

STMICROELECTRONICS NV

Form 6-K

March 29, 2007

Table of Contents

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 6-K**  
**REPORT OF FOREIGN PRIVATE ISSUER**  
**PURSUANT TO RULE 13a-16 or 15d-16 OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**Report on Form 6-K dated March 29, 2007**

**STMicroelectronics N.V.**  
(Name of Registrant)  
39, Chemin du Champ-des-Filles  
1228 Plan-les-Ouates, Geneva, Switzerland  
(Address of Principal Executive Offices)

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

Form 20-F  Form 40-F

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

Yes  No

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

Yes  No

If  Yes  is marked, indicate below the file number assigned to the registrant in connection with

Rule 12g3-2(b): 82-\_\_\_\_\_

Enclosure: Shareholder materials for STMicroelectronics Annual General Meeting of Shareholders ( AGM ) of April 26, 2007, including: (i) AGM Agenda; (ii) Statutory Annual Report of STMicroelectronics N.V. (Dutch holding company) for the year ended December 31, 2006 (IFRS); (iii) Proposed AGM Resolutions; (iv) Proposed Supervisory Board Member Data Forms; (v) Proxy Forms and Instruction Cards; and (vi) Proposed Amendments to the Articles of Association.

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**Table of Contents**

STMicroelectronics

**Annual General Meeting of Shareholders  
2007**

**Agenda**

**Annual General Meeting of Shareholders ( AGM ) of STMicroelectronics N.V.,  
established in Amsterdam, the Netherlands, to be held on April 26, 2007 at 10.30  
a.m. at the Pulitzer Hotel, Amsterdam, the Netherlands.**

1. Call to order and opening
2. Report of our Managing Board on the 2006 financial year and discussion thereof
3. Report of our Supervisory Board on the 2006 financial year and discussion thereof
4.
  - a. Discussion on and adoption of our statutory annual accounts for the 2006 financial year.
  - b. Adoption of a dividend of US \$0.30 per ordinary share
  - c. Discharge of the sole member of our Managing Board
  - d. Discharge of the members of our Supervisory Board
5. Appointment of two members of our Supervisory Board
6. Approval of the modification of the Stock-Based Compensation Plan for the members and professionals of our Supervisory Board
7. Approval of the stock-based portion of the compensation of our President and CEO
8. Delegation to our Supervisory Board, for five years as of our 2007 AGM, of the authority to issue new shares, to grant rights to subscribe for new shares and to limit and/or exclude existing shareholders' pre-emptive rights
9. Authorization to our Managing Board, for eighteen months as of our 2007 AGM, to repurchase our shares, subject to the approval of our Supervisory Board
10. Amendment to our Articles of Association<sup>1</sup>
11. Question time
12. Close

Copies of our statutory annual accounts, which include the reports of our Managing and Supervisory Boards, the personal data of the proposed members of our Supervisory Board as referred to in section 2:142 subsection 3 of the Dutch Civil Code, the draft deed of amendment to our Articles of Association, including an unofficial English translation thereof, and other information included pursuant to law and the proposed resolutions (including shareholders' information) will be deposited for inspection by our shareholders and other persons entitled to attend the meeting at the offices of the Company at Schiphol Airport as of March 29, 2007 up to and including the date of the meeting. The documents are also available on our website [www.st.com](http://www.st.com).

<sup>1</sup> With respect to  
this item the

meeting shall  
also be  
considered as a  
meeting of  
holders of  
ordinary shares

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**Table of Contents**

**STMicroelectronics**

ST Mission: to offer strategic independence to our  
partners worldwide, as a profitable and viable  
broad range semiconductor supplier.

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**Table of Contents**

**STMICROELECTRONICS N.V.  
STATUTORY ANNUAL REPORT  
DECEMBER 31, 2006**

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**STMICROELECTRONICS N.V.**  
**STATUTORY ANNUAL REPORT**  
**DECEMBER 31, 2006**  
**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>THE MANAGING BOARD IN 2006</u></b>	4
<b><u>THE SUPERVISORY BOARD IN 2006</u></b>	5
<b><u>REPORT OF THE SUPERVISORY BOARD</u></b>	7
<b><u>REPORT OF THE MANAGING BOARD</u></b>	21
<b><u>CORPORATE GOVERNANCE</u></b>	27
<b><u>INTERNAL CONTROL</u></b>	31
<b><u>EXECUTIVE SUMMARY</u></b>	34
<b><u>ANNOUNCEMENTS ON THE BASIS OF ARTICLE 1 OF THE DUTCH DECREE ON ARTICLE 10</u></b>	
<b><u>OF THE TAKEOVER DIRECTIVE</u></b>	44
<b><u>LIQUIDITY AND FINANCIAL POSITION</u></b>	50
<b><u>STATUTORY FINANCIAL STATEMENTS</u></b>	56
<b><u>CONSOLIDATED FINANCIAL STATEMENTS</u></b>	57
<b><u>COMPANY FINANCIAL STATEMENTS</u></b>	128
<b><u>OTHER INFORMATION</u></b>	141
<b>AUDITOR S REPORT</b>	141

**Table of Contents**

**THIS 2006 STATUTORY ANNUAL REPORT HAS BEEN APPROVED FOR PRESENTATION TO THE STMICROELECTRONICS ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DULY SIGND ON MARCH THE 20<sup>TH</sup> 2007 BY:**

**THE MANAGING BOARD**

*/s/*

Carlo Bozotti

**THE SUPERVISORY BOARD**

*/s/*

Gérald Arbola

*/s/*

Bruno Steve

*/s/*

Tom de Waard

*/s/*

Matteo del Fante

*/s/*

Douglas Dunn

*/s/*

Didier Lamouche

*/s/*

Didier Lombard

*/s/*

Antonino Turicchi

*/s/*

Robert M. White





**Table of Contents**

**THE MANAGING BOARD IN 2006**

**Carlo Bozotti (1952)**

President and Chief Executive Officer, serving as the Sole Member of the Managing Board upon his appointment at the 2005 annual general meeting of shareholders held on March 18, 2005.

Italian nationality

- 4 -

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**Table of Contents**

**THE SUPERVISORY BOARD IN 2006**

Gérald Arbola (1948) Chairman

First appointed 2004

Managing Director of Areva S.A.

Current term expires at the 2008 AGM

French nationality

Bruno Steve (1941) Vice Chairman

First appointed 1989

Former Managing Director of Finmeccanica

Current term expires at the 2008 AGM

Italian nationality

Tom de Waard (1946)

First appointed 1998

Partner of Clifford Chance

Current term expires at the 2008 AGM

Dutch nationality

Matteo del Fante (1966)

First appointed 2005

Chief Financial Officer of Cassa Depositi e Prestiti S.p.A. in Rome

Current term expires at the 2008 AGM

Italian nationality

Douglas Dunn (1944)

First appointed 2001

Chairman of the Board of Directors of ARM Holdings plc

Current term expires at the 2009 AGM

British nationality

Francis Gavois (1935)

First appointed 1998

Former Chairman of the Board of Directors and Chief Executive Officer of Banque

Française du Commerce Extérieur (BFCE)

Term expired at the 2006 AGM

French nationality

Didier Lamouche (1959)

First appointed in 2006

Chairman and CEO of Groupe Bull

Current term expires at the 2009 AGM

French nationality

Didier Lombard (1941)

First appointed 2004

Chairman and Chief Executive Officer of France Telecom

Current term expires at the 2008 AGM

French nationality

**Table of Contents**

Antonino Turicchi (1965)

First appointed 2005

Managing Director of Cassa Depositi e Prestiti S.p.A. in Rome

Current term expires at the 2008 AGM

Italian nationality

Robert M. White (1938)

First appointed 1996

University Professor Emeritus Carnegie Mellon University

Current term expires at the 2007 AGM

American nationality

- 6 -

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**Table of Contents**

**REPORT OF THE SUPERVISORY BOARD**

The supervision of the policies and actions of the Managing Board is entrusted to the Supervisory Board, which, in the two-tier corporate structure under Dutch law, is a separate body and fully independent of the Managing Board. This independence is also reflected in the requirement that members of the Supervisory Board be neither a member of the Managing Board nor an employee of the Company. In fulfilling their duties under Dutch law, our Supervisory Board members serve the best interests of all the Company's shareholders, as well as those of our business. The Supervisory Board supervises and advises the Managing Board in performing its management tasks and setting the direction of the Company's affairs and business. The members of the Supervisory Board are carefully selected on the basis of their combined expertise, their knowledge of the Company and its affairs, and of the business in which we operate. The Supervisory Board is empowered to recommend to the general meeting of shareholders persons to be appointed as members of the Supervisory Board or of the Managing Board. According to Article 16 paragraph 1 sub (i) of the Company's articles of association, certain management decisions, including our pluri-annual plans and budget, require the approval of the Supervisory Board. The Supervisory Board through its various committees including the Strategic Committee, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee which all report to it, further supervises the structure and management of systems of internal business controls and the financial reporting process. It determines the remuneration of the sole member of the Managing Board within the remuneration policy adopted by the general meeting of shareholders. The activities of the Supervisory Board Committees are described in this report.

As in prior years, the Supervisory Board discussed developments in the area of corporate governance in 2006. Furthermore, the Supervisory Board discussed the implementation of section 404 of the US Sarbanes-Oxley Act and its requirements regarding assessment, review and monitoring of internal controls over financial reporting.

**Meetings and activities of the Supervisory Board**

The Supervisory Board met 11 times in the course of 2006, including meetings by telephone conference; as outlined by the table below, all of its members who were in office during the full year participated in 7 or more of these meetings. The sole member of the Managing Board, President and Chief Executive Officer ( CEO ) assisted by the Chief Operating Officer ( COO ), our Chief Financial Officer ( CFO ) and our Director of Strategy were also present at the meetings of the Supervisory Board except when they discussed the composition, functioning and remuneration of the Managing Board. On several occasions other members of the executive management team gave presentations on their area of business to the Supervisory Board.

**Table of Contents**

<b>Number of meetings attended in 2006<sup>(1)</sup></b>	<b>Full Board</b>	<b>Compensation Committee</b>	<b>Strategic Committee</b>	<b>Audit Committee</b>	<b>Nominating and Corporate Governance Committee</b>	<b>Ad hoc Committee</b>
Gérald Arbola	11	5	4		8	1
Matteo del Fante <sup>(3)</sup>	11			13		3
Tom de Waard	11	5		14	8	3
Douglas Dunn	7			5		
Francis Gavois <sup>(2)(3)</sup>	4			6		3
Didier Lamouche <sup>(2)(3)(4)</sup>	7			4		
Didier Lombard	8	5	4			
Bruno Steve	11	6	4		7	
Antonino Turicchi	11	6	4		7	
Robert M. White	10		4	13		

(1) Includes meetings attended by way of conference call.

(2) Mr. Francis Gavois, who was a Supervisory Board member until the 2006 annual general meeting of shareholders on April 27, 2006, was replaced by Mr. Didier Lamouche immediately following the annual general meeting of shareholders.

(3) Appointed as non-voting observer to Audit Committee.

(4)

Mr. Lamouche's  
total attendance  
of seven  
Supervisory  
Board meetings  
includes two  
meetings in  
which he was  
represented by  
Mr. Arbola.

The remuneration of the Supervisory Board members is described in Notes 16 and 31 to the Company's 2006 Consolidated Financial Statements.

Biographies of the Supervisory Board members are available in Annex 1 of this Supervisory Board Report as well as on the Company's website.

In 2006, the Supervisory Board's activities included, *inter alia*:

Approval of the Company's consolidated accounts, profit and loss accounts, balance sheet and cash-flow statement in U.S. GAAP as published quarterly by the management, including review and approval of the associated press release.

Approval of the Company's 2005 statutory annual accounts under IFRS.

Approval of the proposal to appoint members to the Supervisory Board as submitted to our 2006 annual general meeting of shareholders, as well as the appointment of members for the Committees of the Supervisory Board.

Approval of the amount and final conditions for the Company's 2016 Convertible Bond Offering and resolution upon the issuance of the number of shares to serve the relevant conversion. Approval of the amount, terms and conditions of the 2013 Senior Bond Offering, issued by a new finance subsidiary and guaranteed by the Company.

Approval of the amendment to the Supervisory Board Stock-Based Compensation Plan.

Approval of the compensation policy for Mr. Carlo Bozotti as sole member of the Managing Board, President and CEO and Mr. Alain Dutheil as COO, outside the presence of Mr. Bozotti and Mr. Dutheil and pursuant to the Compensation Policy as approved by the general meeting of shareholders.

**Table of Contents**

Review of the CEO and COO performance in 2006 with respect to the defined performance criteria, outside the presence of Mr. Bozotti and Mr. Dutheil.

Approval of the terms and conditions of the Key Employee Unvested Stock Award Plan for 2006 (the Employee Plan ), pursuant to an authorization granted by the 2006 annual general meeting of shareholders; such terms and conditions also included, upon the recommendation of the Compensation Committee, certain changes concerning the rights of beneficiaries in the event of termination of employment by the Company for reasons not attributable to personal performance, as well as upon change of control.

Approval of the amount of unvested stock awards to be granted to the CEO, subject to shareholder approval, and to the COO, and delegation to the Compensation Committee of the power to (i) approve the list of other beneficiaries under the Employee Plan upon the proposal of the Managing Board and (ii) to grant to the Managing Board the right to make exceptional awards to key employees under the Employee Plan .

Approval of the conditions linked to the Company s performance in sales, operating income and return on net assets, which condition the vesting of unvested stock awards granted under the Employee Plan, to the CEO, COO and other key employees.

Approval of the Company s decision to terminate the Option Agreement with STMicroelectronics Holding II B.V. and to set up an independent foundation, Stichting Continuïteit ST, to offer protection to the Company against actions considered hostile by the Managing Board and the Supervisory Board, such as a creeping acquisition or an unsolicited offer on the Company s ordinary shares, which are unsupported by the Managing Board and the Supervisory Board and which the board of the foundation determines would be contrary to the interests of the Company, its shareholders or other stakeholders, all in accordance with the provisions of Dutch law.

Approval of entering into an option agreement with Stichting Continuïteit ST, to replace a substantially similar option agreement dated May 31, 1999, as amended, between the Company and STMicroelectronics Holding II B.V.

Review of the Company s long-term strategy and business prospects, and approval of the general guidelines as well as of the Company s 2007 Budget.

Review of the plans and progress of the Company in the area of Research and Development ( R&D ) effectiveness and Key Projects.

Review of the proposals by the Nominating and Corporate Governance Committee regarding nominations for a new Supervisory Board member.

Review outside the presence of management of the functioning of the Supervisory Board and its individual members and discussion of the conclusions including the conclusions as regards the independence of the Supervisory Board members.



**Table of Contents**

Furthermore, in 2006, the Supervisory Board, mandated the Audit Committee under the responsibility of its Chairman, to fully investigate the fraud which had occurred in the Company's treasury department when under the responsibility of the Company's former treasurer who retired at the end of 2005, and which had led the Managing Board to file a criminal complaint with the Public Prosecutor in Lugano. The Supervisory Board noted that the fraudulent transactions did not have a material impact on the Company's previously published financial statements. It also endorsed the changes in the Company's treasury department, and enhanced internal control of treasury activities designed to prevent the occurrence of similar actions in the future.

Finally, the Supervisory Board devoted significant time to review the strategy, the market, business and financial risks and challenges of the Company. Such review was conducted in part by the Strategic Committee which monitored the new developments in the semiconductor market, evaluating both opportunities as presented by the CEO to strengthen the Company's product offerings and portfolio and options for best securing the future of the Company's flash memory business. These led in December 2006 to the Company's decision to set up a new Flash Memory Group which incorporates all Flash Memory Operations, including R&D and product related activities, front and back end manufacturing, marketing and sales.

The Audit Committee as part of its quarterly review also considered a report by the Company management on its key business risks.

The Supervisory Board's committees were indeed very active in 2006.

**Compensation Committee**

The Compensation Committee, whose current members are Messrs. Arbola (Chairman), Steve, Turicchi, Lombard and de Waard, met six times in 2006.

The Compensation Committee specifically reviewed and approved the Company's Managing Board compensation policy and the compensation package of the President and CEO for the year 2006, and proposed to the 2006 AGM, which approved it, the compensation policy for the President, CEO and sole member of the Managing Board.

At the beginning of 2006, the Compensation Committee reviewed the 2005 performance of the President and CEO in light of objectives and bonus eligibility criteria, and proposed to the Supervisory Board the adoption of the bonus for the President and CEO for his performance in 2005. In March 2006, the Compensation Committee fixed the eligibility criteria for the President and CEO to receive a bonus for his performance during 2006, which are based on the Company's commercial, financial and market performances over the course of such fiscal year.

Consequently, the remuneration of the sole member of the Managing Board, President and CEO of the Company, comprises:

A base salary originally fixed at US\$100,000 but paid in euros, as remuneration for the position of sole member of the Managing Board.

A base salary originally fixed at US\$600,000 but paid in Swiss francs as the remuneration for the position of President and CEO. Such base remuneration is completed by:

- 10 -

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**Table of Contents**

- o A bonus which may reach up to 150% of the total base salary of US\$700,000 subject to the realization of certain conditions fixed by the Compensation Committee, and approved by the Supervisory Board relating to the Company's financial business and R&D performances.
- o A stock award which offers to the President and CEO the right to receive up to 100,000 free shares, pursuant to the 2006 Employee Stock Based Compensation Plan for Key Employees approved by the general meeting of shareholders. The vesting of the unvested stock awards granted under such Plan is conditional upon certain predetermined performance criteria fixed by the Compensation Committee having been met, and continued presence with us. The predetermined performance criteria concerned Company revenues, operating income, and return on net assets.

The President and CEO further benefits from a pension plan that was granted in line with the pension benefits granted to all employees of ST in Switzerland, of which the Compensation Committee has been informed, and will be a beneficiary under a supplementary pension plan for the President and CEO and other top executive management as approved by the Supervisory Board in February 2006.

The sole member of the Managing Board, President and CEO, like the members of the Supervisory Board do not benefit from any loans or guarantees granted by the Company.

The Compensation Committee also proposed to the Supervisory Board:

An amendment to the Supervisory Board Stock-Based Compensation Plan to clarify that if a beneficiary ceases to be a member or professional of the Supervisory Board, other than in case of voluntary resignation or dismissal for cause, the beneficiary is entitled to exercise the option rights within the duration of the Plan.

The approval of the Unvested Stock Award Plan for Key Employees, including an amendment to provide for (i) continued vesting rights after termination of an employee's contract by the Company for reasons not attributable to such employee's behavior, performance or actions and (ii) accelerated vesting in the event of change of control.

In 2006, the Compensation Committee granted to members of the Supervisory Board and professionals options to purchase Company shares at their nominal value pursuant to the three-year stock-based compensation plan for the Supervisory Board members and professionals approved by the 2006 annual general meeting of shareholders. Furthermore, in 2006, the Compensation Committee proposed to the Supervisory Board to maintain the same compensation for Supervisory Board members as was fixed at the 2005 annual general meeting of shareholders. For 2007, the Compensation Committee based on a benchmark of comparable companies performed by a leading consultant, proposed to the Supervisory Board to maintain the compensation of Supervisory Board members and professionals in 2007, but to fix at 15,000 the number of stock options authorizing the subscription of shares in the Company's share capital at their nominal value awarded to Supervisory Board members and to fix at 7,500 the number of stock options authorizing the subscription of shares in the Company's share capital at their nominal value awarded to professionals of the Supervisory Board.

**Table of Contents**

The reports of the Compensation Committee on these subjects were presented from time to time and discussed by the Supervisory Board as a whole.

**Strategic Committee**

The Strategic Committee, whose current members are Messrs. Arbola (Chairman), Steve, Turicchi, Lombard and White, met four times in 2006, in the presence of the CEO, the COO, the Director of Strategy and the CFO. Among its main activities, the Strategic Committee reviewed the Company's long-term plans and prospects and various possible scenarios and opportunities to meet the challenges of the semiconductor market, including the evaluation of possible acquisitions, combinations or joint ventures, as well as the market and business risks faced by the Company as presented by management.

In 2006, the Strategic Committee monitored the Company's plans for the Flash memory business, which led to the announcement in December 2006 of the strategic repositioning of such activities and the creation of a new Flash Memories Group.

The Strategic Committee also was consulted on various other matters.

The reports of the Strategic Committee were presented from time to time and discussed by the Supervisory Board as a whole.

**Audit Committee**

The current members of the Audit Committee are Messrs. de Waard (Chairman), Dunn and White and the current non-voting observers are Messrs. del Fante and Lamouche. The Audit Committee met 14 times during 2006 and operated in accordance with its Charter published on the Company's website. At many of these meetings, the Audit Committee received presentations on current financial and accounting issues and had the opportunity to interview the President and CEO, the CFO, the General Counsel and external and internal auditors. On several occasions, the Audit Committee met with outside U.S. legal counsel, who explained and analyzed actions required by the new NYSE's final and amended corporate governance rules and the Sarbanes-Oxley Act. In addition, the Audit Committee regularly discussed the progress of implementation of internal controls over financial reporting and reviewed management's conclusions as to the adequacy and appropriateness of internal controls, including the progress of the Company with Section 404 of the Sarbanes Oxley Act.

At the end of each quarter, prior to each Supervisory Board meeting to approve the results and quarterly earnings press release which are published by the Company with reference to US GAAP General Accounting Standards, the Audit Committee reviewed the interim financial information and the proposed press release and had the opportunity to raise questions to management and the independent registered public accounting firm. In addition, the Audit Committee reviewed the quarterly Operating and Financial Review and Prospects and the interim Consolidated Financial Statements (and notes thereto) before they were filed with the SEC and voluntarily certified by the CEO and the CFO (pursuant to sections 302 and 906 of the Sarbanes-Oxley Act).

The Audit Committee also reviewed the annual Consolidated Financial Statements under U.S. GAAP for the year ended December 31, 2006 and the associated press release published on January 23, 2007 as well as the Company's 2006 Annual Report on Form 20-F as filed with the Securities and Exchange Commission (the SEC) on March 14, 2007.

**Table of Contents**

In its 2006 meetings, the Audit Committee reviewed periodically matters relating to accounting policies and compliance with accounting standards. Compliance with statutory and legal requirements and regulations, particularly in the financial domain, was also reviewed. Important findings and identified risks were examined thoroughly in order to allow appropriate measures to be taken. With regard to the internal audit, the Audit Committee reviewed the internal audit charter, audit plan, audit scope and its coverage in relation to the scope of the external audit, as well as the staffing, independence and organizational structure of the internal audit function and held separate meetings with the head of Internal Audit and the Company's Auditors. With regard to the external audit, the Audit Committee reviewed the proposed audit scope, approach and fees, the independence of the external auditors, their performance, non-audit services provided by the external auditors. The Audit Committee also considered the report of the external auditors with respect to the annual financial statements and advised on the Supervisory Board's statement to shareholders in the annual accounts.

The Audit Committee also performed its annual self-assessment and reviewed and updated its Charter to reflect its duties in relation to internal and external auditors.

The Audit Committee reviewed the Company's 2006 statutory annual accounts using IFRS accounting principles which have been drawn up by management examined and audited by PricewaterhouseCoopers Accountants N.V., and proposed such accounts for the approval of the Supervisory Board.

The Audit Committee noted that such accounts contain significant differences to the accounts published by the Company using U.S. Generally Accepted Accounting Principles, as contained in the Annual Report on Form 20-F filed by the Company with the SEC on March 14, 2007, and approved the intention of management to continue to use U.S. GAAP as its primary reporting standard to ensure continuity and consistency in its financial reporting.

After discovery of a fraud by the Company's former treasurer, which led the Company to file a criminal complaint with the Prosecutor in Lugano, the Audit Committee selected, with the approval of the Supervisory Board, an independent US law firm to conduct an independent investigation into treasury management procedures and controls designed to ensure that the wrong doings were limited to the Company's former treasurer and that the necessary procedures and controls were in place to prevent the repetition of such occurrence. Such investigation has led to an in-depth review of the Company's procedures and several meetings of the independent investigators, the audit committee and the auditors outside the presence of the management.

The reports of the Audit Committee on these subjects were presented from time to time and discussed by the Supervisory Board as a whole.

**Nominating and Corporate Governance Committee**

The current members of the Nominating and Corporate Governance Committee are Messrs. de Waard (Chairman) Arbola, Steve and Turicchi. In 2006, the Nominating and Corporate Governance Committee met two times before the 2006 annual general meeting of shareholders and five times after the 2006 annual general meeting of shareholders.

The Nominating and Corporate Governance Committee reviewed the desired profile, competence, structure and composition of the Supervisory Board in general and in view of the pending expiration of the term of Mr. White. The report of the Nominating and Corporate

**Table of Contents**

Governance Committee was presented to and discussed in the Supervisory Board. The Nominating and Corporate Governance Committee met to evaluate the profiles of candidates, appointed a leading consultant to search for candidates corresponding to the selected profile, and examined proposals to fill the position up for renewal at the 2007 annual general meeting of shareholders.

In addition, on March 19, 2007, Mr. Turicchi communicated his resignation from his position on the Supervisory Board with effect as of the next annual general shareholders meeting, due to the increasing and significant time being required to perform his duties as Managing Director of Cassa Depositi e Prestiti. The Nominating and Corporate Governance Committee, therefore, considered possible candidates to fill the additional vacancy that would arise from Mr Turicchi's resignation.

In this respect, the Nominating and Corporate Governance Committee advised the Supervisory Board on recommendations for the appointment of two new members of the Supervisory Board, to be submitted for approval at the annual general meeting of shareholders, to replace Messrs. White and Turicchi.

The Nominating and Corporate Governance Committee also evaluated the validity and enforceability of the Option Agreement relating to the Company's preference shares, met with Dutch lawyers and designated individuals to discuss the organization and set-up of an independent Dutch foundation or Stichting, which has been set up to take over the rights and obligations of STMicroelectronics Holding II B.V. pursuant to the Option Agreement between the Company and STMicroelectronics Holding II B.V. relating to the preference shares.

The reports of the Nominating and Corporate Governance Committee on these subjects were presented from time to time and discussed by the Supervisory Board as a whole.

**Ad Hoc Committees**

In the course of 2006, the Supervisory Board set up two ad hoc committees. The first comprised of Messrs. del Fante, Gavois and de Waard met three times to review and approve the conditions relating to the Company's refinancing which occurred in the first quarter of 2006 and involved the issue of new Convertible Bonds and Senior Debt.

The second comprised of Messrs. Arbola and Steve, Chairman and Vice Chairman of the Supervisory Board met with the board members of Stichting Continuïteit ST before their appointment.

**Proposed Supervisory Board Member Appointments**

Pursuant to extensive research conducted by the Nominating and Corporate Governance Committee, on March 19, 2007, the Nominating and Corporate Governance Committee submitted its report to the Supervisory Board, identifying a candidate for the Supervisory Board position up for renewal at the 2007 annual general meeting of shareholders. In addition, the Nominating and Corporate Governance Committee recommended a candidate to fill the additional vacancy that would be created as a result of the resignation of Mr. Turicchi.

In view of the recommendations made by the Nominating and Corporate Governance Committee, the Supervisory Board proposes to the general meeting of shareholders the

**Table of Contents**

appointment for a three-year term, until the 2010 annual general meeting of shareholders, of Mr. Ray Bingham and Mr. Alessandro Ovi as new members of the Supervisory Board in replacement of Mr. Robert White and Mr. Antonino Turicchi.

Mr. Ray Bingham was selected based on his international experience in management functions for international technology companies, pursuant to the criteria established by the Supervisory Board as set out in the Company's Corporate Governance Charter. Mr. Alessandro Ovi, who served as Supervisory Board member of the Company for several years until the 2005 annual general meeting of shareholders, was proposed due to his valued expertise in the semiconductor industry and the Company.

The Supervisory Board wishes to warmly thank Mr. Robert White for his significant contributions to the works of the Supervisory Board, and in particular its Audit Committee since his appointment in 1996. The Supervisory Board also expresses its gratitude to Mr. Antonino Turicchi for his valued contributions and expertise to the discussions of the Supervisory Board and its committees.

**Proposed 2007 Cash Dividend and Retained Earnings and Dividend Policy**

Upon the proposal of the Managing Board, the Supervisory Board decided to recommend to the 2007 annual general meeting of shareholders a cash dividend of \$0.30 per share, representing an increase of 150% with respect to last year cash dividend distribution.

This recommendation is consistent with the Company's dividend policy as communicated and discussed at the 2005 annual general meeting of shareholders whereby:

- a) The Company seeks to use its available cash in order to develop and enhance its position in the very capital-intensive semiconductor market while at the same time managing its cash resources to reward its shareholders for their investment and trust in the Company;
- b) Based on its annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes each year to the Supervisory Board the allocation of its earnings involving whenever deemed possible and desirable in line with the Company's objectives and financial situation, the distribution of a cash dividend; and
- c) The Supervisory Board, upon the proposal of the Managing Board, decides each year, in accordance with this policy, which portion of the profits shall be retained in reserves to fund future growth or for other purposes and makes a proposal to the shareholders concerning the amount, if any, of the annual cash dividend.

**Financial Statements 2006**

The financial statements of the Company for 2006, as presented by the Managing Board have been audited by PricewaterhouseCoopers Accountants N.V., independent auditors. Their report has been included in the Other Information section of this Annual Report. We have approved the financial statements for submission to the annual general meeting of shareholders.

**Table of Contents**

**Resolutions submitted to the 2007 annual general meeting of shareholders**

As in the past, the Supervisory Board has prepared with the Managing Board, the resolutions to be submitted for adoption at the Company's annual general meeting of shareholders to be held on April 26, 2007 in Amsterdam, the Netherlands. The text of the proposed resolutions and shareholder information is available on the Company's website. Except as stated below, the resolutions are in line with the resolutions presented for shareholder adoption at prior annual general meetings of shareholders. The Supervisory Board Report proposes also to refer to the commentaries contained in the proposed resolutions and shareholder information published on the Company's website.

Upon the proposal of its Compensation Committee and based on a benchmark of the practices of similar international companies, the Supervisory Board is proposing to increase the stock-based portion of the remuneration offered to its members, in order to attract and retain suitable candidates for this demanding position in a multinational environment and to modify accordingly the three year stock-based compensation plan for members and professionals of the Supervisory Board approved by the 2005 annual general meeting.

Upon the proposal of the Managing Board, the Supervisory Board is proposing to authorize the Managing Board with the prior approval of the Supervisory Board to repurchase shares, when such repurchase shall be considered as being in the best interest of the Company's shareholders and other stakeholders, for creating long-term value.

Pursuant to changes in Dutch Law following the implementation of the Thirteenth EU Directives on public takeovers and other anticipated changes in Dutch legislation which will become effective in the near future, the Supervisory Board is proposing to update the Company's articles of association, as regards:

- i) The power of the general meeting of shareholders to reduce the issued share capital, and to fix the modalities of repayment for preference shares;
- ii) The rules regarding the allocation of profits to the holders of preference shares if and when issued;
- iii) The power of the Managing Board and Supervisory Board to set a registration date for determining who shall be authorized to attend the Company's general meetings of shareholders as well as to authorize shareholders entitled to vote and other persons entitled to vote at general meetings of shareholders to vote by electronic means of communication within a period prior to the general meeting of shareholders;
- iv) The authorized use of electronic means of communications, including electronic voting, and webcasts of proceedings at a general meeting of shareholders, subject to decision by the Managing Board and approval of the Supervisory Board; and
- v) The rules relating to the preparation period and time of publication of the statutory annual accounts, the annual report, the statement of the Company's external accountant as well as all other financial documents which must be made generally available together with the statutory annual accounts pursuant to a statutory obligation.

**Table of Contents**

**Conclusion**

Finally, the Supervisory Board, in conjunction with the Managing Board, prepared the agenda for the upcoming 2007 annual general meeting of shareholders. The Supervisory Board also voted on March 20, 2007 to adopt this report and recommend for adoption of the proposed resolutions. The agenda, proposed resolutions and other information regarding the upcoming 2007 annual general meeting of shareholders are available on the Company's website and in print to any shareholder upon request.

Approved by the Supervisory Board on March 20, 2007.

- 17 -

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**Table of Contents****ANNEX 1****Current members of the Company's Supervisory Board**

Gérald Arbola was appointed to our Supervisory Board at the 2004 annual shareholders' meeting and was reelected at the 2005 annual shareholders' meeting. Mr. Arbola was appointed the Chairman of our Supervisory Board on March 18, 2005. Mr. Arbola previously served as Vice Chairman of our Supervisory Board from April 23, 2004 until March 18, 2005. Mr. Arbola is also Chairman of our Supervisory Board's Compensation Committee and Strategic Committee, and serves on its Nominating and Corporate Governance Committee. Mr. Arbola is now Managing Director of Areva S.A., where he had also served as Chief Financial Officer, and is a member of the Executive Board of Areva since his appointment on July 3, 2001. Mr. Arbola joined the Cogema group in 1982 as Director of Planning and Strategy for SGN, then served as Chief Financial Officer at SGN from 1985 to 1989, becoming Executive Vice President of SGN in 1988 and Chief Financial Officer of Cogema in 1992. He was appointed as a member of the executive committee in 1999, and also served as Chairman of the Board of SGN in 1997 and 1998. Mr. Arbola is currently a member of the boards of directors of Cogema, Framatome ANP, Areva T&D Holdings and Chairman of Areva Finance Gestion S.A. and Cogerap. Mr. Arbola is a graduate of the Institut d'Etudes Politiques de Paris and holds an advanced degree in economics. Mr. Arbola is the Chairman of the Board of Directors of FTICI and was the Chairman until his resignation on November 15, 2006 of the Supervisory Board of ST Holding, our largest shareholder.

Bruno Steve has been a member of our Supervisory Board since 1989 and was appointed Vice Chairman of our Supervisory Board on March 18, 2005, and previously served as Chairman of our Supervisory Board from March 27, 2002 through March 18, 2005, from July 1990 through March 1993, and from June 1996 until May 1999. He also served as Vice Chairman of the Supervisory Board from 1989 to July 1990 and from May 1999 through March 2002. Mr. Steve serves on our Supervisory Board's Compensation Committee as well as on its Nominating and Corporate Governance and Strategic Committees. He was with Istituto per la Ricostruzione Industriale-IRI S.p.A. (IRI), a former shareholder of Finmeccanica, Finmeccanica and other affiliates of I.R.I. in various senior positions for over 17 years. Mr. Steve is currently Chairman of Statutory Auditors of Selex S. & A. S. S.p.A., Chairman of Surveillance Body of Selex S. & A. S. S.p.A and member of Statutory Auditors of Pirelli Tyres S.p.A. Until December 1999, he served as Chairman of MEI. He served as the Chief Operating Officer of Finmeccanica from 1988 to July 1997 and Chief Executive Officer from May 1995 to July 1997. He was Senior Vice President of Planning, Finance and Control of I.R.I. from 1984 to 1988. Prior to 1984, Mr. Steve served in several key executive positions at Telecom Italia. He is also a professor at LUISS Guido Carli University in Rome. Mr. Steve was Vice Chairman from May 1999 to March 2002, Chairman from March 2002 to May 2003 and member until his resignation on April 21, 2004 of the Supervisory Board of ST Holding, our largest shareholder.

Tom de Waard has been a member of our Supervisory Board since 1998. Mr. de Waard was appointed Chairman of the Audit Committee by the Supervisory Board in 1999 and Chairman of the Nominating and Corporate Governance Committee in 2004 and 2005, respectively. He also serves on our Supervisory Board's Compensation Committee. Mr. de Waard has been a partner of Clifford Chance, a leading international law firm, since March 2000 and was the Managing Partner of Clifford Chance Amsterdam office from May 1, 2002 until May 1, 2005. From January 1, 2005 until January 1, 2007 he was a member of the Management Committee of Clifford Chance. Prior to joining Clifford Chance, he was a partner at Stibbe, where he

**Table of Contents**

held several positions since 1971 and gained extensive experience working with major international companies, particularly with respect to corporate finance. He is a member of the Amsterdam bar and was President of the Netherlands Bar Association from 1993 through 1995. He received his law degree from Leiden University in 1971. Mr. de Waard is a member of the Supervisory Board of BE Semiconductor Industries N.V. ( BESI ) and of its audit and nominating committees. He is also chairman of BESI 's compensation committee. Mr. de Waard is a member of the board of the foundation Stichting Sport en Zaken .

Matteo del Fante was appointed to our Supervisory Board at our 2005 annual shareholders' meeting. Mr. del Fante is also a non-voting observer on its Audit Committee. Mr. del Fante has served as the Chief Financial Officer of CDP in Rome since the end of 2003. Prior to joining CDP, Mr. del Fante held several positions at JPMorgan Chase in London, England, where he became Managing Director in 1999. During his 13 years with JPMorgan Chase, Mr. del Fante worked with large European clients on strategic and financial operations. Mr. del Fante obtained his degree in Economics and Finance from Università Bocconi in Milan in 1992, and followed graduate specialization courses at New York University 's Stern Business School. Mr. del Fante was the Vice Chairman until his resignation on November 15, 2006 of the Supervisory Board of ST Holding, our largest shareholder.

Douglas Dunn has been a member of our Supervisory Board since 2001. He is a member of its Audit Committee since such date. He was formerly President and Chief Executive Officer of ASML Holding N.V. ( ASML ), an equipment supplier in the semiconductor industry, a position from which he retired effective October 1, 2004. Mr. Dunn was appointed Chairman of the Board of Directors of ARM Holdings plc (United Kingdom) in October 2006. In 2005, Mr. Dunn was appointed to the board of Philips-LG LCD (Korea), TomTom N.V. (Netherlands) and OMI, a privately-held company (Ireland), and also serves as a non-executive director on the board of SOITEC (France). He is also a member of the audit committees of ARM Holdings plc, SOITEC and TomTom N.V. In 2005, Mr. Dunn resigned from his position as a non-executive director on the board of Sendo plc (United Kingdom). Mr. Dunn was a member of the Managing Board of Royal Philips Electronics in 1998. From 1996 to 1998 he was Chairman and Chief Executive Officer of Philips Consumer Electronics and from 1993 to 1996 Chairman and Chief Executive Officer of Philips Semiconductors (now NXP Semiconductors). From 1980 to 1993 he held various positions at Plessey Semiconductors.

Didier Lamouche has been a member of our Supervisory Board since 2006. Mr. Lamouche is currently a non-voting observer on the Audit Committee of our Supervisory Board. Mr. Lamouche is a graduate of Ecole Centrale de Lyon and holds a PhD in semi-conductor technology. He has 25 years experience in the semiconductor industry.

Mr. Lamouche started his career in 1984 in the R&D department of Philips before joining IBM Microelectronics where he held several positions in France and the United States. In 1995, he became Director of Operations of Motorola 's Advanced Power IC unit in Toulouse (France). Three years later, 1998, he joined IBM as General Manager of the largest European semiconductor site in Corbeil (France) to lead its turn around and transformation into a joint venture between IBM and Infineon: Altis Semiconductor. He managed Altis Semiconductor as a CEO for four years. From 2003 to end 2004, Mr. Lamouche joined back IBM as Vice-President for WorldWide Semiconductor Operations, based in New York (United States). Since December 2004, Mr. Lamouche has been the Chairman and CEO of Groupe Bull, a France-based global company operating in the IT sector. He is also a member of the Board of Directors of CAMECA and SOITEC.

**Table of Contents**

Didier Lombard was first appointed to our Supervisory Board at the 2004 annual shareholders meeting and was reelected at our 2005 annual shareholders meeting. He serves on the Compensation and Strategic Committees of our Supervisory Board. Mr. Lombard was appointed Chairman and Chief Executive Officer of France Telecom in March 2005. Mr. Lombard began his career in the Research and Development division of France Telecom in 1967. From 1989 to 1990, he served as scientific and technological director at the Ministry of Research and Technology. From 1991 to 1998, he served as General Director for industrial strategies at the French Ministry of Economy, Finances and Industry, and from 1999 to 2003 he served as Ambassador at large for foreign investments in France and as President of the French Agency for International Investments. From 2003 through February 2005, he served as France Telecom's Senior Executive Vice President in charge of technologies, strategic partnerships and new usages and as a member of France Telecom's Executive Committee. Mr. Lombard also spent several years as Ambassador in charge of foreign investment in France. Mr. Lombard is also Chairman of the Board of Directors of Orange and a member of the Board of Directors of Thales and Thomson, one of our important customers, as well as a member of the Supervisory Board of Radiall. Mr. Lombard was also a member until his resignation on November 15, 2006 of the Supervisory Board of ST Holding, our largest shareholder. Mr. Lombard is a graduate of the Ecole Polytechnique and the Ecole Nationale Supérieure des Télécommunications.

Antonino Turicchi was appointed as a member of our Supervisory Board at our 2005 annual shareholders meeting. He serves on its Compensation and Strategic Committees. Mr. Turicchi earned a degree cum laude in Economics and Business from the University of Rome and, after receiving a scholarship from Istituto San Paolo di Torino, he attended the masters program in Economics at the University of Turin in 1991 and 1992. In 1993, he was awarded a grant from the European Social Fund to attend the masters program in International Finance and Foreign Trade. Mr. Turicchi has been Managing Director of CDP in Rome since June 2002. From 1994, Mr. Turicchi held positions with the Italian Ministry of the Treasury (now known as the Ministry of the Economy and Finance). In 1999, he was promoted to director responsible for conducting securitization operations and managing financial operations as part of the treasury's debt management functions. Between 1999 and June 2002, Mr. Turicchi was also a member of the board of Mediocredito del Friuli; from 1998 until 2000, he served on the board of Mediocredito di Roma, and from 2000 until 2003, he served on the board of EUR S.p.A.

Robert M. White has been a member of our Supervisory Board since 1996. He serves on its Strategic and Audit Committees. Mr. White is a University Professor Emeritus at Carnegie Mellon University and serves as a member of several corporate boards, including SGI Federal. He is a former director of Read-Rite Corporation, which filed for bankruptcy in July 2003. Mr. White is a member of the U.S. National Academy of Engineering and the recipient of the American Physical Society's Pake Prize for research and technology management in 2004. From 1990 to 1993, Mr. White served as Under Secretary of Commerce for Technology in the United States government. Prior to 1990, Mr. White served in several key executive positions, including Principal Scientist for Xerox Corporation and Vice President and Chief Technology Officer for Control Data Corporation. He received a doctoral degree in Physics from Stanford University and graduated with a degree in physics from Massachusetts Institute of Technology.

**Table of Contents**

**REPORT OF THE MANAGING BOARD**

Dear Shareholder,

In 2006, pursuing the initiatives launched last year, we have made significant headway in delivering on our most important business and strategic imperatives in our effort to strengthen and reshape ST into a stronger and more competitive industry leader.

Our product portfolio has continued to strengthen, and in 2006, with a sales growth of 11% year over year, we grew our market share, both with respect to the overall market which in 2006 grew by approximately 9%, and with respect to the market served by our products which grew by approximately 8% over 2005 levels.

Our capital intensity has decreased with our capex to sales ratio down to 15.6% in 2006 from over 20% just a few years ago. Furthermore last October we initiated a new target of 12% capex to sales ratio which we are seeking to achieve through a combination of a less capital intensive product portfolio, increased usage of foundries for non proprietary technologies and optimization of our manufacturing facilities.

Our NOR and NAND Flash Business has as from January 1, 2007 been organized into a stand alone segment, following initiatives launched in 2006, and we are moving ahead on creating a separate legal entity in connection with our strategic repositioning of this business.

Our net operating cash flow generated in 2006 reached \$666 million as described in the Liquidity and Financial Position section of our Annual Report.

Our initiatives and resulting achievements have enabled us to realize our primary objectives for 2006: gaining market share while simultaneously improving financial performance in terms of return on assets and cash flow.

**Financial Performance in 2006**

**US GAAP and Dutch Statutory annual report**

Our results and performance for the purpose of this statutory report under Dutch law are presented using IFRS figures as required pursuant to European Commission regulation 1606/2002. Our results using IFRS differ significantly from our results as reported using US GAAP, in particular as concerns capitalization and amortization of development expenses required under IFRS and the accounting for compound financial instruments.

We would like to recall that our quarterly, semi-annual and annual financial results as presented to our investors and the general public, are Consolidated Financial Statements prepared under U.S. GAAP, which is the accounting standard we have used since our creation in 1987. We believe that the reference to U.S. GAAP in our financial reporting is particularly important in our industry and in the mind of our investors to ensure the comparability of our performance and results to those of our competitors, and to ensure the continuity in the reporting of our financial performance. Copies of our U.S. GAAP annual report, based on Form 20-F, quarterly releases and other information, can be obtained from our offices and are also available on ST's website at [www.st.com](http://www.st.com).

**Table of Contents**

**Full Year 2006 Results Highlights**

We are approaching the \$10 billion revenue milestone. Our net revenues for the year ended December 31, 2006 were \$9.85 billion, representing an increase of about 11% compared to the \$8.88 billion recorded in 2005. Year-over-year sales growth was driven by double-digit increases in wireless and industrial, with mid-single digit contributions from our automotive, computer and consumer segments.

Both gross and operating profit increased sharply. Gross profit increased 16% to \$3.48 billion in 2006 compared to \$3.00 billion in 2005. Operating profit more than doubled to \$988 million, or 10.0% of net revenues, up from to \$394 million in 2005 or 4.4% of net revenues in 2005.

R&D costs for 2006 were \$ 1,388 million, or 14.1% of net revenues, compared to \$1.411, or 15.9% of net revenues in 2005. R&D expenses are net of the development capitalization, which started in 2005. Selling, general and administrative ( SG&A ) expenses were \$1,083 million or 11.0% of net revenues in 2006, compared to \$1,069 million or 12.0% of net revenues in 2005. 2005 SG&A included \$18 million in one-time compensation and pension charges, \$47 million in charges related to the accelerated vesting of stock options and \$5 million in other stock-based compensation costs. 2006 SG&A included \$22 million in stock based compensation cost. The Company posted \$68 million of impairment, restructuring charges, and other related closure costs in 2006, compared to \$98 million in 2005.

Net profit attributable to the shareholders of the Company for 2006 increased significantly to \$964 million, or \$1.07 per diluted share. In the prior year, net profit attributable to the shareholders of the Company was \$347 million, or \$0.39 per diluted share.

For ST, the 2006 effective average exchange rate of the euro versus the U.S. dollar which reflects current exchange rate levels and the impact of certain hedging contracts was for the full year 2006 approximately \$1.24 to 1, compared to approximately \$1.28 to 1 in 2005. The effective exchange rate is calculated based upon average exchange rates during the year in combination with the impact of hedging contracts.

Net cash from operating activities increased by \$703 million to \$2.69 billion for 2006, compared to \$1.98 billion in 2005. Capital expenditures, net of sales proceeds were \$1,533 million in 2006 compared to \$1,441 million in 2005. Net operating cash flow for 2006 was a record \$666 million, compared to \$270 million in 2005.

At December 31, 2006, our cash and cash equivalents, marketable securities, short term deposits and restricted cash equaled \$2.9 billion. Total Financial Debt was \$1.9. billion. Our net financial position improved by approximately \$767 million in 2006 to \$1,015 million, as described in the Liquidity and Financial Position section of our Annual Report. Shareholders equity stood at \$10.1 billion at December 31, 2006.

Turning to 2007 we want to share our key business objectives by making certain forward looking statements which, we would remind you, are subject to certain risks and uncertainties, as highlighted in the Internal Control Section.

**Table of Contents**

In 2007, we expect notwithstanding the tougher environment as the semiconductor market works through inventory in selected applications in the first half of 2007, to make further important progress in our ongoing key initiatives for sales expansion, new product introduction and asset leverage, which, we believe, will strengthen the Company's market opportunities and financial position.

We are also currently budgeting about \$1.2 billion for ST's capital spending which is expected to further reduce the Company's capex to sales ratio from the 2006 level.

**Corporate Governance and Internal Controls**

We confirm to our shareholders, and other stakeholders, that management at ST is committed to the highest standards on corporate governance and internal controls issues. We are continuing to review our processes, and we are planning in 2007 to launch a program of internal awareness on these issues. Our corporate strategy, and associated market, business, operational and financial risks is periodically discussed with our Supervisory Board and its Committees, in particular, the strategic committee and the audit committee. We consider these issues all the more relevant, that as a company subject to the laws of various jurisdictions which may in certain cases have conflicting requirements in terms of best practices, we need to ensure that our position on these important items is well communicated and understood. The sections on Corporate Governance and Internal Controls in our Annual Report describe our activities in these areas.

**2006 Key Events**

**New Products Pipeline**

Our key focus during 2006 was on developing new leading edge product which drive stronger gross margins, better operating margins and improved net results. As a leader in Wireless, Industrial and Automotive markets in addition to a number of other areas, we are currently introducing a wave of new products designed to reinforce our areas of product leadership and importantly, strengthen our financial performance.

From new digital consumer set top box product offerings to wireless connectivity solutions and system-on-a chip offerings in the data storage field, we have launched a focused R&D initiative, and in 2006 we pursued the redeployment of 1,000 R&D engineers to such areas, including;

In Wireless and consumer platforms, where multimedia convergence solutions are the driving force of silicon growth, and our customer relationships, product know-how and long standing presence play a key factor.

In computer peripherals, and more specifically for us, data storage and printers, where new applications are driving growing volumes, and

In Power applications, for the Automotive, Industrial, power supply and motor control fields where our technologies offer a perfect match to market needs and where our positioning and continued momentum in this segment are tied to our historical leadership in the analog market.

**Table of Contents**

In 2006, we have designed a number of new products for the cellular communications market starting with our 3G digital baseband offerings, which we will begin shipping to a market leading customer during 2007 and pursuing with Nomadik, where we are currently shipping to one wireless customer, with 2 more ramping during 2007. Finally, in the area of connectivity, which for us is Bluetooth and wireless LAN offerings, we are building on our successes in 2006, and are targeting to double sales in these products in 2007.

Moving to digital consumer, our effort to focus on 90 nanometer product development continues to pay off, with continuing positive results in the set top box market. Here we have been first in the industry with a single chip at this technology, and we are rolling out the 65 nanometer solution ahead of the competition as well. We have our Digital TV offering with design wins throughout Asia, and have the low cost version coming out in 2007.

**Technology Development and Manufacturing**

To support our new products we continue to invest in the development of advanced manufacturing technology. We also have a diversified leading edge manufacturing infrastructure comprising front end and back end facilities, capable of producing silicon wafers using our broad process technology portfolio, including our CMOS and BICMOS technologies as well as our memories and discrete technologies.

In 2006, we substantially completed our 6 inch restructuring and are now enjoying the lower costs from our 6 inch mega facility in Ang Mo Kio 6, and have also completed the redeployment to Asia of our electric wafer sort (EWS) resources while in the back-end we have established programs to compensate for the drastic and dramatic increase in the costs of raw materials.

**Marketing**

In 2006, we launched a major initiative in China by establishing a new Greater China Region focusing more and more on domestic customers, while also supporting our traditional customers that have moved portions of their operations to China for lower cost manufacturing.

We also launched an initiative in Japan, where we grew by more than 30% during 2006, while the market grew by only 5%. Importantly, this result is attributable in part to a change of our market coverage strategy, which now involves working more and more directly, rather than through distributors, with our major customers.

We have also launched two major initiatives directed towards our customers. The first concerns a marketing plan to address all the mid size and small customers that are beyond our traditional top 50 customers, and the second is to target new key accounts, particularly in the US and Asia.

**Table of Contents**

**Quality**

We continue to focus on our product quality performance, and over the course of 2006 we have started to see important recognitions from our customers, in particular our automotive and communication customers, underscoring the ongoing improvement in our product quality.

We reinforced our commitment to continuous quality improvement ensuring that it is comprehensive and well structured. We are focused on establishing a complete loop, commencing with robust product design which is the origin of good quality, on robust processes, on robust quality management and on robust and mutually beneficial partnership with our customers to address, resolve and further enhance quality. We have also launched an ongoing company wide initiative Quality Excellence in Mind and during 2006 held training activities with 4,000 employees.

**Corporate Responsibility**

For more than fifteen years, the principles of Corporate Responsibility have been embedded in our values, and we have always been conscious of our responsibility toward all our stakeholders. This we define as Sustainable Excellence, and we have a number of important initiatives ongoing, two of which are worth a specific mention.

The first one is the continuation of our energy consumption reduction program, where we have set for ourselves the target of reducing the energy we use for each unit of production by 5% per year. In 2006 the actual reduction was as high as 6%, bringing the compound average annual reduction of our energy intensity since 1994 to 5.3% per year.

In 2006 we also launched our new initiative on Health, with the aim of protecting the health of our people both inside and outside their workplace through periodic medical examinations and specific health monitoring.

**Employees**

As of December 31, 2006 we had approximately 51,770 employees worldwide including 10,300 employees employed in R&D activities worldwide, 2,850 employed in marketing and sales and 33,420 employed in manufacturing.

**Conclusion**

2007 will mark a very special year for ST: it is our 20<sup>th</sup> anniversary, a period during which we grew our sales by more than ten times, improved our ranking in the semiconductor industry from position number 15 to position number 5 in 2006, and established a financially solid industry player.

On the operating front, we aim to continue to build on our strength in 2007, seeking to outperform the market and to gain market share, through sales and marketing initiatives supported by the strength of our of new products roll-outs.

At the same time, we will also drove important strategic initiatives during 2007.



**Table of Contents**

The 1<sup>st</sup> important strategic initiative is about NOR and NAND Flash Memories. In this memory business, particularly when manufacturing is moving to 12 inch wafers, volumes really matter and that of reaching adequate dimensions of scale is an absolutely crucial prerequisite to be able and compete successfully on the global marketplace. For this reason we have initiated a process of industrial consolidation and financial deconsolidation of our Flash memory business. We have decided to separate the Flash business with the objective of achieving, together with a partner, that indispensable dimension of scale and of significantly improving competitiveness. In preparation for this move, we have established a new organization, the Flash Memory Group, and we are creating a separate legal entity which will include not only all product related activities, but also technology development, front-end and back-end manufacturing and sales and marketing activities worldwide.

The 2<sup>nd</sup> important strategic initiative concerns our capital investment program, where we have set a new target: 12% of our sales, driven by the need to reduce (i) capital intensity because