidation.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Numonyx equity investment

The non-recurring fair value measurement was based upon a combination of an income approach, using discounted cash flows, and a market approach, using metrics of comparable public companies, which the Company assesses as a fair approximation of the orderly exit value in the current market.

Subordinated notes received in Numonyx transaction

The fair value of these instruments is estimated based on publicly available fixed interest swap rates for instruments with similar maturities, taking into account the credit risk feature of the issuer of the debt securities.

Long-term debt and current portion of long-term debt

The fair value of long-term debt was determined based on quoted market prices, and by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the Company s incremental borrowing rates for similar types of borrowing arrangements.

Cash and cash equivalents, accounts receivable, bank overdrafts, short-term borrowings, and accounts payable

The carrying amounts reflected in the consolidated financial statements are reasonable estimates of fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

26. RELATED PARTY TRANSACTIONS

Transactions with significant shareholders, their affiliates and other related parties were as follows:

	December 31, 2009	**December 31, 2008**	**December 31, 2007**
Sales & other services	**356**	325	272
Research and development expenses	**(201)**	(63)	(68)
Other purchases	**(167)**	(77)	(85)
Other income and expenses		(7)	(11)
Accounts receivable	**58**	63	44
Accounts payable	**60**	65	40
Other assets			2

For the years ended December 31, 2009, December 31, 2008 and 2007, the related party transactions were primarily with significant shareholders of the Company, or their subsidiaries and companies in which management of the Company perform similar policymaking functions. These include, but are not limited to: Areva, France Telecom Orange, Finmeccanica, Cassa Depositi e Prestiti, Flextronics, Oracle and Thomson. The related party transactions presented in the table above also include transactions between the Company and its equity investments as listed in Note 11.

Since the formation of ST-Ericsson, the Company purchases R&D services from ST-Ericsson AT (JVD), a significant equity investment of the Company. For the year ended December 31, 2009, the total R&D services purchased from ST-Ericsson AT amounted to $150 million and outstanding trade payables amounted to $30 million as at December 31, 2009.

Upon FMG deconsolidation and the creation of Numonyx, the Company performed until November 2008 certain purchasing, service and revenue on-behalf of Numonyx. The Company had a net payable balance of $7 million as at December 31, 2008 as the result of these transactions. Additionally the Company recorded in 2007 costs amounting to $26 million to create the infrastructure necessary to prepare Numonyx to operate immediately following the FMG deconsolidation. These costs were reimbursed by Numonyx in 2008 following the closing of the transaction. Upon creation, Numonyx also entered into financing arrangements for a $450 million term loan and a $100 million committed revolving credit facility from two primary financial institutions. Intel and the Company have each granted in favor of Numonyx a 50% debt guarantee not joint and several. This debt guarantee is described in details in Note 11. The final terms at the closing date of the agreements on assets to be contributed included rights granted to Numonyx by the Company to use certain assets retained by the Company. The Company recorded a provision amounting respectively to $65 million and $87 million, as at December 31, 2009 and 2008, to reflect the value of such rights granted to its equity investment. The parties also retained the obligation to fund the severance payment (trattamento di fine rapporto) due to certain transferred employees which qualifies as a defined benefit

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

plan and was classified on the line Other non-current liabilities . The liability amounted to respectively $31 million and $35 million as at December 31, 2009 and 2008. Finally, the Company recorded in 2008 a net long-term receivable amounting to $6 million corresponding to a tax credit Numonyx will pay back to the Company once cashed-in from the relevant taxing authorities. As at December 31, 2009, this receivable is still outstanding.

Additionally the Company incurred in 2008 and 2007 amounts on transactions with Hynix Semiconductor Inc., with which the Company had until March 30, 2008 a significant equity investment, Hynix Numonyx joint venture (formerly Hynix ST joint venture), described in detail in Note 11. In 2007 and 2006, Hynix Semiconductor Inc. increased its business transactions with the Company in order to supply products on behalf of the joint venture, which was not ready to fully produce and supply the volumes of specific products as requested by the Company. The amount of purchases and other expenses from Hynix Semiconductor Inc. was $161 million in 2007. The amount of sales and other services made in 2007 was $2 million. These transactions significantly decreased in 2008 upon the transfer of the joint venture to Numonyx, as described in Note 11. The amount of purchases and other expenses and the amount of sales and other services from Hynix Semiconductor Inc. was $2 million and $5 million in 2008, respectively. The Company had no significant payable or receivable balance as at December 31, 2008, while it had a payable amounting to $18 million as at December 31, 2007 towards Hynix Semiconductor Inc.

Besides, the Company participates in an Economic Interest Group (E.I.G.) in France with Areva and France Telecom to share the costs of certain research and development activities, which are not included in the table above. The share of income (expense) recorded by the Company as research and development expenses incurred by E.I.G was not material in 2009 and amounted to $9 million income in 2008 and 1 million expense in 2007. As at December 31, 2009, 2008 and 2007, the Company had no receivable or payable amount.

The Company made no contribution in 2009 and contributed cash amounts totalling $1 million, for the years ended December 31, 2008 and 2007 to the ST Foundation, a non-profit organization established to deliver and coordinate independent programs in line with its mission. Certain members of the Foundation s Board are senior members of the Company s management.

27. SEGMENT INFORMATION

The Company operates in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, the Company designs, develops, manufactures and markets 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, the Company further participates in the manufacturing value chain of Smartcard products through its Incard division, which includes the production and sale of both silicon chips and Smartcards.

In the Subsystems business area, the Company designs, develops, manufactures and markets 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 its business as a whole, the Subsystems segment does not meet the requirements for a reportable segment as defined in the U.S. GAAP guidance.

Since March 31, 2008, following the creation with Intel of Numonyx, a new independent semiconductor company from the key assets of its and Intel s Flash memory business (FMG deconsolidation), the Company has ceased reporting under the FMG segment.

Starting August 2, 2008, as a consequence of the creation of the joint venture company with NXP, the Company reorganized its groups. A new segment was created to report wireless operations; the product line Mobile, Multimedia & Communications Group (MMC) which was part of segment Application Specific Groups (ASG) was abandoned and its divisions were reallocated to different product lines. The remaining part of ASG is now comprised of Automotive Consumer Computer and Telecom Infrastructure Product Groups (ACCI).

The new organization is as follows:

Automotive Consumer Computer and Communication Infrastructure (ACCI), comprised of four product lines:

Home Entertainment & Displays (HED),

Automotive Products Group (APG);

Computer and Communication Infrastructure (CCI); and

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except share and per share amounts)

Imaging (IMG , starting January 1, 2009).

Industrial and Multisegment Sector (IMS), comprised of:

Analog, Power and Micro-Electro-Mechanical Systems (APM); and

Microcontrollers, non-Flash, non-volatile Memory and Smart Card products (MMS).

Starting February 3, 2009, as a consequence of the merger of ST-NXP Wireless and Ericsson Mobile Platforms to create ST-Ericsson with Ericsson, the Wireless sector (Wireless) has been adjusted and is comprised of:

Wireless Multi Media (WMM);

Connectivity & Peripherals (C&P);

Cellular Systems (CS);

Mobile Platforms (MP);

in which, since February 3, 2009, the Company reports the portion of sales and operating results of ST-Ericsson as consolidated in the Company s revenue and operating results, and

Other Wireless, in which the Company reports manufacturing margin, R&D revenues and other items related to the wireless business but outside the ST-Ericsson JVS.

The Company has restated its results in prior periods for illustrative comparisons of its performance by product segment. The preparation of segment information according to the new segment structure requires management to make significant estimates, assumptions and judgments in determining the operating income of the segments for the prior reporting periods. Management believes that the restated 2008 and 2007 presentation is consistent with 2009 and is using these comparatives when managing the Company.

Starting January 1, 2010 there was a new organization change within the Wireles