
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 August 3, 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: STMicroelectronics N.V.'s Second Quarter and First Half 2007:

- Operating and Financial Review and Prospects;
 - Unaudited Interim Consolidated Statements of Income, Balance Sheets, Statements of Cash Flow, and Statements of Changes in Shareholders' Equity and related Notes for the three months and six months ended June 30, 2007;
 - Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis;
 - Master agreement by and between STMicroelectronics N.V., Intel Corporation, Redwood Blocker S.A.R.L., and Francisco Partners II (Cayman) L.P., May 22, 2007 (Exhibit 99.1); and
 - Form of ST Asset Contribution Agreement (Exhibit 99.2).
-
-

TABLE OF CONTENTS

[SIGNATURES](#)
[EXHIBIT 12.1](#)
[EXHIBIT 12.2](#)
[EXHIBIT 13.1](#)
[EXHIBIT 99.1](#)
[EXHIBIT 99.2](#)

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Balance Sheets, Statements of Cash Flow and Statements of Changes in Shareholders' Equity for the three months and six months ended June 30, 2007 and Notes thereto included elsewhere in this Form 6-K and in our annual report on Form 20-F for the year ended December 31, 2006 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on March 14, 2007 (the "Form 20-F"). The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections "Critical Accounting Policies Using Significant Estimates", "Business Outlook" and "Liquidity and Capital Resources—Financial Outlook". Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see "Cautionary Note Regarding Forward-Looking Statements" and "Item 3. Key Information—Risk Factors" included in our annual report on Form 20-F for the year ended December 31, 2006 as filed with the SEC on March 14, 2007, as they may be updated in our SEC submissions from time to time. We assume no obligation to update the forward-looking statements or such risk factors.

Critical Accounting Policies Using Significant Estimates

The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), requires us to make estimates and assumptions that have a significant impact on the results we report in our Consolidated Financial Statements, which we discuss under the section "Results of Operations". Some of our accounting policies require us to make difficult and subjective judgments that can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. The primary areas that require significant estimates and judgments by management include, but are not limited to, sales returns and allowances; reserves for price protection to certain distributor customers; allowances for doubtful accounts; inventory reserves and normal manufacturing loading thresholds to determine costs to be capitalized in inventory; accruals for warranty costs, litigation and claims; valuation of acquired intangibles, goodwill, investments and tangible assets as well as the impairment of their related carrying values; restructuring charges; other non-recurring special charges and stock-based compensation charges; assumptions used in calculating pension obligations and share-based compensation; assessment of hedge effectiveness of derivative instruments; deferred income tax assets, including required valuation allowances and liabilities; provisions for specifically identified income tax exposures and income tax uncertainties; and evaluation of tax provisions. We base our estimates and assumptions on historical experience and on various other factors such as market trends, business plans and levels of materiality that we believe 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 we regularly evaluate our estimates and assumptions, our actual results may differ materially and adversely from our estimates. To the extent there are material differences between the actual results and these estimates, our future results of operations could be significantly affected.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our Consolidated Financial Statements:

- **Revenue recognition.** Our policy is to recognize revenues from sales of products to our customers when all of 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) collectibility 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 our products to compensate them for declines in market prices. The ultimate decision to authorize a distributor refund remains fully within our control. We accrue 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 have enabled us to reliably estimate price protection provisions at period-end. We record the accrued amounts as a deduction of revenue at the time of the sale. If market conditions differ from our assumptions, this could have an impact on future periods; in particular, if market conditions were to deteriorate, net revenues could be reduced due to higher product returns and price reductions at the time these adjustments occur.

Our customers occasionally return our products from time to time for technical reasons. Our standard terms and conditions of sale provide that if we determine that products are non-conforming, we 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 always associated with end-user customers, not with distribution channels. We provide for such returns when they are considered as probable and can be reasonably estimated. We record the accrued amounts as a reduction of revenue.

Our insurance policies relating to product liability only cover physical and other direct damages caused by defective products. We do not carry insurance against immaterial, non-consequential damages. We record 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 we have 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 our determination that we are at fault and liable 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. Our contractual terms and conditions typically limit our liability to the sales value of the products, which gave rise to the claims.

We maintain an allowance for doubtful accounts for potential estimated losses resulting from our customers' inability to make required payments. We base our estimates on historical collection trends and record a provision accordingly. Furthermore, we are required to evaluate our customers' credit ratings from time to time and take an additional provision for any specific account that we estimate as doubtful. In the first half of 2007, we did not record any new specific provision related to bankrupt customers in addition to our standard provision of 1% of total receivables based on the estimated historical collection trends. If we receive information that the financial condition of our customers has deteriorated, resulting in an impairment of their ability to make payments, additional allowances could be required.

While the majority of our sales agreements contain standard terms and conditions, we 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, as governed under Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables ("EITF 00-21").

- **Goodwill and purchased intangible assets.** The purchase method of accounting for acquisitions requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development, which is expensed immediately. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are instead subject to annual impairment tests. The amounts and useful lives assigned to other intangible assets impact future amortization. If the assumptions and estimates used to allocate the purchase price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required. At June 30, 2007, the value of goodwill amounted to \$225 million.
- **Impairment of goodwill.** Goodwill recognized in business combinations is not amortized and is instead subject to an impairment test to be performed on an annual basis, or more frequently if indicators of impairment exist, in order to assess the recoverability of its carrying value. 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, we usually estimate the expected discounted future cash flows associated with the reporting unit. Significant 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; the market acceptance of certain new technologies and 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. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market evolution, our sales expectations and our costs evaluation and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect, and future adverse changes in market conditions or operating results of acquired businesses not in line with our estimates may require impairment of certain goodwill. No impairment charges were recorded in the first half of 2007.

- **Intangible assets subject to amortization.** Intangible assets subject to amortization include the cost of technologies and licenses purchased from third parties, internally developed software that is capitalized and purchased software. Intangible assets subject to amortization are reflected net of any impairment losses. These are amortized over a period ranging from three to seven years. The carrying value of intangible assets subject to amortization is evaluated whenever changes in circumstances indicate that the carrying amount may not be recoverable. In determining recoverability, we initially assess whether the carrying value exceeds the undiscounted cash flows associated with the intangible assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. An impairment loss is recognized for the excess of the carrying amount over the fair value. We normally estimate the fair value based on the projected discounted future cash flows associated with the intangible assets. Significant management judgments and estimates are required and used in the forecasts of future operating results that are used in the discounted cash flow method of valuation, including: the applicable industry's sales volume forecast and selling price evolution; our market penetration; the market acceptance of certain new technologies; and costs evaluation. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market evolution and our sales expectations and are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect and that future adverse changes in market conditions or operating results of businesses acquired may not be in line with our estimates and may therefore require impairment of certain intangible assets. No impairment charges were recorded in the first half of 2007. At June 30, 2007, the value of intangible assets in our consolidated financial statements subject to amortization amounted to \$157 million.
- **Property, plant and equipment.** Our business requires substantial investments in technologically advanced manufacturing facilities, which may become significantly underutilized or obsolete as a result of rapid changes in demand and ongoing technological evolution. We estimate the useful life for the majority of our manufacturing equipment, which is the largest component of our long-lived assets, to be six years. This estimate is based on our experience with using equipment over time. Depreciation expense is a major element of our manufacturing cost structure. We begin to depreciate new equipment when it is put into use.

We evaluate each period when there is reason to suspect that the carrying value of tangible assets or groups of assets might not be recoverable. Factors we consider important which could trigger an impairment review include: significant negative industry trends, significant underutilization of the assets or available evidence of obsolescence of an asset, strategic management decisions impacting production or an indication that its economic performance is, or will be, worse than expected and a more likely than not expectation that assets will be sold or disposed of prior to their estimated useful life. In determining the recoverability of assets to be held and used, we initially assess whether the carrying value exceeds the undiscounted cash flows associated with the tangible assets or group of assets. If exceeded, we then evaluate whether an impairment charge is required by determining if the asset's carrying value also exceeds its fair value. We normally estimate this fair value based on independent market appraisals or the sum of discounted future cash flows, using market assumptions such as the utilization of our fabrication facilities and the ability to upgrade such facilities, change in

the selling price and the adoption of new technologies. We also evaluate the continued validity of an asset's useful life when impairment indicators are identified. Assets classified as held for sale are reflected at the lower of their carrying amount or fair value less selling costs and are not depreciated during the selling period. Selling costs include incremental direct costs to transact the sale that we would not have incurred except for the decision to sell.

Our evaluations are based on financial plans updated with the latest projections of the semiconductor market evolution and of our sales expectations, from which we derive the future production needs and loading of our manufacturing facilities, and which are consistent with the plans and estimates that we use to manage our business. These plans are highly variable due to the high volatility of the semiconductor business and therefore are subject to continuous modifications. If the future evolution differs from the basis of our plans, both in terms of market evolution and production allocation to our manufacturing plants, this could require a further review of the carrying amount of our tangible assets resulting in a potential impairment loss.

- **Inventory.** Inventory is 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 our manufacturing performance. In the case of underutilization of our manufacturing facilities, we estimate the costs associated with the excess capacity; these costs are not included in the valuation of inventories but are 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.

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. Provisions for obsolescence are estimated for excess uncommitted inventories based on the previous quarter sales, order backlog and production plans. To the extent that future negative market conditions generate order backlog cancellations and declining sales, or if future conditions are less favorable than the projected revenue assumptions, we could be required to record additional inventory provisions, which would have a negative impact on our gross margin.

- **Asset disposal.** On May 22, 2007, we entered into a definitive agreement with Intel Corporation and Francisco Partners L.P. to create a new independent semiconductor company from the key assets of businesses which for our Company had been included in our Flash Memory Group. Upon signature of this agreement, the conditions were met for "assets held for sale" treatment in our consolidated financial statements for the assets to be contributed to the new company. Upon movement of the assets to be contributed, which consisted primarily of fixed and intangible assets to "assets held for sale", the relevant depreciation and amortization charges were stopped under Statement of Financial Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144"). Furthermore, FAS 144 requires an impairment analysis when assets are moved to "assets held for sale" based on the difference between the Net Book Value and the Fair Value, less costs to sale, of the group of assets (and liabilities) to be sold. As a result of this review, we have registered a loss in the second quarter of 2007 of \$857 million. Fair value less costs to sell was based on the net consideration of the agreement and significant estimates. The final amount could be materially different subject to adjustments due to business evolution before closing of the transaction.
- **Restructuring charges.** We have undertaken, and we may continue to undertake, significant restructuring initiatives, which have required us, or may require us in the future, to develop formalized plans for exiting any of our existing activities. We recognize the fair value of a liability for costs associated with exiting an activity when a probable liability exists and it can be reasonably estimated. We record estimated charges for non-voluntary termination benefit arrangements such as severance and outplacement costs meeting the criteria for a liability as described above. Given the significance of and the timing of the execution of such activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or new initiatives, which could include production curtailment or closure of other manufacturing facilities were to be taken, we may be required to incur additional charges as well as to change estimates of amounts previously recorded. The potential impact of these changes could be material and could have a material adverse effect on our results of operations or financial condition. In the first half of 2007, the net amount of restructuring charges and other related closure costs amounted to \$61 million before taxes. In the second quarter of 2007, we incurred \$40 million of the total expected approximate \$270 million to \$300 million in pre-tax charges associated with the new 2007 restructuring plan of our

manufacturing activities. The plan was defined on July 10, 2007 and is expected to take two to three years to complete. See Note 7 to our Unaudited Interim Consolidated Financial Statements.

- **Share-based compensation.** We are required to expense our employees' share-based compensation awards for financial reporting purposes. We measure our share-based compensation cost based on the fair value on the grant date of each award. This 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, and is adjusted for actual forfeitures that occur before vesting. Our share-based compensation plans may award shares contingent on the achievement of certain financial objectives, including market performance and financial results. In order to assess the fair value of this share-based compensation, we are required to estimate certain items, including the probability of meeting the market performance and financial results targets, the forfeitures and the service period of our employees. As a result, we recorded in the first half of 2007 a total pre-tax charge of \$32 million out of which \$4 million are related to the 2005 Unvested Stock Award Plan, \$25 million to the 2006 Unvested Stock Award Plan and \$3 million to the 2007 Unvested Stock Award Plan.
- **Income taxes.** We are required to make estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments also occur in the calculation of certain tax assets and liabilities and provisions.

We are required to assess the likelihood of recovery of our deferred tax assets. If recovery is not likely, we are required to record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable, which would increase our provision for income taxes. As of June 30, 2007, we believed that all of the deferred tax assets, net of valuation allowances, as recorded on our balance sheet, would ultimately be recovered. However, should there be a change in our ability to recover our deferred tax assets, in our estimates of the valuation allowance, or a change in the tax rates applicable in the various jurisdictions, this could have an impact on our future tax provision in the periods in which these changes could occur.

- **Patent and other intellectual property litigation or claims.** As is the case with many companies in the semiconductor industry, we have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other intellectual property rights of others. Furthermore, we may become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. In the event that the outcome of any litigation would be unfavorable to us, we may be required to take a license to the underlying intellectual property right upon economically unfavorable terms and conditions, and possibly pay damages for prior use, and/or face an injunction, all of which singly or in the aggregate could have a material adverse effect on our results of operations and ability to compete. See "Item 3. Key Information—Risk Factors—Risks Related to Our Operations—We depend on patents to protect our rights to our technology" included in our Form 20-F, as may be updated from time to time in our public findings.

We record a provision when we believe that it is probable that a liability has been incurred and when the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims with the support of our outside attorneys to determine whether they need to be adjusted based on the current information available to us. Legal costs associated with claims are expensed as incurred. We are in discussion with several parties with respect to claims against us relating to possible infringements of patents and similar intellectual property rights of others.

As of the end of the first half of 2007, based on our assessment, we did not record any provisions in our financial statements relating to legal proceedings, because we had not identified any risk of probable loss that is likely to arise out of the proceedings. There can be no assurance, however, that we will be successful in resolving these proceedings. If we are unsuccessful, or if the outcome of any other litigation or claim were to be unfavorable to us, we may incur monetary damages, or an injunction or exclusion order.

- **Pension and Post Retirement Benefits.** Our results of operations and our balance sheet include the impact of pension and post retirement benefits that are measured using actuarial valuations. At June 30, 2007, our pension obligations amount to \$362 million based on the assumption that our employees will work with us until they reach the age of retirement. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds and salary increase rates. These

Table of Contents

assumptions are updated on an annual basis at the beginning of each fiscal year or more frequently upon the occurrence of significant events. Any changes in the pension schemes or in the above assumptions can have an impact on our valuations.

- **Other claims.** We are subject to the possibility of loss contingencies arising in the ordinary course of business. These include, but are not limited to: warranty costs on our products not covered by insurance, breach of contract claims, tax claims and provisions for specifically identified income tax exposures as well as claims for environmental damages. In determining loss contingencies, we consider the likelihood of a loss of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when we believe that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We regularly reevaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. In the event of litigation that is adversely determined with respect to our interests, or in the event that we need to change our evaluation of a potential third-party claim based on new evidence or communications, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize.

Fiscal Year

Under Article 35 of our Articles of Association, our financial year extends from January 1 to December 31, which is the period end of each fiscal year. The first quarter of 2007 ended on March 31, 2007 and the second quarter of 2007 ended on June 30, 2007. The third quarter of 2007 will end on September 29, 2007 and the fourth quarter of 2007 will end on December 31, 2007. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year.

Business Overview

The total available market is defined as the "TAM", while the serviceable available market, the "SAM", is defined as the market for products produced by us (which consists of the TAM and excludes PC motherboard major devices such as microprocessors ("MPU"), dynamic random access memories ("DRAMs"), and optoelectronics devices).

Effective January 1, 2007, to meet the evolving requirements of the market together with the pursuit of a strategic repositioning in Flash memory, we have reorganized our product segment groups into the Application Specific Product Groups, the Flash Memories Group and the Industrial and Multisegment Sector. Since such date we report our sales and operating income in three segments:

- the Application Specific Groups ("ASG") is comprised of the newly created Mobile, Multimedia & Communications Group ("MMC") and the Home Entertainment & Displays Group ("HED") as well as the existing Automotive Product Group ("APG") and Computer Peripherals Group ("CPG");
- the Flash Memories Group ("FMG"), incorporates all the Flash memory operations (both NOR and NAND), including Technology R&D, all product related activities, front-end and back-end manufacturing, marketing and sales worldwide; and
- the Industrial and Multisegment sector ("IMS") is comprised of the former Micro, Power, Analog ("MPA") segment, which includes discrete and standard products plus standard microcontroller and industrial devices (including the programmable systems memories ("PSM") division); non-Flash memory products; and Micro-Electro-Mechanical Systems ("MEMS") activity.

Based upon most recently published estimates, in the first half of 2007, semiconductor industry revenue increased year-over-year by approximately 2.1% for the TAM and by approximately 0.3% for the SAM. For the second quarter of 2007, the TAM and the SAM both registered an increase of approximately 0.9% and by approximately 0.6%, respectively on a year-over-year basis; on a sequential basis, the TAM decreased by approximately 2.0% and the SAM increased by approximately 2.5%.

Our net revenues for the first half of 2007 were \$4,693 million, decreasing 3.4% compared to \$4,858 million in the first half of 2006, reflecting a significant drop in the Telecom and Computer market segments.

[Table of Contents](#)

Flash memory revenues declined 20% while non-memory products sales were equivalent. Our sales performance was below the TAM and the SAM.

Our second quarter 2007 net revenues decreased by 3.1% to \$2,418 million, from \$2,495 million in the second quarter of 2006. This year-over-year decline was driven by the Computer and Telecom market segments. Flash memory revenues declined by approximately 19%. Our revenue performance in the second quarter of 2007 was also below the TAM and the SAM on a year-over-year basis.

On a sequential basis, net revenues for the second quarter 2007 increased by 6.2% to \$2,418 million from \$2,276 million in the first quarter of 2007. This sequential improvement was driven by double-digit growth in the Consumer and Telecom segments. Our second quarter of 2007 results were slightly below the mid range of the guidance released to the market anticipating a sequential increase of net revenues between 4% and 10%. Our sequential revenue performance was above the TAM and the SAM.

In the first half of 2007, our effective exchange rate was \$1.31 for €1.00, which reflects actual exchange rate levels and the impact of certain hedging contracts, compared to an effective exchange rate of \$1.22 for €1.00 in the first half of 2006. In the second quarter of 2007, our effective exchange rate was \$1.33 for €1.00, while in the second quarter of 2006 our effective exchange rate was \$1.23 for €1.00 and in the first quarter of 2007 our effective exchange rate was \$1.29 for €1.00. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see “*Impact of Changes in Exchange Rates*” below.

Our gross margin for the first half of 2007 decreased to 34.6%, compared to 35.4% in the first half of 2006. The lower gross margin mainly resulted from the combined negative impact of the decline in selling prices and the weakening of the U.S. dollar exchange rate against the other major international currencies that exceeded the benefits of the improved manufacturing efficiencies and a higher sales volume. On a year-over-year basis, our second quarter 2007 gross margin experienced a similar trend decreasing to 34.7% from 35.4%.

On a sequential basis, our gross margin increased from 34.5% in the first quarter of 2007. This was the result of the combined favorable effect of higher sales volume, improved product mix and manufacturing efficiencies, which exceeded the continued negative impact of pricing pressures and the weakening of the U.S. dollar exchange rate. Our second quarter performance was within the guidance that indicated a gross margin of approximately 35% plus or minus 1 percentage point.

Our first half 2007 combined selling, general and administrative expenses and research and development expenses increased to \$1,412 million compared to \$1,339 million in the first half of 2006, mostly due to the weakening of the U.S. dollar exchange rate. In the first half of 2007, our operating expenses included \$27 million in share-based compensation expenses compared to \$7 million in the first half of 2006. Due to the decline in revenues, our operating expenses to sales ratio was 30.1%, exceeding the 27.6% comparable ratio registered for the first half of 2006. In the second quarter of 2007, our operating expenses, as a percentage of sales, decreased sequentially to 29.6% from 30.6%.

“Other income and expenses, net” resulted in a net expense of \$3 million in the first half of 2007 compared to a net expense of \$24 million in the first half of 2006, mainly due to spending for start-up costs and patent costs. In the second quarter of 2007, we registered a net income of \$12 million, compared to a net expense of \$5 million in the second quarter of 2006 and a net expense of \$15 million in the first quarter of 2007.

We registered a charge of \$918 million in the first half of 2007 for impairment, restructuring charges and other related closure costs, of which a \$857 million impairment loss was related to the pending disposal of our FMG assets, \$40 million were restructuring charges related to our new 2007 manufacturing restructuring plan and \$21 million related to our former 150-mm restructuring and headcount reduction plans. In the first half of 2006, impairment, restructuring charges and other related closure costs amounted to \$47 million relating to our 150-mm restructuring and headcount reduction plans.

Due to the significant impairment and restructuring charges, our operating result in the first half of 2007 was an operating loss of \$710 million compared to an operating income of \$309 million in the first half of 2006. Excluding impairment and restructuring charges, our operating income also decreased compared to the previous year due to lower sales volume and the negative impact of the U.S. dollar exchange rate. Also on a quarterly basis, our second quarter operating result was largely negatively impacted by the amount of

Table of Contents

impairment and restructuring charges; excluding these extraordinary charges, our operating income improved on a sequential basis but still declined on a year-over-year basis.

We recorded a net interest income of \$36 million in the first half of 2007 originated by our efficient and diversified investment management of available liquidity between money market and marketable securities; however, it decreased compared to the \$51 million of net interest income in the first half of 2006 mainly as a result of the reduction of available liquidity due to the redemption in August 2006 of \$1.4 billion of our 2013 Convertible Bonds (with 0.5% of positive yield). In the first half of 2007, we recorded a \$9 million income recognition related to our joint venture with Hynix Semiconductor Inc. in China as a benefit of production build-up, which was registered as “Earnings on equity investments”.

We registered an income tax expense of \$15 million in the first half of 2007 compared to an income tax expense of \$57 million in the first half of 2006.

In summary, our profitability during the first half of 2007 was negatively impacted by the following factors:

- impairment and restructuring charges;
- euro exchange rate strengthening;
- decline in revenues mainly due to negative pricing trends; and
- higher operating expenses to sales ratio.

The factors above were partially offset by the following favorable factors:

- continuous improvement of our manufacturing performances;
- favorable balance of “other income and expenses, net”;
- earnings on equity investments; and
- lower income taxes.

From the operational point of view, our sequential revenue results, led by recovery in wireless and digital consumer, concretely demonstrate our ability to increase sales and, we believe, to gain market share in the second quarter of 2007 sequentially. Strategically, the recent resolution of important initiatives allows us to focus efforts and resources on leadership in multimedia convergence applications and power solutions, advance a lighter asset business model, drive towards a higher return on net assets and enhance cash generation from operations.

Announced in mid-May, the creation of a new independent Flash memory company and the sale of our Flash memory assets to this entity are moving ahead according to the anticipated timeline.

Additionally, advancing our commitment to a lighter asset structure, following a careful evolution of further opportunities to optimize our asset utilization, we reached the recently-announced decision for a further rationalization of our manufacturing operations, including the closures of two fabs and one back-end site.

IMS and, within ASG, Automotive posted record net revenue levels in the second quarter of 2007. ASG operating profit recovery reflected both sales leverage and product-mix improvement. While not yet at the year-ago level, these improvements indicate that the plan we articulated is delivering the expected results.

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

Business Outlook

Based on current order visibility for the third quarter of 2007, we see sequential sales growth continuing for us in the range between 2% and 7%. Despite the further deterioration of the U.S. dollar exchange rate, we expect the gross margin for the quarter to expand to about 35.5% plus or minus 1 percentage point.

These objectives are based on an assumed effective currency exchange rate of approximately \$1.37 to for €1.00 for the third quarter of 2007, which reflects current exchange rates levels combined with the expected impact of existing hedging contracts.

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

Other Developments in the First Half of 2007

As of January 1, 2007, we reorganized our product segment groups as follows: the Application Specific Groups, the Industrial and Multisegment Sector and the Flash Memories Group. The Application Specific Groups include the existing Automotive Products Group and Computer Peripherals Group and the newly created Mobile, Multimedia & Communications Group and Home Entertainment & Displays Group. The Industrial and Multisegment Sector contain the Microcontrollers, Memories & Smartcards Group and the Analog, Power & MEMS Group. The Flash Memories Group incorporates all Flash memory operations, including research and development and product-related activities, front- and back-end manufacturing, marketing and sales. In conjunction with this realignment, we announced a number of new executive and corporate vice presidents. These include Mr. Mario Licciardello as the Corporate Vice President and General Manager of the stand-alone Flash Memories Group; Mr. Carmelo Papa was promoted to Executive Vice President leading the Industrial and Multisegment Sector; Mr. Claude Dardanne as the new Corporate Vice President leading the Microcontrollers, Memories & Smartcards Group; Mr. Tommi Uhari was promoted to Executive Vice President over Mobile, Multimedia & Communications Group; and Mr. Christos Lagomichos promoted to Corporate Vice President for the Home Entertainment & Displays Group.

On January 16, 2007, we confirmed that the technology development at Crolles will continue beyond 2007 despite the announcement that NXP Semiconductors B.V. (“NXP Semiconductors”) will withdraw from the Crolles2 alliance at the end of 2007 and the joint technology cooperation agreements with NXP Semiconductors and Freescale Semiconductor, Inc. (“Freescale Semiconductor”) will expire on December 31, 2007. The Crolles2 alliance, in which we have partnered with NXP Semiconductors and Freescale Semiconductor, will work together to complete the program on 45-nm CMOS and manage the transition throughout 2007.

On January 22, 2007, a new option agreement was enacted with an independent foundation, Stichting Continuïteit ST (the “Stichting”), which has an independent board. The new option agreement provides for the issuance of up to a maximum of 540,000,000 preference shares. The Stichting has the option, which it shall exercise in its sole discretion, to take up the preference shares. The preference shares would be issuable if the board of the Stichting determines that hostile actions, such as a creeping acquisition or an unsolicited offer for our common shares, would be contrary to our interests, the interests of our shareholders, or of other stakeholders. If the Stichting exercises its call option and acquires preference shares, it must pay at least 25% of the par value of such preference shares. The new option agreement with the Stichting reflects changes in Dutch legal requirements, not a response to any hostile takeover attempt.

On February 14, 2007, we announced the expansion of our partnership with Premier Indian Institutes, BITS Pilani and IIT Delhi, to set up research and innovation labs. The main objective of these partnerships is to facilitate proliferation of Very Large Scale Integration (VLSI) design and the labs are expected to be operational by the second quarter of 2007.

In 2006, our shareholders at our annual shareholders meeting approved the grant of up to 5 million Unvested Stock Awards to our senior executives and certain of our key employees, as well as the grant of up to 100,000 Unvested Stock Awards to our President and CEO. Pursuant to such approval, the Compensation Committee approved in April 2006 the conditions which shall apply to the vesting of such awards. These conditions related to three criteria related to our financial performance as well as the continued presence at the

Table of Contents

defined vesting dates in 2007, 2008 and 2009. About 5 million shares have been awarded under this plan as of March 31, 2007 and on February 28, 2007, the Compensation Committee noted that the three conditions fixed in April 2006 have been fulfilled triggering the vesting of the first tranche of the 2006 awards on April 27, 2007.

At our general meeting of shareholders held on April 26, 2007, our shareholders approved the following proposals of our Managing Board upon the recommendation of our Supervisory Board:

- a cash dividend of \$0.30 per share, an approximately 150% increase to last year's cash dividend distribution. The cash dividend distribution took place in May 2007. On May 21, 2007, our common shares traded ex-dividend on the three stock exchanges on which they are listed;
- the appointment of Mr. Ray Bingham and Mr. Alessandro Ovi for three-year terms until the 2010 annual general meeting of shareholders as new Supervisory Board members in replacement of Mr. Robert White whose mandate was up at this year's annual shareholders' meeting and Mr. Antonio Turicchi who resigned from his position effective as of this year's annual shareholders' meeting;
- the approval of the main principles of the 2007 share-based compensation plan for our employees and CEO. As part of such plan and specifically as approved by the general meeting of shareholders, our President and CEO will be entitled to receive a maximum of 100,000 ordinary shares;
- the adoption of the share-based compensation plan, for members of our Supervisory Board;
- the designation of our Supervisory Board as the corporate body authorized to resolve upon (i) issuance of any number of shares as comprised in the authorized share capital of our Company as this shall read from time to time, (ii) upon the terms and conditions of an issuance of shares, (iii) upon limitation and/or exclusion of pre-emptive rights of existing shareholders upon issuance of shares, and (iv) upon the granting of rights to subscribe for shares, all for a five-year period as of the date of our 2007 annual shareholders' meeting;
- the authorization of our Managing Board to acquire for a consideration on a stock exchange or otherwise up to such a number of fully paid-up ordinary shares and/or preference shares in our share capital as is permitted by law and our Articles of Association as per the moment of such acquisition — other than acquisition of shares pursuant to article 5, paragraph 2 of our Articles of Association — for a price (i) per ordinary share which at such moment is within a range between the par value of an ordinary share and 110% of the share price per ordinary share on Eurolist by Euronext™ Paris, the New York Stock Exchange or Borsa Italiana, whichever at such moment is the highest, and (ii) per preference share which is calculated in accordance with article 5, paragraph 5 of our Articles of Association, taking into account the amendment to our Articles of Association, for a period of eighteen months as of the date of our 2007 annual shareholders' meeting; and
- amendments to our Articles of Association.

In addition, at our annual general meeting of shareholders held in Amsterdam on April 26, 2007, our shareholders approved our accounts which were reported in accordance with International Financial Reporting Standards (IFRS).

On May 22, 2007, we announced that we had entered into a definitive agreement with Intel Corporation and Francisco Partners L.P. to create a new independent semiconductor company from the key assets of businesses which last year generated approximately \$3.6 billion in combined annual revenue. The new company's strategic focus will be on supplying Flash memory solutions for a variety of consumer and industrial devices, including cellular phones, MP3 players, digital cameras, computers and other high-tech equipment. Under the terms of the agreement, we will sell our Flash memory assets, including our NAND joint venture interest and other NOR resources, to the new company while Intel will sell its NOR assets and resources. In exchange, Intel will receive a 45.1% equity ownership stake and a \$432 million cash payment at close and we will receive a 48.6% equity ownership stake and a \$468 million cash payment at close. Francisco Partners L.P., a Menlo Park, California-based private equity firm, will invest \$150 million in cash for convertible preferred stock representing a 6.3% ownership interest, subject to adjustment in certain circumstances. Concurrently, the parties have arranged for the new company to receive firm commitments for a \$1.3 billion term loan and \$250 million revolver. The term loan has been underwritten by a consortium of banks. Proceeds from the term loan will be used for working capital and payment to us and Intel for the purchase price. The transaction is subject to

[Table of Contents](#)

regulatory approvals and customary closing conditions and is expected to occur in the second half of 2007. On July 19, 2007, we announced that the pending new company will be named “Numonyx™”.

On June 18, 2007, we committed to a new program to optimize our cost structure which involves the closing of three manufacturing operations. Over the next two to three years we will wind down operations of our 200-mm wafer fab in Phoenix (Arizona), our 150-mm fab in Carrollton (Texas) and our back-end packaging and test facility in Ain Sebaa (Morocco). The plan was announced on July 10, 2007. We expect these measures to generate savings of approximately \$150 million per year in the cost of goods sold once the plan has been completed. The total impairment and restructuring charges for this program are expected to be in the range of \$270 million and \$300 million, of which approximately \$250 million are estimated to be cash charges.

On July 24, 2007, we announced that we have signed an agreement with IBM to collaborate on the development of next-generation process technology that is used in semiconductor development and manufacturing. The agreement includes 32-nm and 22-nm complementary metal—oxide—semiconductor (CMOS) process-technology development, design enablement and advanced research adapted to the manufacturing of 300-mm silicon wafers. In addition, it includes both the core bulk CMOS technology and value-added derivative System-on-Chip (“SoC”) technologies and positions both companies at the leading edge of technology development. The new agreement between IBM and us will also include collaboration on IP development and platforms to speed the design of SoC devices in these technologies.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

In the semiconductors business area, we design, develop, manufacture and market a broad range of products, including discrete, memories and standard commodity components, application-specific integrated circuits (“ASICs”), full-custom devices and semi-custom devices and application-specific standard products (“ASSPs”) for analog, digital and mixed-signal applications. In addition, we further participate in the manufacturing value chain of Smart card products through our divisions, which include the production and sale of both silicon chips and Smart cards.

Pursuing the strategic repositioning in Flash Memory and in order to better meet the requirements of the market, we realigned our product groups effective January 1, 2007. Since such date, we report our semiconductor sales and operating income in the following three product segments:

- Application Specific Groups (“ASG”) segment, comprised of three product lines: Home Entertainment & Displays Group (“HED”), Mobile, Multimedia & Communications Group (“MMC”) and Automotive Products (“APG”);
- Flash Memories Group (“FMG”) segment; and
- Industrial and Multisegment Sector (“IMS”), comprised of the former Micro, Power, Analog (“MPA”) segment, non-Flash memory products and Micro-Electro-Mechanical Systems (“MEMS”).

We have restated our results in prior periods for illustrative comparisons of our performance by product segment and by period. The segment information of 2006 has been restated using the same principles applied to 2007. 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. However, we believe the presentation of the segment information for 2006 is comparable to 2007 and we are using these comparatives for business management.

Our principal investment and resource allocation decisions in the semiconductor business area are for expenditures on research and development and capital investments in front-end and back-end manufacturing facilities. These decisions are not made by product segments, but on the basis of the semiconductor business area. All these product segments share common research and development for process technology and manufacturing capacity for most of their products.

In the subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery

[Table of Contents](#)

chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems segment does not meet the requirements for a reportable segment as defined in Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (“FAS 131”).

The following tables present our consolidated net revenues and consolidated operating income by semiconductor product group segment. For the computation of the segments’ internal financial measurements, we use certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Additionally, in compliance with our internal policies, certain cost items are not charged to the segments, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate level operating expenses and certain other miscellaneous charges.

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
	(in \$ millions)			
Net revenues by product segments:				
Application Specific Groups (ASG)	\$ 1,303	\$ 1,367	\$ 2,524	\$ 2,684
Flash Memories Group (FMG)	331	407	654	818
Industrial and Multisegment Sector (IMS)	767	707	1,488	1,328
Others(1)	17	14	27	28
Total consolidated net revenues	\$ 2,418	\$ 2,495	\$ 4,693	\$ 4,858

(1) Includes revenues from sales of subsystems and other products not allocated to product segments.

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
	(in \$ millions)			
Operating income (loss) by product segments:				
Application Specific Groups (ASG)	\$ 53	\$ 108	\$ 52	\$ 202
Flash Memories Group (FMG)	(25)	3	(42)	(12)
Industrial and Multisegment Sector (IMS)	103	105	210	182
Total operating income of product segments	131	216	220	372
Others(1)	(903)	(47)	(930)	(637)
Total consolidated operating income	\$ (772)	\$ 169	\$ (710)	\$ 309

(1) Operating income (loss) of “Others” includes items such as impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses such as: strategic or special research and development programs, certain corporate level operating expenses, certain patent claims and litigations, and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group.

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
	(as percentages of net revenues)			
Operating income (loss) by product segments:				
Application Specific Groups (ASG) (1)	4.1%	7.9%	2.1%	7.5%
Flash Memories Group (FMG) (1)	(7.6)	0.7	(6.4)	(1.5)
Industrial and Multisegment Sector (IMS) (1)	13.4	14.9	14.1	13.7
Others(2)	—	—	—	—
Total consolidated operating income(3)	(31.9)%	6.8%	(15.1)%	6.4%

(1) As a percentage of net revenues per product group.

(2) As a percentage of total net revenues. Includes operating income (loss) from sales of subsystems and other income (costs) not allocated to product segments.

(3) As a percentage of total net revenues.

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
(in \$ millions)				
Reconciliation to consolidated operating income:				
Total operating income of product segments	\$ 131	\$ 216	\$ 220	\$ 372
Strategic and other research and development programs	(4)	(2)	(8)	(5)
Start-up costs	(5)	(14)	(15)	(25)
Impairment, restructuring charges and other related closure costs	(906)	(34)	(918)	(47)
Other non-allocated provisions ⁽¹⁾	12	3	11	14
Total operating loss Others ⁽²⁾	(903)	(47)	(930)	(63)
Total consolidated operating income	\$ (772)	\$ 169	\$ (710)	\$ 309

- (1) Includes unallocated income and expenses such as certain corporate level operating expenses and other costs that are not allocated to the product segments.
- (2) Operating income (loss) of "Others" includes items such as impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses such as: strategic or special research and development programs, certain corporate level operating expenses, certain patent claims and litigations, and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group.

Net revenues by location of order shipment and by market segment

The table below sets forth information on our net revenues by location of order shipment:

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
(in millions)				
Net Revenues by Location of Order Shipment⁽¹⁾				
Europe	\$ 812	\$ 779	\$ 1,583	\$ 1,499
North America ⁽²⁾	284	308	567	636
Asia Pacific	414	537	842	1,050
Greater China	646	657	1,203	1,253
Japan	131	95	242	177
Emerging Markets ⁽²⁾⁽³⁾	131	119	256	243
Total	\$ 2,418	\$ 2,495	\$ 4,693	\$ 4,858

- (1) Net revenues by location of order shipment are classified by location of customer invoiced. For example, products ordered by U.S.-based companies to be invoiced to Asia Pacific affiliates are classified as Asia Pacific revenues.
- (2) As of July 2, 2006, the region "North America" includes Mexico, which was part of Emerging Markets in prior periods. Amounts have been reclassified to reflect this change.
- (3) Emerging Markets include markets such as India, Latin America, the Middle East and Africa, Europe (non-EU and non-EFTA) and Russia.

[Table of Contents](#)

The table below shows our net revenues by location of order shipment and market segment application in percentages of net revenues:

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
(as percentages of net revenues)				
Net Revenues by Location of Order Shipment(1)				
Europe	33.6%	31.2%	33.7%	30.9%
North America(2)	11.7	12.4	12.1	13.1
Asia Pacific	17.1	21.5	17.9	21.6
Greater China	26.8	26.3	25.6	25.8
Japan	5.4	3.8	5.2	3.6
Emerging Markets(2)(3)	5.4	4.8	5.5	5.0
Total	100.0%	100.0%	100.0%	100.0%
Net Revenues by Market Segment Application(4):				
Automotive	15.9%	15.2%	16.1%	15.3%
Consumer	17.4	15.7	17.1	16.0
Computer	15.1	16.5	15.9	16.6
Telecom	35.9	38.4	35.2	38.2
Industrial and Other	15.7	14.2	15.7	13.9
Total	100.0%	100.0%	100.0%	100.0%

- (1) Net revenues by location of order shipment are classified by location of customer invoiced. For example, products ordered by U.S.-based companies to be invoiced to Asia Pacific affiliates are classified as Asia Pacific revenues.
- (2) As of July 2, 2006, the region "North America" includes Mexico, which was part of Emerging Markets in prior periods. Amounts have been reclassified to reflect this change.
- (3) Emerging Markets include markets such as India, Latin America, the Middle East and Africa, Europe (non-EU and non-EFTA) and Russia.
- (4) The above table estimates, within a variance of 5% to 10% in the absolute dollar amount, the relative weighting of each of our target segments.

The following table sets forth certain financial data from our Consolidated Statements of Income, expressed in each case as a percentage of net revenues:

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
(as percentage of net revenues)				
Net sales	99.6%	99.9%	99.7%	99.9%
Other revenues	0.4	0.1	0.3	0.1
Net revenues	100.0	100.0	100.0	100.0
Cost of sales	(65.3)	(64.6)	(65.4)	(64.6)
Gross profit	34.7	35.4	34.6	35.4
Selling, general and administrative	(11.2)	(10.7)	(11.3)	(10.8)
Research and development	(18.4)	(16.4)	(18.8)	(16.8)
Other income and expenses, net	0.5	(0.2)	(0.1)	(0.5)
Impairment, restructuring charges and other related closure costs	(37.5)	(1.3)	(19.5)	(0.9)
Operating income	(31.9)	6.8	(15.1)	6.4
Interest income, net	0.7	1.2	0.7	1.0
Earnings (loss) on equity investments	0.1	—	0.2	(0.1)
Income before income taxes and minority interests	(31.1)	7.9	(14.2)	7.3
Income tax expense	(0.1)	(1.1)	(0.4)	(1.1)
Income before minority interests	(31.2)	6.8	(14.6)	6.2
Minority interests	(0.2)	(0.1)	(0.0)	—
Net income	(31.4)%	6.7%	(14.6)%	6.2%

Second Quarter of 2007 vs. Second Quarter of 2006 and First Quarter of 2007

Based upon most recently published estimates, in the second quarter of 2007, semiconductor industry revenue on a year-over-year basis increased by approximately 0.9% for the TAM and by approximately 0.6% for the SAM. On a sequential basis, revenues in the second quarter of 2007 decreased by approximately 2.0% for the TAM and increased by approximately 2.5% for the SAM.

Net Revenues

	<u>June 30, 2007</u>	<u>Quarter ended</u>		<u>% Variation</u>	
		<u>March 31, 2007</u> (unaudited, in \$ millions)	<u>July 1, 2006</u>	<u>Sequential</u>	<u>Year-over-year</u>
Net sales	\$ 2,409	\$ 2,269	\$ 2,492	6.2%	(3.3)%
Other revenues	9	7	3	—	—
Net revenues	<u>\$ 2,418</u>	<u>\$ 2,276</u>	<u>\$ 2,495</u>	<u>6.2%</u>	<u>(3.1)%</u>

Year-over-year comparison

Our second quarter 2007 net revenues decreased 3.1% compared to the second quarter of 2006, mainly as a result of the decline in our average selling prices of about 9% due to ongoing pricing pressure in the semiconductor market. Furthermore, our sales units were higher. In the quarter, we benefited from a higher amount in other revenues which was related to the selling of materials that did not meet our quality standards to end users in other industries.

With reference to our product group segments, IMS improved its revenue performance, while ASG and, in particular, FMG net revenues registered a negative variation. ASG net revenues decreased 4.7% due to a significant decline in selling prices, in particular, in the Telecom sector, while the group benefited from higher units sold and a more favorable product mix; the main decreases were registered in Imaging, Computer Peripherals and Communication Infrastructure while the group's revenues performed better in Automotive, Consumer and Cellular Communication. Revenue performance for IMS was significant with an 8.5% growth rate driven by higher sales volumes in most of its main product families and a more favorable product mix, which resulted in improving the group's overall average selling prices. FMG net revenues decreased by 18.5% as a result of a drop in selling prices and fewer units sold; wireless Flash decreased by approximately 31% while NAND increased by approximately 73%.

By market segment application, Computer and Telecom were the main contributors to the negative year-over-year variation; while an upside was registered in Consumer, Industrial and Automotive.

By location of order shipment, the most significant decrease was experienced in the Asia Pacific region which declined by approximately 23%; North America and Greater China regions experienced a decrease by approximately 8% and 2%, respectively, while net revenues increased by approximately 38% in Japan, 4% in Europe and 10% in Emerging Markets.

We had several large customers, with the largest one, the Nokia group of companies, accounting for approximately 20% of our second quarter of 2007 net revenues, which was lower than the approximate 22% it accounted for during the second quarter of 2006. Our top ten OEM (original equipment manufacturers) customers accounted for approximately 48% of our net revenues compared to approximately 52% in the second quarter of 2006. Sales to distributors accounted for approximately 17% in the second quarter of 2007, compared to 19% in the second quarter of 2006.

Sequential comparison

Our second quarter 2007 net revenues grew by 6.2% compared to the first quarter 2007 net revenues due to higher overall units sold, while average selling prices remained basically flat as a result of an improvement in product mix and despite a pure price decline.

All product group segments registered an increase in net revenues. ASG increased 6.8% as a result of higher sales volume and improved product mix; the more favorable variations were in Consumer, Wireless Communication, Connectivity and Automotive while a decline was experienced in Data Storage and Imaging.

[Table of Contents](#)

IMS increased 6.2% led by higher sales volume and improved product mix and most of the product families experienced an increase in sales volume. FMG sales were up 2.7% driven by sales volume; Wireless products decreased by approximately 2% while NAND products increased 26%.

Almost all of our market segment applications experienced an increase in revenues except Computer, with main contribution for the increase coming from Telecom, Consumer and Industrial.

By location of order shipment, net revenues in Japan increased by approximately 18%, Greater China approximately 16%, Europe and Emerging Markets approximately 5% each, while Asia Pacific decreased by approximately 3% and North America was flat.

In the second quarter of 2007, we had several large customers, with the largest one, the Nokia group of companies, accounting for approximately 20% of our net revenues, increasing from the 19% it accounted for during the first quarter of 2007. Our top ten OEM customers accounted for approximately 48% of our net revenues in the second quarter of 2007 compared to 50% in the first quarter of 2007. Sales to distributors were approximately 17% in the second quarter of 2007 compared to 19% in the first quarter of 2007.

Gross profit

	<u>June 30, 2007</u>	<u>Quarter ended</u>		<u>% Variation</u>	
		<u>March 31, 2007</u>	<u>July 1, 2006</u>	<u>Sequential</u>	<u>Year-over-year</u>
		<i>(unaudited, in \$ millions)</i>			
Cost of sales	\$(1,580)	\$(1,491)	\$(1,613)	(6.0)%	2.0%
Gross profit	\$ 838	\$ 785	\$ 882	6.7%	(5.1)%
Gross margin (as a percentage of net revenues)	34.7%	34.5%	35.4%	—	—

On a year-over-year basis, our gross profit decreased by 5.1%. In the same period, our gross margin decreased from 35.4% to 34.7%, mainly caused by the combined negative effect of the selling price decline and the unfavorable trend of the U.S. dollar exchange rate, which were partially balanced by gains in manufacturing efficiencies and a more favorable product mix.

On a sequential basis, our gross profit increased 6.7%, mainly driven by higher sales volume, improved product mix and manufacturing efficiencies, partially compensated by negative impacts of selling prices and the weakening U.S. dollar exchange rate. Due to these factors, our gross margin recovered 20 basis points reaching the level of 34.7%.

Selling, general and administrative expenses

	<u>June 30, 2007</u>	<u>Quarter ended</u>		<u>% Variation</u>	
		<u>March 31, 2007</u>	<u>July 1, 2006</u>	<u>Sequential</u>	<u>Year-over-year</u>
		<i>(unaudited, in \$ millions)</i>			
Selling, general and administrative expenses	\$ (270)	\$ (261)	\$ (266)	(3.4)%	(1.5)%
As percentage of net revenues	(11.2)%	(11.5)%	(10.7)%	—	—

The amount of our selling, general and administrative (“SG&A”) expenses slightly increased on year-over-year basis; mainly due to the U.S. dollar rate weakening and higher share-based compensation charges. Our share-based compensation charges were \$9 million in the second quarter of 2007 and \$3 million in the second quarter of 2006. Combined with our net revenues decline, our second quarter 2007 ratio of SG&A to sales was 11.2% compared to 10.7% for the second quarter of 2006.

Selling, general and administrative increased 3.4% compared to the first quarter of 2007, which included \$10 million of share-based compensation. Due to the higher sales, SG&A to sales ratio slightly improved sequentially.

[Table of Contents](#)

Research and development expenses

	<u>June 30, 2007</u>	<u>Quarter ended</u>		<u>% Variation</u>	
			<u>March 31, 2007</u> (unaudited, in \$ millions)	<u>July 1, 2006</u>	<u>Sequential</u>
Research and development expenses	\$ (446)	\$ (435)	\$ (408)	(2.3)%	(9.0)%
As percentage of net revenues	(18.4)%	(19.1)%	(16.4)%	—	—

On a year-over-year basis and sequentially, our research and development expenses increased mainly due to the negative impact of the effective U.S. dollar exchange rate. The second quarter of 2006 was favorably impacted by a \$5 million benefit associated with the change of the pension scheme in one subsidiary and a \$2 million benefit related to the recognition of regional grants associated with the relief of social charges for past hirings in Italy. Our share-based compensation charges were \$1 million in the second quarter of 2006.

On a sequential basis, research and development expenses increased as a result of the negative impact of the U.S. dollar exchange rate. Our share-based compensation charges to R&D expenses were \$3 million in the second quarter of 2007 compared to \$5 million in the first quarter of 2007.

Other income and expenses, net

	<u>June 30, 2007</u>	<u>Quarter ended</u>	
		<u>March 31, 2007</u> (unaudited, in \$ millions)	<u>July 1, 2006</u>
Research and development funding	\$ 15	\$ 11	\$ 9
Start-up costs	(5)	(10)	(14)
Exchange gain (loss), net	1	(4)	(4)
Patent litigation costs	(5)	(7)	(4)
Patent pre-litigation costs	(3)	(2)	(1)
Gain on sale of Accent subsidiary	—	—	6
Gain (loss) on sale of other non-current assets, net	(1)	1	1
Other, net	10	(4)	(2)
Other income and expenses, net	12	(15)	(5)
As a percentage of net revenues	0.5%	(0.7)%	(0.2)%

Other income and expenses, net results mainly include, as income, items such as research and development funding, gains on sale of non-current assets, and as expenses, start-up costs, net exchange rate results and patent claim costs. In the second quarter of 2007, research and development funding income was associated with our research and development projects, which qualify as funding on the basis of contracts with local government agencies in locations where we pursue our activities. In second quarter of 2007, other, net included \$10 million in income that we received in our on-going pursuit to recover damage related to the case disclosed in our November 2006 press release. In the second quarter of 2007, all of these factors resulted in a net income of \$12 million.

Impairment, restructuring charges and other related closure costs

	<u>June 30, 2007</u>	<u>Quarter ended</u>	
		<u>March 31, 2007</u> (unaudited, in \$ millions)	<u>July 1, 2006</u>
Impairment, restructuring charges and other related closure costs	\$(906)	\$(12)	\$(34)

In the second quarter of 2007, we recorded impairment, restructuring charges and other related closure costs of \$906 million. This expense was related to:

- an impairment loss estimated at \$857 million booked upon signing the agreement for the pending disposal of our FMG assets;

Table of Contents

- a charge of \$40 million related to the severance costs booked in relation to the new 2007 restructuring plan of our manufacturing activities;
- a charge of \$6 million generated by our 150-mm restructuring plan; and
- a charge of \$3 million for employee benefits relating to our headcount restructuring plan.

In the second quarter of 2006, impairment, restructuring charges and other related closure costs amounted to \$34 million and were mainly related to the same restructuring plans (\$28 million for the headcount restructuring plan and \$6 million for 150-mm restructuring plan).

In the first quarter of 2007, we booked \$12 million in impairment, restructuring charges and other related closures costs, composed of \$3 million for the headcount restructuring plan and \$9 million for the 150-mm restructuring plan.

See Note 7 to our Unaudited Interim Consolidated Financial Statements.

Operating income (loss)

	<u>June 30, 2007</u>	<u>Quarter ended March 31, 2007</u> (unaudited, in \$ millions)	<u>July 1, 2006</u>
Operating income (loss)	\$ (772)	\$ 62	\$169
As a percentage of net revenues	(31.9)%	2.7%	6.8%

Year-over-year basis

Due to the high amount of impairment and restructuring charges in the second quarter of 2007, our operating results for the quarter registered a loss, while in the previous comparable periods we registered an operating income. However, even excluding the impairment and restructuring charges, our operating income decreased both in dollar value and percentage to sales ratio due to the negative impact of declining selling prices and the weakening U.S. dollar, only partially balanced by continuous improvements in our manufacturing efficiencies.

In the second quarter of 2007, with reference to our product group segments, we registered an operating income in IMS and ASG, and a loss in FMG. ASG operating income was \$53 million, decreasing from an operating income of \$108 million, primarily due to the drop in its revenues that were impacted by the decline in selling prices. In spite of the revenue increase, IMS operating income remained basically flat at the level of \$103 million, since the benefit of higher sales was offset by the negative impact of a decline in selling prices. FMG operating result moved from an operating income of \$3 million to a loss of \$25 million in the second quarter of 2007 mainly due to the drop in its revenues.

Sequentially

On a sequential basis and excluding impairment and restructuring charges, our operating result significantly improved driven by revenues and manufacturing efficiencies which exceeded the negative impact of the persisting pricing pressure and the weakening of the U.S. dollar.

ASG operating income improved from breakeven to a solid profit level supported by the recovery of a higher sales volume. IMS operating income slightly decreased on a sequential basis due to the increased level of operating expenses and manufacturing inefficiencies. FMG further deteriorated its operating loss as the group was also impacted by charges associated with lower manufacturing capacity utilization.

Interest income, net

	<u>June 30, 2007</u>	<u>Quarter ended March 31, 2007</u> (unaudited, in \$ millions)	<u>July 1, 2006</u>
Interest income, net	\$18	\$17	\$30

[Table of Contents](#)

Net interest income was \$18 million in the second quarter of 2007, basically equivalent to the amount in the previous quarter. In comparison to the second quarter of 2006, interest income, net was lower primarily as a result of the reduction of available liquidity due to the early redemption in August 2006 of \$1.4 billion of our 2013 Convertible Bonds (with 0.5% of positive yield).

Earnings (loss) on equity investments

	<u>June 30, 2007</u>	<u>Quarter Ended</u> <u>March 31, 2007</u> <u>(unaudited, in \$ millions)</u>	<u>July 1, 2006</u>
Earnings (loss) on equity investments	\$3	\$7	\$(1)

The earnings in the second quarter of 2007 are mainly related to our investment as minority shareholder in our joint venture with Hynix Semiconductor Inc. in China, decreasing sequentially from the first quarter of 2007 which included a one-time income recognition.

Income tax expense

	<u>June 30, 2007</u>	<u>Quarter ended</u> <u>March 31, 2007</u> <u>(unaudited, in \$ millions)</u>	<u>July 1, 2006</u>
Income tax expense	\$(4)	\$(11)	\$(29)

During the second quarter of 2007, we registered an income tax expense of \$4 million that reflected an estimated annual effective tax rate for recurring operations of approximately 12%, as well as some one-time income tax benefits, including those from the cost-structure initiative announced on July 10, 2007. Furthermore, we did not accrue in the quarter any tax impact which could be associated to the FMG impairment loss pending the appraisals of the fair value of the assets and the recognition of these fair values in the tax jurisdictions involved in the FMG transaction. During the second quarter of 2006, we had an income tax expense of \$29 million. During the first quarter of 2007, we recorded an income tax expense of \$11 million.

Our tax rate is variable and depends on changes in the level of operating income within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. We currently enjoy certain tax benefits in some countries; as such benefits may not be available in the future due to changes in the local jurisdictions, our effective tax rate could be different in future quarters and may increase in the coming years.

Net income (loss)

	<u>June 30, 2007</u>	<u>Quarter ended</u> <u>March 31, 2007</u> <u>(unaudited, in \$ millions)</u>	<u>July 1, 2006</u>
Net income (loss)	\$(758)	\$74	\$168
As percentage of net revenues	(31.4)%	3.3%	6.7%

For the second quarter of 2007, we reported a net loss of \$758 million, compared to net income of \$168 million in the second quarter of 2006 and net income of \$74 million in the first quarter of 2007. This loss was originated by the impairment and restructuring charges associated with the FMG pending disposal. Loss per share for the second quarter of 2007 was \$(0.84); the \$(0.84) loss per share included \$(0.99) loss per share due to the second quarter 2007 impairment and restructuring charges. The second quarter 2007 loss per share declined from basic and diluted earnings of \$0.19 and \$0.18, respectively, for the second quarter of 2006 and declined compared to basic and diluted earnings per share of \$0.08 each for the first quarter of 2007.

First Half of 2007 vs. First Half of 2006

Based upon most recently published estimates, in the first half of 2007, semiconductor industry revenue increased year-over-year by approximately 2.1% for the TAM and by approximately 0.3% for the SAM.

Net Revenues

	Six Months Ended		% Variation
	June 30, 2007	July 1, 2006	
	<i>(unaudited, in \$ millions)</i>		
Net sales	\$4,678	\$4,854	(3.6)%
Other revenues	15	4	—
Net revenues	\$4,693	\$4,858	(3.4)%

Our first half 2007 net revenues decreased 3.4% compared to the first half of 2006. This was mainly due to the significant negative impact of declining prices which largely exceeded a higher sales volume and improved product mix. During the first half of 2007, the ongoing pricing pressure in the semiconductor market generated an average selling price decrease of approximately 8%, as a pure pricing effect, just marginally compensated by a favorable product mix effect.

With respect to our product group segments, ASG net revenues decreased by 6% due to the negative price trend. IMS revenue increased by 12% and was supported by an improved product mix. FMG net revenues decreased 20% due both to price pressure and declining units sold.

By market segment application, Telecom and Computer decreased by approximately 11% and 8%, respectively, while Industrial was the major gainer with revenue increases of approximately 9%; also Consumer and Automotive revenues registered a slight increase.

By location of order shipment, the revenue performances were mixed among the regions, with a decline in Asia Pacific of approximately 20%, North America 11% and Greater China 4%, while the growth rate in the other three regions, Japan, Europe and Emerging Markets, was approximately 37%, 6% and 5%, respectively.

In the first half of 2007, we had several large customers, with the largest one, the Nokia Group of companies, accounting for approximately 20% of our net revenues, slightly decreasing from 22% it accounted for during the first half of 2006. Our top ten OEM customers accounted for approximately 49% of our net revenues in the first half of 2007 compared to approximately 52% in the equivalent previous year period. Sales to distributors were approximately 18% in the first half of 2007 compared to 19% in the first half of 2006.

Gross profit

	Six Months Ended		% Variation
	June 30, 2007	July 1, 2006	
	<i>(unaudited, in \$ millions)</i>		
Cost of sales	\$(3,070)	\$(3,139)	2.2%
Gross profit	\$ 1,623	\$ 1,719	(5.6)%
Gross margin (as a percentage of net revenues)	34.6%	35.4%	—

Our gross profit decreased 5.6% and our gross margin deteriorated to 34.6% compared to 35.4% in the year-ago period, due to the negative impact of the significant selling price drop which was compensated by improved manufacturing efficiencies.

Selling, general and administrative expenses

	Six Months Ended		% Variation
	June 30, 2007	July 1, 2006	
	<i>(unaudited, in \$ millions)</i>		
Selling, general and administrative expenses	\$ (531)	\$ (522)	(1.7)%
As a percentage of net revenues	(11.3)%	(10.8)%	—

Table of Contents

Our selling, general and administrative expenses slightly increased by 1.7% due to an unfavorable trend in the U.S. dollar exchange rate. Expenses in the first half of 2007 included \$19 million in charges related to share-based compensation compared to \$5 million in first half of 2006. Due to the revenue decline, the ratio of sales to selling, general and administrative expenses increased to 11.3% from 10.8% a year ago.

Research and development expenses

	Six Months Ended		% Variation
	June 30, 2007	July 1, 2006	
	(unaudited, in \$ millions)		
Research and development expenses	\$ (881)	\$ (817)	(7.8)%
As a percentage of net revenues	(18.8)%	(16.8)%	—

Research and development expenses slightly increased mainly due to the unfavorable impact of the U.S. dollar exchange rate since a large part of our activities are located in areas denominated in other currencies. The first half of 2006 includes a \$5 million benefit due to the change in the pension scheme in one of our subsidiaries and a \$2 million benefit recognized for receivable regional grants related to the relief of social charges associated with past hirings of employees in Italy. Expenses in the first half of 2007 included \$8 million in charges related to share-based compensation compared to \$3 million in the first half of 2006. As a percentage of net revenues, research and development expenses increased from 16.8% to 18.8% in the first half of 2007.

Other income and expenses, net

	Six Months Ended	
	June 30, 2007	July 1, 2006
	(unaudited, in \$ millions)	
Research and development funding	\$ 26	\$ 13
Start-up costs	(15)	(25)
Exchange gain (loss) net	(3)	(9)
Patent litigation costs	(12)	(8)
Patent pre-litigation costs	(5)	(3)
Gain on sale of Accent subsidiary	—	6
Gain on sale of other non-current assets	—	1
Other, net	6	1
Other income and expenses, net	\$ (3)	\$ (24)
As a percentage of net revenues	(0.1)%	(0.5)%

“Other income and expenses, net” resulted in a net expense of \$3 million in the first half of 2007, compared to a net expense of \$24 million in the first half of 2006. The first half of 2007 includes a cash recovery of \$10 million associated with the case described in our November 2006 press release. The legal and consultancy fees related to such case amount to \$2 million, recorded in the first quarter of 2007. Research and development funding includes income of some of our research and development projects, which qualify as funding on the basis of contracts with local government agencies in locations where we pursue our activities. The major amounts of research and development funding were received in Italy and France. Start-up costs in the first half of 2007 were related to our 150-mm fab expansion in Singapore and the conversion to 200-mm fab in Agrate (Italy) and build-up of our 300-mm fab in Catania (Italy). Patent claim costs included costs associated with several ongoing litigations and claims.

Impairment, restructuring charges and other related closure costs

	Six Months Ended	
	June 30, 2007	July 1, 2006
	(unaudited, in \$ millions)	
Impairment, restructuring charges and other related closure costs	\$(918)	\$(47)

Impairment, restructuring charges and other related closure costs increased significantly compared to the previous year in view of new items which have been recorded during the second quarter of 2007. This first half expense was mainly composed of:

Table of Contents

- an impairment loss estimated at \$857 million booked upon signing the agreement for the pending disposal of our FMG assets;
- a charge of \$40 million related to the severance costs booked in relation to the new 2007 restructuring plan of our manufacturing activities;
- a charge of \$15 million generated by our 150-mm restructuring plan; and
- a charge of approximately \$6 million for employee benefits relating to our headcount restructuring plan.

In the first half of 2006, we incurred \$47 million of impairment, restructuring charges and other related closure costs, including \$36 million relating to our headcount restructuring plan and \$11 million relating to our 150-mm restructuring plan.

See Note 7 to our Unaudited Interim Consolidated Financial Statements.

Operating income (loss)

	<u>Six Months Ended</u>	
	<u>June 30, 2007</u>	<u>July 1, 2006</u>
	<small>(unaudited, in \$ millions)</small>	
Operating income (loss)	\$ (710)	\$309
As a percentage of net revenues	(15.1)%	6.4%

Our operating result translated from an operating income of \$309 million in the first half of 2006 to an operating loss of \$710 million in the first half of 2007, due to the provisions associated with the new impairment and restructuring charges more fully described above. See "Business Overview".

ASG registered an operating income of \$52 million, significantly decreasing from an operating income of \$202 million mainly due to lower sales and the negative selling price trend. IMS registered an operating income of \$210 million compared to \$182 million mainly due to sales growth; as a percentage of revenue, operating income was 14.1% in the first half of 2007 compared to 13.7% in the first half of 2006. FMG operating loss increased to \$42 million compared to \$12 million in the first half of 2006 mainly due to a decline in sales.

Interest income, net

	<u>Six Months Ended</u>	
	<u>June 30, 2007</u>	<u>July 1, 2006</u>
	<small>(unaudited, in \$ millions)</small>	
Interest income, net	\$36	\$51

In the first half of 2007, interest income, net contributed \$36 million compared to interest income, net of \$51 million in the same period of 2006. This decrease is mainly as a result of the reduction of available liquidity due to the redemption in August 2006 of \$1.4 billion of our 2013 Convertible Bonds (with 0.5% of positive yield).

Earnings (loss) on equity investments

	<u>Six Months Ended</u>	
	<u>June 30, 2007</u>	<u>July 1, 2006</u>
	<small>(unaudited, in \$ millions)</small>	
Earnings (loss) on equity investments	\$9	\$(4)

The improvement in earnings on equity investments in the first half of 2007 compared to the prior year is associated with the full production ramp-up of our joint venture with Hynix Semiconductor Inc. in China during 2007.

[Table of Contents](#)

Income tax expense

	<u>Six Months Ended</u>	
	<u>June 30, 2007</u>	<u>July 1, 2006</u>
	(unaudited, in \$ millions)	
Income tax expense	\$(15)	\$(57)

During the first half of 2007, we registered an income tax expense of \$15 million that reflected an estimated annual effective tax rate for recurring operations of approximately 12%, as well as some one-time income tax benefits, including those from the cost-structure initiative announced on July 10, 2007, while it did not include any income tax impact that could be realized in connection with the Flash memory pending disposal. In the first half of 2006, we incurred a tax expense of \$57 million.

Our tax rate is variable and depends on changes in the level of operating income within various local jurisdictions and on changes in the applicable taxation rates of these jurisdictions, as well as changes in estimated tax provisions due to new events. We currently enjoy certain tax benefits in some countries; as such benefits may not be available in the future due to changes in the local jurisdictions, our effective tax rate could be different in future quarters and may increase in the coming years.

Net income (loss)

	<u>Six Months Ended</u>	
	<u>June 30, 2007</u>	<u>July 1, 2006</u>
	(unaudited, in \$ millions)	
Net income (loss)	\$ (684)	\$299
As a percentage of net revenues	(14.6)%	6.2%

For the first half of 2007, we reported a net loss of \$684 million, compared to a net income of \$299 million in the first half of 2006 due to the booking of a significant amount of impairment and restructuring charges. Loss per share for the first half of 2007 was \$(0.76), the impairment and restructuring charges accounted for \$(1.01) loss per diluted share in the first half of 2007, while they accounted for \$(0.04) loss per share in the same period in the prior year.

Legal Proceedings

We are currently a party to legal proceedings with SanDisk Corporation.

On October 15, 2004, SanDisk filed a complaint against us with the United States International Trade Commission (the "ITC") with respect to certain NAND memory products, alleging patent infringement and seeking an order excluding our NAND products from importation into the United States. On November 15, 2004, the ITC instituted an investigation against us in response to the complaint. On October 19, 2005, Administrative Law Judge Paul J. Luckern, in his Initial Determination, ruled that our NAND products do not infringe the asserted SanDisk patent, and that there was no violation of Section 337 of the U.S. Tariff Act of 1930. On December 5, 2005, the ITC confirmed its initial decision. On March 6, 2007 the United States Court of Appeals for the Federal Circuit in Washington D.C. affirmed the ITC decision without opinion.

On October 15, 2004, SanDisk filed a complaint for patent infringement, and declaratory judgment of non-infringement and patent invalidity against us with the United States District Court for the Northern District of California. The complaint alleged that our products infringe a SanDisk U.S. patent and seeks a declaratory judgment that SanDisk does not infringe several of our U.S. patents. By order dated January 4, 2005, the court stayed SanDisk's patent infringement claim pending a final determination in the ITC action discussed above. On July 23, 2007, the stay of the district court action was lifted.

On February 4, 2005, we filed two complaints for patent infringement against SanDisk with the United States District Court for the Eastern District of Texas. On April 22, 2005, SanDisk filed a counterclaim against us alleging that our products infringe two SanDisk patents. Our two complaints and the SanDisk counterclaim were dismissed in June 2007 by a mutual agreement between SanDisk and ourselves.

On October 14, 2005, we filed a complaint against SanDisk and its current CEO Dr. Eli Harari before the Superior Court of California, County of Alameda. The complaint seeks, among other relief, assignment of

Table of Contents

certain SanDisk patents that resulted from inventive activity on the part of Dr. Harari that took place while he was an employee, officer and/or director of Waferscale Integration, Inc. and actual, incidental, consequential, exemplary and punitive damages in an amount to be proven at trial. We are the successor to Waferscale Integration, Inc. by merger. SanDisk removed the matter to the United States District Court for the Northern District of California which remanded the matter to the Superior Court of California, County of Alameda in July 2006. SanDisk moved to transfer the case to the Superior Court of California, County of Santa Clara and to stay the action, both of which motions were denied by the trial court. SanDisk appealed these rulings and on January 12, 2007, the California Court of Appeals ordered that the case be transferred to the Superior Court of California County of Santa Clara. Proceedings are currently stayed pending the outcome of an appeal by SanDisk following the denial of SanDisk's motion to strike our claim pursuant to the Anti-SLAPP (the "Strategic Lawsuits Against Public Participation") legislation of the State of California.

On January 10, 2006, SanDisk filed a complaint against us with the ITC with respect to certain NAND and NOR memory products, alleging patent infringement of three SanDisk patents and seeking an order excluding our NAND and NOR products from importation into the United States. In May 2006, SanDisk voluntarily dismissed one of the three patents asserted in the ITC action. The ITC trial was held in Washington D.C. from December 4 to December 14, 2006. Post-trial briefing was completed in January 2007. On June 1, 2007, Administrative Law Judge Charles E. Bullock ruled in his Initial Determination that there was no domestic industry in the United States that practices the '338 patent, that the '517 patent was invalid, and that therefore, there was no violation of section 337 of the U.S. Tariff Act of 1930. SanDisk decided not to petition for a review of Judge Bullock's Initial Determination and this became the final decision on July 20, 2007.

With respect to the lawsuits with SanDisk as described above, we have not identified any risk of probable loss that is likely to arise out of the outstanding proceedings.

We are also a party to legal proceedings with Tessera, Inc.

On January 31, 2006, Tessera filed suit against us, adding our Company as a co-defendant, with several other semiconductor and packaging companies to a lawsuit filed by Tessera on October 7, 2005, against Advanced Micro Devices Inc. and Spansion in the United States District Court for the Northern District of California. Tessera is claiming that certain of our BGA packages infringe certain patents owned by Tessera, and that ST is liable for royalties. Tessera is also claiming that various ST entities breached a 1997 License Agreement and that ST is liable for royalties as a result. The actions before the United States District Court in the Northern District of California have now been stayed pending the outcome of the ITC complaint described below. In February and March 2007, our codefendants Siliconware Precision Industries Co., Ltd. and Siliconware USA, Inc., filed six reexamination requests with the U.S. Patent and Trademark Office covering all of the claims asserted by Tessera in the lawsuit. On April 20, 2007, the U.S. Patent and Trademark Office initiated reexaminations in response to three of the reexamination requests and on May 4, 2007, the U.S. Patent and Trademark Office initiated reexaminations in response to two more of the reexamination requests. A decision regarding the remaining reexamination request is expected shortly.

On April 17, 2007, Tessera filed a complaint against us Spansion, ATI Technologies, Inc., Qualcomm, Motorola and Freescale with the ITC with respect to certain small format ball grid array packages and products containing same, alleging patent infringement of two of the Tessera patents previously asserted in the District Court action described above and seeking an order excluding importation of the accused products into the United States. The ITC issued an injunction on May 21, 2007.

Related-Party Transactions

One of the members of our Supervisory Board is the Chief Operating Officer of Areva, one is the Chairman and CEO of France Telecom, one is a member of the Board of Directors of Thomson, one is the non-executive Chairman of the Board of Directors of ARM Holdings plc and a non-executive director of Soitec, one is member of the Supervisory Board of BESI, and one is a member of the Board of Directors of Oracle Corporation and KLA-Tencor Corporation. We engage in certain research and development collaborations with the Laboratoire d'Electronique de Technologie d'Instrumentation ("LETI"). LETI is a research laboratory of the Commissariat de l'Energie Atomique ("CEA"), which is an affiliate of Areva. France Telecom and its subsidiaries supply certain services to our Company, Thomson is one of our strategic customers, and we license technologies from ARM Holdings plc. We also procure certain software from Oracle Corporation and tools from KLA-Tencor Corporation. We believe that all of these transactions are made on an arms-length basis in line with market practices and conditions.

Impact of Changes in Exchange Rates

Our results of operations and financial condition can be significantly affected by material changes in exchange rates between the U.S. dollar and other currencies where we maintain our operations, particularly the euro, the Singapore dollar and the Japanese yen.

As a market rule, the reference currency for the semiconductor industry is the U.S. dollar and product prices are mainly denominated in U.S. dollars. However, revenues for certain of our products (primarily dedicated products sold in Europe and Japan) are quoted in currencies other than the U.S. dollar and as such are directly affected by fluctuations in the value of the U.S. dollar. As a result of currency variations, the appreciation of the euro compared to the U.S. dollar could increase, in the short term, our level of revenues when reported in U.S. dollars; revenues for all other products, which are either quoted in U.S. dollars and billed in U.S. dollars or in local currencies for payment, tend not to be affected significantly by fluctuations in exchange rates, except to the extent that there is a lag between changes in currency rates and adjustments in the local currency equivalent price paid for such products. Furthermore, certain significant costs incurred by us, such as manufacturing, labor costs and depreciation charges, selling, general and administrative expenses, and research and development expenses, are largely incurred in the currency of the jurisdictions in which our operations are located. Given that most of our operations are located in the euro zone or other non-U.S. dollar currency areas, our costs tend to increase when translated into U.S. dollars in case of dollar weakening or to decrease when the U.S. dollar is strengthening.

In summary, as our reporting currency is the U.S. dollar, currency exchange rate fluctuations affect our results of operations: if the U.S. dollar weakens, we receive a limited part of our revenues, and more importantly, we increase a significant part of our costs, in currencies other than the U.S. dollar. As described below, our effective average U.S. dollar exchange rate weakened during the first half of 2007, particularly against the euro, causing us to report higher expenses and negatively impacting both our gross margin and operating income. Our Consolidated Statement of Income for the first half of 2007 includes income and expense items translated at the average U.S. dollar exchange rate for the period.

Our principal strategy to reduce the risks associated with exchange rate fluctuations has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of raw materials, purchases and services from our suppliers denominated in U.S. dollars, thereby reducing the potential exchange rate impact of certain variable costs relative to revenues. Moreover, in order to further reduce the exposure to U.S. dollar exchange fluctuations, we have hedged certain line items on our income statement, in particular with respect to a portion of cost of goods sold, most of the research and development expenses and certain selling and general and administrative expenses, located in the euro zone. Our effective average exchange rate of the euro to the U.S. dollar was \$1.31 for €1.00 for the first half of 2007 compared to \$1.22 for €1.00 in the first half of 2006. Our effective average rate of the euro to the U.S. dollar was \$1.33 for €1.00 for the second quarter of 2007 and it was \$1.29 for €1.00 for the first quarter of 2007 while it was \$1.23 for €1.00 in the second quarter of 2006. These effective exchange rates reflect the actual exchange rates combined with the impact of hedging contracts matured in the period.

As of June 30, 2007, the outstanding hedged amounts to cover manufacturing costs were €200 million and to cover operating expenses were €230 million, at an average rate of \$1.3624 for €1.00 and \$1.3590 (including the premium paid to purchase foreign exchange options) for €1.00, respectively, maturing over the period from July 2007 to November 2007. As of June 30, 2007, these outstanding hedging contracts and certain expired contracts covering manufacturing expenses capitalized in inventory represented a deferred loss of \$1 million after tax, recorded in other comprehensive income in shareholders' equity, compared to a deferred gain of \$6 million after tax as of March 31, 2007. Our hedging policy is not intended to cover the full exposure. In addition, in order to mitigate potential exchange rate risks on our commercial transactions, we purchased and entered into forward foreign currency exchange contracts and currency options to cover foreign currency exposure in payables or receivables at our affiliates. We may in the future purchase or sell similar types of instruments. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk" included in our Form 20-F, as may be updated from time to time in our public filings for full details of outstanding contracts and their fair values. Furthermore, we may not predict in a timely fashion the amount of future transactions in the volatile industry environment. Consequently, our results of operations have been and may continue to be impacted by fluctuations in exchange rates.

Our treasury strategies to reduce exchange rate risks are intended to mitigate the impact of exchange rate fluctuations. No assurance may be given that our hedging activities will sufficiently protect us against

[Table of Contents](#)

declines in the value of the U.S. dollar, therefore if the value of the U.S. dollar increases, we may record losses in connection with the loss in value of the remaining hedging instruments at the time. In the first half of 2007, as the result of cash flow hedging, we recorded a net profit of \$18 million, consisting of a profit of \$9 million to cost of sales, a profit of \$7 million to research and development expenses, and a profit of \$2 million to selling, general and administrative expenses, while in the first half of 2006, we recorded a net profit of \$6 million. In the second quarter of 2007, we generated a net profit of \$9 million, while in the second quarter of 2006 we registered a net profit of \$13 million, and in the first quarter of 2007 we registered a net profit of \$10 million.

The net effect of the consolidated foreign exchange exposure resulted in a net loss of \$3 million in “Other Income and Expenses, net” in the first half of 2007 with a slightly positive result in the second quarter of 2007.

Assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. Income and expenses are translated at the average exchange rate for the period. The balance sheet impact of such translation adjustments has been, and may be expected to be, significant from period to period since a large part of our assets and liabilities are accounted for in euros as their functional currency. Adjustments resulting from the translation are recorded directly in shareholders’ equity, and are shown as “accumulated other comprehensive income (loss)” in the consolidated statements of changes in shareholders’ equity. At June 30, 2007, our outstanding indebtedness was denominated mainly in U.S. dollars, in euros and, to a limited extent, in Singapore dollars.

For a more detailed discussion, see “Item 3. Key Information — Risk Factors — Risks Related to Our Operations — Our financial results can be adversely affected by fluctuations in exchange rates, principally in the value of the U.S. dollar” as set forth in our Form 20-F as may be updated from time to time in our public filings.

Impact of Changes in Interest Rates

Our results of operations and financial condition can be affected by material changes in interest rates, which can impact the total interest income received on our cash and cash equivalents and on our interest expense on our financial debt.

Our interest income, net is the balance between interest income received mainly from our cash and interest expense paid on our long-term debt. Our interest income is almost entirely dependent on the fluctuations in the interest rates, mainly in the U.S. dollar and the euro. Any increase or decrease in the short-term market interest rates would mean an increase or decrease in our interest income. Our net interest income decreased from \$30 million in the second quarter of 2006 to \$18 million in the second quarter of 2007, mainly due to the redemption in August 2006 of \$1.4 billion of our 2013 Convertible Bonds.

In response to the possible risk of interest rate mismatch, in the second quarter of 2006, we entered into cancelable swaps to hedge a portion of the fixed rate obligations on our outstanding long-term debt with floating rate derivative instruments.

Of the \$974 million in 2016 Convertible Bonds issued in the first quarter of 2006, we entered into cancelable swaps for \$200 million of the principal amount of the bonds, swapping the 1.5% yield equivalent on the bonds for 6 Month USD LIBOR minus 3.375%. Our hedging policy is not intended to cover the full exposure and all risks associated with these instruments.

As of June 30, 2007, the 9-year U.S. swap interest rate was 5.64%, which was the same as the 10-year rate at the inception of the transaction, on June 14, 2006. The fair value of the swaps as of June 30, 2007 was \$1 million since they were executed at slightly higher market rates. In compliance with FAS 133 provisions on fair value hedges, the net impact of the hedging transaction on our income statement was the ineffective part of the hedge, which resulted in a net profit of less than \$1 million for the second quarter of 2007 and was recorded in “Other income and expenses, net”. These cancelable swaps were designed and are expected to effectively replicate the bond’s behavior through a wide range of changes in financial market conditions and decisions made by both the holders of the bonds and us, thus being classified as highly effective hedges; however no assurance can be given that our hedging activities will sufficiently protect us against future significant movements in interest rates.

[Table of Contents](#)

We may in the future enter into further cancelable swap transactions related to the 2016 Convertible Bonds or other fixed rate instruments. For full details of quantitative and qualitative information, see “Item 11. Quantitative and Qualitative Disclosures About Market Risk” as set forth in our Form 20-F as may be updated from time to time in our public filings.

Liquidity and Capital Resources

Treasury activities are regulated by our policies, which define procedures, objectives and controls. The policies focus on the management of our financial risk in terms of exposure to currency rates and interest rates. Most treasury activities are centralized, with any local treasury activities subject to oversight from our head treasury office. The majority of our cash and cash equivalents are held in U.S. dollars and euros and are placed with financial institutions rated “A” or better. Part of our liquidity is also held in euros to naturally hedge intercompany payables in the same currency and is placed with financial institutions rated at least a single A long-term rating, 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. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk” included in our Form 20-F, as may be updated from time to time in our public filings. At June 30, 2007, there had been no material change in foreign currency operations and hedging transactions exposures from those disclosed in our Form 20-F, as may be updated from time to time in our public filings.

At June 30, 2007, cash and cash equivalents totaled \$1,849 million, compared to \$2,040 million at March 31, 2007 and to \$1,963 at December 31, 2006. Our available cash decreased in the second quarter of 2007 mainly due to the payment of dividends and to the increased amount of marketable securities. At June 30, 2007 and at March 31, 2007, we had no investments in short-term deposits, compared to \$250 million at December 31, 2006. As of June 30, 2007, we had \$931 million in marketable securities, with primary financial institutions with a minimum rating of A1/A+ (with 79% of the portfolio rated Aa3 or better). Marketable securities amounted to \$740 million as of March 31, 2007 and to \$460 million as of December 31, 2006. Changes in the instruments adopted to invest our liquidity in future periods may occur and may significantly affect our interest income (expense), net.

Liquidity

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

Net cash from operating activities. Our net cash from operating activities remained at a high level and amounted to \$940 million in the first half of 2007, but significantly decreasing from the \$1,377 million in the first half of 2006. This was associated with lower profitability and less favorable changes in current assets and liabilities.

In the first half of 2007, changes in our current assets and liabilities resulted in net cash used of \$67 million compared to net cash generated of \$179 million in the first half of 2006, as a result of the following changes:

- trade receivables generated net cash of \$46 million, compared to net cash used of \$74 million in the first half of 2006 due to lower sales;
- inventory used net cash of \$53 million, compared to \$94 million in the first half of 2006; and
- trade payables balance was basically nil, while they generated a favorable change of \$261 million in the first half of 2006.

Net cash used in investing activities. Net cash used in investing activities was \$796 million in the first half of 2007, compared to \$1,952 million in the first half of 2006. In line with our objective to selectively control the level of capital investments, payments for purchases of tangible assets amounted to \$507 million for the first half of 2007, decreasing about 27% compared to the \$696 million in the first half of 2006. Purchases of marketable securities in the first half of 2007 amounted to \$511 million and proceeds from matured short-term deposits amounted to \$250 million. In the first half of 2006, purchases of marketable securities amounted to \$100 million and \$903 million as investments in short-term deposits.

[Table of Contents](#)

Net operating cash flow. We define net operating cash flow as net cash from operating activities minus net cash used in investing activities, excluding payment for purchases of and proceeds from the sale of marketable securities, short-term deposits and restricted cash. We believe net operating cash flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operating activities. Net operating cash flow is not a U.S. GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. In addition, our definition of net operating cash flow may differ from definitions used by other companies. A reconciliation from net cash from operating activities, the most directly comparable U.S. GAAP measure included in our Unaudited Interim Consolidated Statements of Cash Flow as at June 30, 2007, to net operating cash flow for each of the respective periods indicated is as follows:

	Six Months Ended	
	June 30, 2007	July 1, 2006
	(unaudited, in \$ millions)	
Net cash from operating activities	\$ 940	\$ 1,377
Net cash used in investing activities	(796)	(1,952)
Payment for purchase (proceeds from sale of) marketable securities, short-term deposits and restricted cash, net	253	1,003
Net operating cash flow	\$ 397	\$ 428

We generated favorable net operating cash flow of \$397 million in the first half of 2007, compared to net operating cash flow of \$428 million in the first half of 2006. We continued to generate a solid cash flow since the cash flow from our operating activities well exceeds the cash used in purchasing of tangible and intangible assets.

Net cash used in financing activities. Net cash used in financing activities was \$262 million in the first half of 2007, including the payment of dividends in the amount of \$269 million. The net cash generated in the first half of 2006 was \$1,389 million in the first half of 2006, mainly due to the proceeds from the issuance of our 2013 Senior Bonds and 2016 Convertible Bonds, which amounted to \$1,564 million.

Capital Resources

Net financial position

To evaluate our capital resources, we refer to our net financial position, among other things. Net financial position is not a U.S. GAAP measure. We believe our net financial position provides useful information for investors because it gives evidence of our overall financial position by measuring our capital resources based on cash and cash equivalents, marketable securities, short-term deposits and restricted cash against the total level of financial indebtedness indicated. A reconciliation from cash and cash equivalents, the most directly comparable U.S. GAAP measure included in our Unaudited Interim Consolidated Balance Sheets as at June 30, 2007, to net financial position for each of the respective periods indicated is as follows:

	June 30, 2007	As at March 31, 2007 (unaudited, in \$ millions)	July 1, 2006
	Cash and cash equivalents, net of bank overdrafts	\$ 1,808	\$ 2,040
Marketable securities	931	740	100
Short-term deposits	—	—	903
Restricted cash for equity investments	250	250	—
Total	2,989	3,030	3,895
Current portion of long-term debt	(127)	(103)	(1,503)
Long-term debt	(1,992)	(2,010)	(1,853)
Total	(2,119)	(2,113)	(3,356)
Net financial position	\$ 870	\$ 917	\$ 539

Our net financial position was a positive amount of \$870 million as of June 30, 2007, representing an improvement of \$331 million as compared to our net financial position of \$539 million as of July 1, 2006, and a

Table of Contents

decrease of \$47 million as compared to our net financial position of \$917 million as of March 31, 2007, such decrease is due to the dividends paid in the second quarter of 2007 largely balanced by the cash flow generated for the period.

At June 30, 2007, the aggregate amount of our long-term debt was \$1,992 million, including \$993 million of our zero coupon convertible bonds due 2016 and \$675 million of our floating rate senior bonds due 2013 (corresponding to €500 million issuance). Additionally, we had uncommitted short-term credit facilities with several financial institutions exceeding \$1.1 billion. We also had a \$331 million (€245 million) long-term credit facility with the European Investment Bank as part of a funding program loan, of which \$140 million was used as of June 30, 2007. We also maintain uncommitted foreign exchange facilities, which amounted to over \$900 million at June 30, 2007. Our long-term capital market instruments contain standard covenants, but do not impose minimum financial ratios or similar obligations on us. Upon a change of control, the holders of our 2016 Convertible Bonds and 2013 Senior Bonds may require us to repurchase all or a portion of such holder's bonds. See Note 15 to our Unaudited Interim Consolidated Financial Statements.

As of June 30, 2007, we have the following credit ratings on our 2013 and 2016 Bonds:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
Zero Coupon Senior Convertible Bonds due 2013	WR(1)	A-
Zero Coupon Senior Convertible Bonds due 2016	A3	A-
Floating Rate Senior Bonds due 2013	A3	A-

(1) Rating withdrawn since the redemption in August 2006 of \$1.4 billion of our 2013 Convertible Bonds, which left only \$2 million of our 2013 Convertible Bonds outstanding.

On January 9, 2007, Standard & Poor's confirmed the A- ratings and issued a "stable" outlook. On May 25, 2007, Moody's issued a credit report confirming the A3 ratings and changing the outlook to "stable" from "under review for possible downgrade".

In the event of a downgrade of these ratings, we believe we would continue to have access to sufficient capital resources.

Contractual Obligations, Commercial Commitments and Contingencies

Our contractual obligations and commercial commitments as of June 30, 2007, and for each of the five years to come and thereafter, were as follows:

	<u>Total</u>	<u>2007</u>	<u>2008</u>	<u>Payments due by period</u> <u>(unaudited, in \$ millions)</u>					<u>Thereafter</u>
				<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	
Operating leases(1)	\$ 303	\$ 34	\$ 41	\$ 36	\$ 26	\$23	\$ 17	\$126	
Purchase obligations(1)	766	642	89	34	1	—	—	—	
of which:									
<i>Equipment purchase</i>	351	348	3	—	—	—	—	—	
<i>Foundry purchase</i>	212	212	—	—	—	—	—	—	
<i>Software, technology licenses and design</i>	203	82	86	34	1	—	—	—	
Other obligations(1)	111	40	15	12	7	4	2	31	
Long-term debt obligations (including current portion)(2)(3) (4)	2,119	127	59	46	1,082	29	705	71	
of which:									
<i>Capital leases(2)</i>	23	3	5	6	6	2	—	1	
Pension obligations(2)	362	13	24	28	25	23	23	226	
Other non-current liabilities(2)	105	3	70	5	2	2	1	22	
Total	\$3,766	\$859	\$298	\$161	\$1,143	\$81	\$748	\$476	

(1) Items not reflected on the Unaudited Interim Consolidated Balance Sheet at June 30, 2007.

(2) Items reflected on the Unaudited Interim Consolidated Balance Sheet at June 30, 2007.

(3) See Note 15 to the Unaudited Interim Consolidated Financial Statements at June 30, 2007 for additional information related to long-term debt and redeemable convertible securities.

(4) Year of payment is based on maturity before taking into account any potential acceleration that could result from a triggering of the change of control provisions of the 2016 Convertible Bonds and the 2013 Senior Bonds.

Table of Contents

Operating leases are mainly related to building leases. The amount disclosed is composed of minimum payments for future leases from 2007 to 2012 and thereafter. We lease land, buildings, plants and equipment under operating leases that expire at various dates under non-cancelable lease agreements.

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

Long-term debt obligations mainly consist of bank loans, convertible and non-convertible debt issued by us that is totally or partially redeemable for cash at the option of the holder. They include maximum future amounts that may be redeemable for cash at the option of the holder, at fixed prices. At the holder's option, any outstanding 2013 Convertible Bonds were redeemable on August 4, 2006 at a conversion ratio of \$985.09.

On August 7, 2006, as a result of almost all of the holders of our 2013 Convertible Bonds exercising the August 4, 2006 put option, we repurchased \$1,397 million aggregate principal amount of the outstanding convertible bonds. The outstanding 2013 Convertible Bonds, corresponding to approximately \$2 million and approximately 2,505 bonds, may be redeemed, at the holder's option, for cash on August 5, 2008 at a conversion ratio of \$975.28, or on August 5, 2010 at a conversion ratio of \$965.56, subject to adjustments in certain circumstances.

In February 2006, we issued \$974 million principal amount at maturity of Zero Coupon Senior Convertible Bonds due in February 2016. The bonds were convertible by the holder at any time prior to maturity at a conversion rate of 43.118317 shares per one thousand dollars face value of the bonds corresponding to 41,997,240 equivalent shares. The holders can also redeem the convertible bonds, subject to adjustments upon the occurrence of certain events, 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 dollars face value of the bonds. We can call the bonds at any time after March 10, 2011 subject to our share price exceeding 130% of the accreted value divided by the conversion rate for 20 out of 30 consecutive trading days.

At our general meeting of shareholders held on April 26, 2007, our shareholders approved a cash dividend distribution of \$0.30 per share. Pursuant to the terms of our 2016 Convertible Bonds, the payment of this dividend gave rise to a slight change in the conversion rate thereof. The new conversion rate is 43.363087 corresponding to 42,235,646 equivalent shares.

In March 2006, STMicroelectronics Finance B.V. ("ST BV"), one of our wholly-owned subsidiaries, 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. The notes have a put for early repayment in case of a change of control.

Pension obligations and termination indemnities amounting to \$362 million consist of our best estimates of the amounts that will be payable by us for the retirement plans based on the assumption that our employees will work for us until they reach the age of retirement. The final actual amount to be paid and related timings of such payments may vary significantly due to early retirements or terminations. See Note 17 to our Unaudited Interim Consolidated Financial Statements.

Other non-current liabilities include uncertain tax positions, future obligations related to our restructuring plans and miscellaneous contractual obligations.

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

Off-Balance Sheet Arrangements

At June 30, 2007, we had convertible debt instruments outstanding. Our convertible debt instruments contain certain conversion and redemption options that are not required to be accounted for separately in our financial statements. See Note 15 to our Unaudited Interim Consolidated Financial Statements for more information about our convertible debt instruments and related conversion and redemption options.

We have no other material off-balance sheet arrangements at June 30, 2007.

Financial Outlook

We currently expect that capital spending for 2007 will be approximately \$1.2 billion, a decrease compared to the \$1.5 billion spent in 2006. This is in line with our lighter asset model by decreasing our capital intensity towards a capital expense to sales ratio of approximately 12%. The major part of our capital spending will be dedicated to the leading edge technology fabs by aligning the capacity with the expected demand mix. We have the flexibility to modulate our investments up or down in response to changes in market conditions. At June 30, 2007, we had \$348 million in outstanding commitments for equipment purchases for 2007 and \$3 million for 2008.

Our agreement with NXP Semiconductors and Freescale Semiconductor related to the technology and manufacturing cooperation in Crolles2 provides us with the option right to purchase NXP Semiconductors and Freescale Semiconductor assets currently operating in Crolles2 at the termination of the alliance at pre-agreed price conditions. Both NXP Semiconductors and Freescale Semiconductor have communicated that the Crolles2 alliance will expire at its term on December 31, 2007.

The most significant of our 2007 capital expenditure projects are expected to be: for the front-end facilities, (i) in Agrate (Italy), related to the upgrading of our 200-mm pilot line, the ramp-up of the 200-mm line for MEMS and the expansion of capacity to our 200-mm fab and the development of the new technology node for Memories; (ii) the upgrading to finer geometry technologies for our 200-mm plant in Rousset (France); (iii) the upgrading of our 200-mm plant in Singapore; (iv) for the back-end facilities, the capital expenditures will be mainly dedicated to the capacity expansion in our plants in Shenzhen (China) and Muar (Malaysia) and capacity upgrade in other assembly sites. We will continue to monitor our level of capital spending by taking into consideration factors such as trends in the semiconductor industry, capacity utilization and announced additions. We expect to have significant capital requirements in the coming years and in addition we intend to continue to devote a substantial portion of our net revenues to research and development. We plan to fund our capital requirements from cash provided by operating activities, available funds and available support from third parties (including state support), and may have recourse to borrowings under available credit lines and, to the extent necessary or attractive based on market conditions prevailing at the time, the issuing of debt, convertible bonds or additional equity securities. A substantial deterioration of our economic results and consequently of our profitability could generate a deterioration of the cash generated by our operating activities. Therefore, there can be no assurance that, in future periods, we will generate the same level of cash as in the previous years to fund our capital expenditures for expansion plans, our working capital requirements, research and development and industrialization costs.

As part of our refinancing strategy, we issued Zero Coupon Senior Convertible Bonds due 2016 representing total proceeds of \$974 million in the first quarter of 2006. Furthermore, in the first quarter of 2006, we issued €500 million Floating Rate Senior Bonds due 2013. We used the proceeds of these offerings primarily for the repurchase of our 2013 Convertible Bonds on August 7, 2006 and for general corporate purposes.

Impact of Recently Issued U.S. Accounting Standards

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140 (“FAS 155”). The statement amended Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (“FAS 133”) and Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (“FAS 140”). The primary purposes of this statement were (1) to allow companies to select between bifurcation of hybrid financial instruments or fair valuing the hybrid as a single instrument, (2) to clarify certain exclusions of FAS 133 related to interest and principal-only strips, (3) to define the difference between freestanding and hybrid securitized financial assets, and (4) to eliminate the FAS 140 prohibition of Special Purpose Entities holding certain types of derivatives. The statement is effective for annual periods beginning after September 15, 2006, with early adoption permitted prior to a company issuing first quarter financial statements. We adopted FAS 155 in the first quarter of 2007 and FAS 155 did not have any material effect on our financial position and results of operations.

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140 (“FAS 156”). This statement requires initial fair value recognition of all servicing assets and liabilities for servicing contracts entered in the first fiscal year beginning after September 15, 2006. After initial recognition, the servicing assets and liabilities are either amortized over the period of expected servicing income or loss or fair value is reassessed each period with changes recorded in earnings for the period. We adopted FAS 156 in the first quarter of 2007 and FAS 156 did not have any material effect on our financial position and results of operations.

[Table of Contents](#)

In June 2006, the Financial Accounting Standards Board issued Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 (“FIN 48”). The interpretation seeks to clarify the accounting for tax positions taken, or expected to be taken, in a company’s tax return and the uncertainty as to the amount and timing of recognition in the company’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (“FAS 109”). The interpretation sets a two step process for the evaluation of uncertain tax positions. 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. The interpretation also addresses derecognizing previously recognized tax positions, classification of related tax assets and liabilities, accrual of interest and penalties, interim period accounting, and disclosure and transition provisions. The interpretation is effective for fiscal years beginning after December 15, 2006. We adopted FIN 48 as at January 1, 2007. Before adoption, we applied Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (“FAS 5”) in accounting for income tax uncertainties and tax exposures. In compliance with FAS 5 provisions, liabilities and accruals for income tax uncertainties and specific tax exposures were recorded or reversed when it was probable that additional taxes would be due or refund. As such, a level of sustainability that met the “probable” threshold was necessary to recognize any benefit from a tax-advantaged transaction. Upon FIN 48 adoption, we assessed all material open income tax positions in all tax jurisdictions to determine the appropriate amount of tax benefits that are recognizable under FIN 48. We recorded as of the adoption date an incremental tax liability of \$8 million for the difference between the amounts recognized under our previous accounting policies and the income tax benefits determined under the new guidance. The cumulative effect of the change in the accounting principle that we applied to uncertain income tax positions was recorded in the first quarter of 2007 as an adjustment to retained earnings. Additionally we elected to classify accrued interest and penalties related to uncertain tax positions as components of income tax expense in our consolidated statement of income. Uncertain tax positions, unrecognized tax benefits and related accrued interest and penalties are further described in Note 20.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“FAS 157”). This statement defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” In addition, the statement defines a fair value hierarchy which should be used when determining fair values, except as specifically excluded (i.e., stock awards, measurements requiring vendor specific objective evidence, and inventory pricing). The hierarchy places the greatest relevance on Level 1 inputs which include quoted prices in active markets for identical assets or liabilities. Level 2 inputs, which are observable either directly or indirectly, and include quoted prices for similar assets or liabilities, quoted prices in non-active markets, and inputs that could vary based on either the condition of the assets or liabilities or volumes sold. The lowest level of the hierarchy, Level 3, is unobservable inputs and should only be used when observable inputs are not available. This would include company level assumptions and should be based on the best available information under the circumstances. FAS 157 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted for fiscal year 2007 if first quarter statements have not been issued. We chose not to early adopt FAS 157 during our first quarter of 2007 and will adopt FAS 157 when effective. However, we do not expect FAS 157 will have a material effect on our financial position and results of operations upon final adoption.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 (“FAS 159”). This statement permits companies to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses in earnings at each subsequent reporting date on items for which the fair value option has been elected. The objective of this statement is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. A company may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. FAS 159 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted for fiscal year 2007 if first quarter statements have not been issued. We chose not to early adopt FAS 159 during the first quarter of 2007 and will adopt FAS 159 when effective. We are currently evaluating the effect that adoption of this statement will have on our financial position and results of operations.

[Table of Contents](#)

In June 2007, the Emerging Issues Task Force reached final consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (“EITF 06-11”). The issue applies to equity-classified nonvested shares on which dividends are paid prior to vesting, equity-classified nonvested share units on which dividends equivalents are paid, and equity-classified share options on which payments equal to the dividends paid on the underlying shares are made to the option-holder while the option is outstanding. The issue is applicable to the dividends or dividend equivalents that are (1) charged to retained earnings under the guidance in Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (“FAS 123R”) and (2) result in an income tax deduction for the employer. EITF 06-11 states that a realized tax benefit from dividends or dividend equivalents that are charged to retained earnings and paid to employees for equity-classified nonvested shares, nonvested equity share units, and outstanding share options should be recognized as an increase to additional paid-in-capital. Those tax benefits are considered excess tax benefits (“windfall”) under FAS 123R. EITF 06-11 must be applied prospectively to dividends declared in fiscal years beginning after December 15, 2007 and interim periods within those fiscal years, with early adoption permitted for the income tax benefits of dividends on equity-based awards that are declared in periods for which financial statements have not yet been issued. We will adopt EITF 06-11 when effective. However, we do not expect EITF 06-11 will have a material effect on our financial position and results of operations.

In June 2007, the Emerging Issues Task Force reached final consensus on Issue No. 07-3, Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities (“EITF 07-3”). The issue addresses whether non-refundable advance payments for goods or services that will be used or rendered for research and development activities should be expensed when the advance payments are made or when the research and development activities have been performed. EITF 07-3 applies only to non-refundable advance payments for goods and services to be used and rendered in future research and development activities pursuant to an executory contractual arrangement. EITF 07-3 states that non-refundable advance payments for future research and development activities should be capitalized until the goods have been delivered or the related services have been performed. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. EITF 07-3 is effective for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years. Earlier application is not permitted and entities should recognize the effect of applying the guidance in this Issue prospectively for new contracts entered into after EITF 07-3 effective date. We will adopt EITF 07-3 when effective and are currently evaluating the effect its application will have on our financial position and results of operations.

Backlog and Customers

We entered the third quarter of 2007 with a backlog approximately 3% higher than we had entering the second quarter of 2007. In the second quarter of 2007, we had several large customers, with the Nokia Group of companies being the largest and accounting for approximately 20% of our revenues. Total OEMs accounted for approximately 83% of our net revenues, of which the top ten OEM customers accounted for approximately 48%. Distributors accounted for approximately 17% of our net revenues. We have no assurance that the Nokia Group of companies, or any other customer, will continue to generate revenues for us at the same levels. If we were to lose one or more of our key customers, or if they were to significantly reduce their bookings, or fail to meet their payment obligations, our operating results and financial condition could be adversely affected.

Changes to Our Share Capital, Stock Option Grants and Other Matters

The following table sets forth changes to our share capital as of June 30, 2007:

<u>Year</u>	<u>Transaction</u>	<u>Number of shares</u>	<u>Nominal value (euro)</u>	<u>Cumulative amount of capital (euro)</u>	<u>Cumulative number of shares</u>	<u>Nominal value of increase/reduction in capital</u>	<u>Amount of issue premium (euro)</u>	<u>Cumulative—issue premium (euro)</u>
December 31, 2006	Exercise of options	2,333,654	1.04	946,564,250	910,157,933	2,427,000	19,819,100	1,754,532,654
June 30, 2007	Exercise of options	131,167	1.04	946,700,664	910,289,100	136,414	1,667,784	1,756,200,438

As of June 30, 2007, we had 910,289,100 shares of which 10,979,721 shares owned as treasury stock. We also had outstanding stock options exercisable into the equivalent of 54,971,536 common shares and

[Table of Contents](#)

11,041,240 Unvested Stock Awards to be vested on treasury stock. Upon fulfillment of the respective predetermined criteria, the first tranche of stock awards granted under our 2006 stock-based compensation plan and the second tranche of stock awards granted under our 2005 stock-based compensation plan vested on April 27, 2007. For full details of quantitative and qualitative information, see “Item 6. Directors, Senior Management and Employees” as set forth in our Form 20-F, as may be updated from time to time in our public filings, and see Note 16 to our Unaudited Interim Consolidated Financial Statements.

In the first half of 2007, our share-based compensation plans generated a total charge in our income statement of \$32 million pre-tax (\$3 million for the 2007 Unvested Stock Award Plan, \$25 million for the 2006 Unvested Stock Award Plan and \$4 million for the 2005 Unvested Stock Award Plan).

Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the evaluation date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

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

Other Reviews

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

Cautionary Note Regarding Forward-Looking Statements

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

- future developments of the world semiconductor market, in particular the future demand for semiconductor products in the key application markets and from key customers served by our products;
- pricing pressures, losses or curtailments of purchases from key customers all of which are highly variable and difficult to predict;
- the financial impact of obsolete or excess inventories if actual demand differs from our anticipations;
- the impact of intellectual property claims by our competitors or third parties, and our ability to obtain required licenses on reasonable terms and conditions;
- changes in the exchange rates between the U.S. dollar and the Euro, compared to an assumed effective exchange rate of U.S. \$1.37 = €1.00 and between the U.S. dollar and the currencies of the other major countries in which we have our operating infrastructure;
- our ability to manage in an intensely competitive and cyclical industry where a high percentage of our costs are fixed and difficult to reduce in the short term, including our ability to adequately utilize and operate our manufacturing facilities at sufficient levels to cover fixed operating costs;

Table of Contents

- our ability to close as currently planned and scheduled our agreement with Intel Corporation and Francisco Partners L.P. concerning the creation of a new pending independent Flash memory company to be named Numonyx™ (i) if the financial, business or other conditions to closing as contractually provided are not met due to issues not currently anticipated and/or (ii) if the estimated loss of \$857 million relating to our Flash memory business materially changes at Closing as a result of significant developments in the Flash memory business;
- our ability in an intensive competitive environment, to secure customer acceptance and to achieve our pricing expectations for high-volume supplies of new products in whose development we have or are currently investing;
- the anticipated benefits of research and development alliances and cooperative activities, as well as the uncertainties concerning the modalities, conditions and financial impact beyond 2007 of the R&D cooperative alliance in Crolles2;
- the ability of our suppliers to meet our demands for supplies and materials and to offer competitive pricing;
- our gross margin could vary significantly from expectations based on changes in revenue levels, product mix and pricing, capacity utilization, variations in inventory valuation, excess or obsolete inventory, manufacturing yields, changes in unit costs, impairments of long-lived assets, including manufacturing, assembly/test and intangible assets, and the timing and execution of the manufacturing ramp and associated costs, including start-up costs;
- changes in the economic, social or political environment, including military conflict and/or terrorist activities, as well as natural events such as severe weather, health risks, epidemics or earthquakes in the countries in which we, our key customers and our suppliers operate;
- changes in our overall tax position as a result of changes in tax laws or the outcome of tax audits, and our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;
- the outcome of litigation; and
- the results of actions by our competitors, including new product offerings and our ability to react thereto.

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

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

STMICROELECTRONICS N.V.
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	Pages
Consolidated Statements of Income for the Three Months and Six Months Ended June 30, 2007 and July 1, 2006 (unaudited)	F-1
Consolidated Balance Sheets as of June 30, 2007 (unaudited) and December 31, 2006 (audited)	F-3
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 and July 1, 2006 (unaudited)	F-4
Consolidated Statements of Changes in Shareholders' Equity (unaudited)	F-5
Notes to Interim Consolidated Financial Statements (unaudited)	F-6

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, STMicroelectronics N.V. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STMicroelectronics N.V.

Date: August 3, 2007

By: /s/ Carlo Bozotti

Name: **Carlo Bozotti**
Title: **President and Chief Executive
Officer and Sole Member of
our Managing Board**

Enclosure: STMicroelectronics N.V.'s Second Quarter and First Half 2007:

- Operating and Financial Review and Prospects;
- Unaudited Interim Consolidated Statements of Income, Balance Sheets, Statements of Cash Flow and Statements of Changes in Shareholders' Equity and related Notes;
- Certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis;
- Master agreement by and between STMicroelectronics N.V., Intel Corporation, Redwood Blocker S.A.R.L., and Francisco Partners II (Cayman) L.P., May 22, 2007 (Exhibit 99.1); and
- Form of ST Asset Contribution Agreement (Exhibit 99.2).

[Table of Contents](#)**STMicroelectronics N.V.**
CONSOLIDATED STATEMENTS OF INCOME

In million of U.S. dollars except per share amounts	Three months ended	
	June 30,	July 1,
	2007	2006
Net sales	2,409	2,492
Other revenues	9	3
Net revenues	2,418	2,495
Cost of sales	(1,580)	(1,613)
Gross profit	838	882
Selling, general and administrative	(270)	(266)
Research and development	(446)	(408)
Other income and expenses, net	12	(5)
Impairment, restructuring charges and other related closure costs	(906)	(34)
Operating income (loss)	(772)	169
Interest income, net	18	30
Earnings (loss) on equity investments	3	(1)
Income (loss) before income taxes and minority interests	(751)	198
Income tax expense	(4)	(29)
Income (loss) before minority interests	(755)	169
Minority interests	(3)	(1)
Net income (loss)	(758)	168
Earnings (loss) per share (Basic)	(0.84)	0.19
Earnings (loss) per share (Diluted)	(0.84)	0.18

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



[Table of Contents](#)

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF INCOME

In million of U.S. dollars except per share amounts	Six months ended (unaudited)	
	June 30, 2007	July 1, 2006
Net sales	4,678	4,854
Other revenues	15	4
Net revenues	4,693	4,858
Cost of sales	(3,070)	(3,139)
Gross profit	1,623	1,719
Selling, general and administrative	(531)	(522)
Research and development	(881)	(817)
Other income and expenses, net	(3)	(24)
Impairment, restructuring charges and other related closure costs	(918)	(47)
Operating income (loss)	(710)	309
Interest income, net	36	51
Earnings (loss) on equity investments	9	(4)
Income (loss) before income taxes and minority interests	(665)	356
Income tax expense	(15)	(57)
Income (loss) before minority interests	(680)	299
Minority interests	(4)	0
Net income (loss)	(684)	299
Earnings (loss) per share (Basic)	(0.76)	0.33
Earnings (loss) per share (Diluted)	(0.76)	0.32

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



[Table of Contents](#)

STMicroelectronics N.V.
CONSOLIDATED BALANCE SHEETS

In million of U.S. dollars	June 30, 2007 (unaudited)	December 31, 2006 (audited)
Assets		
Current assets :		
Cash and cash equivalents	1,849	1,963
Marketable securities	931	460
Short-term deposits	0	250
Trade accounts receivable, net	1,543	1,589
Inventories, net	1,337	1,639
Deferred tax assets	205	187
Assets held for sale	1,204	0
Other receivables and assets	596	498
Total current assets	7,665	6,586
Goodwill	225	223
Other intangible assets, net	157	211
Property, plant and equipment, net	4,843	6,426
Long-term deferred tax assets	134	124
Equity investments	0	261
Restricted cash for equity investments	250	218
Other investments and other non-current assets	158	149
	5,767	7,612
Total assets	13,432	14,198
Liabilities and shareholders' equity		
Current liabilities:		
Bank overdrafts	41	0
Current portion of long-term debt	127	136
Trade accounts payable	1,003	1,044
Other payables and accrued liabilities	714	664
Deferred tax liabilities	10	7
Accrued income tax	41	112
Total current liabilities	1,936	1,963
Long-term debt	1,992	1,994
Reserve for pension and termination indemnities	362	342
Long-term deferred tax liabilities	66	57
Other non-current liabilities	105	43
	2,525	2,436
Total liabilities	4,461	4,399
Commitment and contingencies		
Minority interests	56	52
Common stock (preferred stock: 540,000,000 shares authorized, not issued; common stock: Euro 1.04 nominal value, 1,200,000,000 shares authorized, 910,289,100 shares issued, 899,309,379 shares outstanding)	1,156	1,156
Capital surplus	2,055	2,021
Accumulated result	5,087	6,086
Accumulated other comprehensive income	903	816
Treasury stock	(286)	(332)
Shareholders' equity	8,915	9,747
Total liabilities and shareholders' equity	13,432	14,198

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



[Table of Contents](#)

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In million of U.S. dollars	Six Months Ended (unaudited)	
	June 30, 2007	July 1, 2006
Cash flows from operating activities:		
Net income (loss)	(684)	299
Items to reconcile net income (loss) and cash flows from operating activities:		
Depreciation and amortization	770	897
Amortization of discount on convertible debt	9	8
Other non-cash items	39	5
Minority interests	4	—
Deferred income tax	(7)	(15)
Earnings (loss) on equity investments	(9)	4
Impairment, restructuring charges and other related closure costs, net of cash payments	885	—
Changes in assets and liabilities:		
Trade receivables, net	46	(74)
Inventories, net	(53)	(94)
Trade payables	(2)	261
Other assets and liabilities, net	(58)	86
Net cash from operating activities	940	1,377
Cash flows from investing activities:		
Payment for purchase of tangible assets	(507)	(696)
Payment for purchase of marketable securities	(511)	(100)
Investment in short-term deposits	—	(903)
Proceeds from sale of marketable securities	40	—
Proceeds from matured short-term deposits	250	—
Restricted cash for equity investments	(32)	—
Investment in intangible and financial assets	(36)	(48)
Proceeds from the sale of Accent subsidiary	—	7
Capital contributions to equity investments	—	(212)
Net cash used in investing activities	(796)	(1,952)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	17	1,561
Repayment of long-term debt	(52)	(69)
Increase (decrease) in short-term facilities	40	(12)
Capital increase	2	16
Dividends paid	(269)	(107)
Net cash from (used in) financing activities	(262)	1,389
Effect of changes in exchange rates	4	51
Net cash increase (decrease)	(114)	865
Cash and cash equivalents at beginning of the period	1,963	2,027
Cash and cash equivalents at end of the period	1,849	2,892

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



[Table of Contents](#)

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In million of U.S. dollars, except per share amounts

	Common Stock	Capital Surplus	Treasury Stock	Accumulated Result	Accumulated Other Comprehensive income	Shareholders' Equity
Balance as of December 31, 2005 (Audited)	1,153	1,967	(348)	5,427	281	8,480
Capital increase	3	25				28
Stock-based compensation expense		29	16	(16)		29
Comprehensive income (loss):						
Net Income				782		782
Other comprehensive income, net of tax					535	535
Comprehensive income (loss)						1,317
Dividends, \$0.12 per share				(107)		(107)
Balance as of December 31, 2006 (audited)	1,156	2,021	(332)	6,086	816	9,747
Capital increase		2				2
Stock-based compensation expense		32	46	(46)		32
Comprehensive income (loss):						
Net Loss				(684)		(684)
Other comprehensive income, net of tax					87	87
Comprehensive income (loss)						(597)
Dividends, \$0.30 per share				(269)		(269)
Balance as of June 30, 2007 (Unaudited)	1,156	2,055	(286)	5,087	903	8,915

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



STMicroelectronics N.V.

Notes to Interim Consolidated Financial Statements (unaudited)

1. The Company

STMicroelectronics N.V. (the “Company”) is registered in The Netherlands with its statutory domicile in Amsterdam 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 has focused on developing products that leverage its technological strengths in creating customized, system-level solutions with high-growth digital and mixed-signal content.

2. Fiscal year

The Company’s fiscal year ends on December 31. Interim periods are established for accounting purposes on a thirteen-week basis. In 2007, the Company’s first quarter ended on March 31, its second ended on June 30, its third quarter will end on September 29 and its fourth quarter will end on December 31.

3. Basis of Presentation

The accompanying Unaudited Interim Consolidated Financial Statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), consistent in all material respects with those applied for the year ended December 31, 2006. The interim financial information is unaudited but reflects all normal adjustments which are, in the opinion of management, necessary to provide a fair statement of results for the periods presented. The results of operations for the interim period are not necessarily indicative of the results to be expected for the entire year.

All balances and values in the current and prior periods are in millions of dollars, except share and per-share amounts.

The accompanying Unaudited Interim Consolidated Financial Statements do not include certain footnotes and financial presentation normally required on an annual basis under U.S. GAAP. Therefore, these interim financial statements should be read in conjunction with the Consolidated Financial Statements in the Company’s Annual Report on Form 20-F for the year ended December 31, 2006.

4. Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. The primary areas that require significant estimates and judgments by management include, but are not limited to, sales returns and allowances, allowances for doubtful accounts, inventory reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory, accruals for warranty costs, litigation and claims, valuation of acquired intangibles, goodwill, investments and tangible assets as well as the impairment of their related carrying values, restructuring charges, assumptions used in calculating pension obligations and share-based compensation, assessment of hedge effectiveness of derivative instruments, 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 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. 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.

5. Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* ("FAS 155"). The statement amended Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133") and Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("FAS 140"). The primary purposes of this statement were (1) to allow companies to select between bifurcation of hybrid financial instruments or fair valuing the hybrid as a single instrument, (2) to clarify certain exclusions of FAS 133 related to interest and principal-only strips, (3) to define the difference between freestanding and hybrid securitized financial assets, and (4) to eliminate the FAS 140 prohibition of Special Purpose Entities holding certain types of derivatives. The statement is effective for annual periods beginning after September 15, 2006, with early adoption permitted prior to a company issuing first quarter financial statements. The Company adopted FAS 155 in the first quarter 2007 and FAS 155 did not have any material effect on its financial position and results of operations.

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140* ("FAS 156"). This statement requires initial fair value recognition of all servicing assets and liabilities for servicing contracts entered in the first fiscal year beginning after September 15, 2006. After initial recognition, the servicing assets and liabilities are either amortized over the period of expected servicing income or loss or fair value is reassessed each period with changes recorded in earnings for the period. The Company adopted FAS 156 in the first quarter 2007 and FAS 156 did not have any material effect on its financial position and results of operations.

In June 2006, the Financial Accounting Standards Board issued Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). The interpretation seeks to clarify the accounting for tax positions taken, or expected to be taken, in a company's tax return and the uncertainty as to the amount and timing of recognition in the company's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("FAS 109"). The interpretation sets a two step process for the evaluation of uncertain tax positions. 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. The interpretation also addresses derecognising previously recognized tax positions, classification of related tax assets and liabilities, accrual of interest and penalties, interim period accounting, and disclosure and transition provisions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as at January 1, 2007. Before adoption, the Company applied Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ("FAS 5") in accounting for income tax uncertainties and tax exposures. In compliance with FAS 5 provisions, liabilities and accruals for income tax uncertainties and specific tax exposures were recorded or reversed when it was probable that additional taxes would be due or refund. As such, a level of sustainability that met the "probable" threshold was necessary to recognize any benefit from a tax-advantaged transaction. Upon FIN 48 adoption, the Company assessed all material open income tax positions in all tax jurisdictions to determine the appropriate amount of tax benefits that are recognizable under FIN 48. The Company recorded as of the adoption date an incremental tax liability of \$8 million for the difference between the amounts recognized under its previous accounting policies and the income tax benefits determined under the new guidance. The cumulative effect of the change in the accounting principle that the Company applied to uncertain income tax positions was recorded in the first quarter of 2007 as an adjustment to retained earnings. Additionally the Company elected to classify accrued interest and penalties related to uncertain tax positions as components of income tax expense in its consolidated statement of income. Uncertain tax positions, unrecognized tax benefits and related accrued interest and penalties are further described in Note 20.

Table of Contents

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“FAS 157”). This statement defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” In addition, the statement defines a fair value hierarchy which should be used when determining fair values, except as specifically excluded (i.e. stock awards, measurements requiring vendor specific objective evidence, and inventory pricing). The hierarchy places the greatest relevance on Level 1 inputs which include quoted prices in active markets for identical assets or liabilities. Level 2 inputs, which are observable either directly or indirectly, and include quoted prices for similar assets or liabilities, quoted prices in non-active markets, and inputs that could vary based on either the condition of the assets or liabilities or volumes sold. The lowest level of the hierarchy, Level 3, is unobservable inputs and should only be used when observable inputs are not available. This would include company level assumptions and should be based on the best available information under the circumstances. FAS 157 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted for fiscal year 2007 if first quarter statements have not been issued. The Company chose not to early adopt FAS 157 during its first quarter of 2007 and will adopt FAS 157 when effective. However, management does not expect FAS 157 will have a material effect on its financial position and results of operations upon final adoption.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No. 115* (“FAS 159”). This statement permits companies to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses in earnings at each subsequent reporting date on items for which the fair value option has been elected. The objective of this statement is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. A company may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. FAS 159 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted for fiscal year 2007 if first quarter statements have not been issued. The Company chose not to early adopt FAS 159 during its first quarter of 2007 and will adopt FAS 159 when effective. The Company is currently evaluating the effect that adoption of this statement will have on its financial position and results of operations.

In June 2007, the Emerging Issues Task Force reached final consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (“EITF 06-11”). The issue applies to equity-classified nonvested shares on which dividends are paid prior to vesting, equity-classified nonvested share units on which dividends equivalents are paid, and equity-classified share options on which payments equal to the dividends paid on the underlying shares are made to the option-holder while the option is outstanding. The issue is applicable to the dividends or dividend equivalents that are (1) charged to retained earnings under the guidance in Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* (“FAS 123R”) and (2) result in an income tax deduction for the employer. EITF 06-11 states that a realized tax benefit from dividends or dividend equivalents that are charged to retained earnings and paid to employees for equity-classified nonvested shares, nonvested equity share units, and outstanding share options should be recognized as an increase to additional paid-in-capital. Those tax benefits are considered excess tax benefits (“windfall”) under FAS 123R. EITF 06-11 must be applied prospectively to dividends declared in fiscal years beginning after December 15, 2007 and interim periods within those fiscal years, with early adoption permitted for the income tax benefits of dividends on equity-based awards that are declared in periods for which financial statements have not yet been issued. The Company will adopt EITF 06-11 when effective. However, management does not expect EITF 06-11 will have a material effect on the Company’s financial position and results of operations.

In June 2007, the Emerging Issues Task Force reached final consensus on Issue No. 07-3, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* (“EITF 07-3”). The issue addresses whether non-refundable advance payments for goods or services that will be used or rendered for research and development activities should be expensed when the advance payments are made or when the research and development activities have been performed. EITF 07-3 applies only to non-refundable advance payments for goods and services to be used and rendered in future research and development activities pursuant to an executory contractual arrangement. EITF 07-3 states that non-refundable advance payments for future research and development activities should be capitalized until the goods have been delivered or the related services have been performed. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance

[Table of Contents](#)

payment should be charged to expense. EITF 07-3 is effective for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years. Earlier application is not permitted and entities should recognize the effect of applying the guidance in this Issue prospectively for new contracts entered into after EITF 07-3 effective date. The Company will adopt EITF 07-3 when effective and is currently evaluating the effect its application will have on its financial position and results of operations.

6. Other Income and Expenses, Net

Other income and expenses, net consisted of the following:

In million of U.S dollars	(unaudited)		(unaudited)	
	Three Months Ended		Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Research and development funding	15	9	26	13
Start-up costs	(5)	(14)	(15)	(25)
Exchange gain (loss), net	1	(4)	(3)	(9)
Patent litigation costs	(5)	(4)	(12)	(8)
Patent pre-litigation costs	(3)	(1)	(5)	(3)
Gain on sale of investment in Accent	—	6	—	6
Gain (loss) on sale of other non-current assets, net	(1)	1	—	1
Other, net	10	2	6	1
Total Other income and expenses, net	12	(5)	(3)	(24)

Patent litigation costs include legal and attorney fees and payment of claims, and patent pre-litigation costs are composed of consultancy fees and legal fees. Patent litigation costs are costs incurred in respect of pending litigation. Patent pre-litigation costs are costs incurred to prepare for licensing discussions with third parties with a view to concluding an agreement.

In the second quarter of 2007, other, net included \$10 million in income that the Company received in its ongoing pursuit to recover damages related to the case previously disclosed.

On June 29, 2006, the Company sold to Sofinnova Capital V its participation in Accent Srl, a subsidiary based in Italy. Accent Srl, in which the Company held a 51% interest, was jointly formed in 1999 with Cadence Design Systems Inc. and is specialized in hardware and software design and consulting services for integrated circuit design and fabrication. The total consideration amounting to \$7 million was received in cash on June 29, 2006. Net of consolidated carrying amount and transactions related expenses, the divestiture resulted in a net pre tax gain of \$6 million which was recorded in "Other income and expenses, net" in the consolidated statement of income. In addition the Company simultaneously entered into a license agreement with Accent by which the Company granted to Accent, for a total agreed lump sum amount of \$3 million, the right to use "as is" and with no right to future development certain specific intellectual property of the Company that are currently used in Accent's business activities. The total consideration was recognized immediately in the second quarter 2006 and recorded as "Other revenues" in the consolidated statement of income. The Company was also granted warrants for 6,675 new shares of Accent. The exercise of such warrants is limited to 15 years but can only be exercised in the event of a change of control or an Initial Public Offering of Accent above a predetermined value.

7. Impairment, Restructuring Charges and Other Related Closure Costs

In the second quarter of 2007, the Company has incurred impairment and restructuring charges related to the following items: (i) the valuation of assets to be disposed of within Flash memory business deconsolidation under the held-for-sale model of FAS 144, *Accounting for the impairment or disposal of long-term assets* ("FAS 144"); (ii) the new manufacturing plan committed to by the Company in the second quarter of 2007 (the "2007 restructuring plan"); (iii) the 150mm restructuring plan started in 2003; and (iv) the headcount reduction plan announced in the second quarter of 2005.

During the third quarter of 2003, the Company commenced a plan to restructure its 150mm fab operations and part of its back-end operations in order to improve cost competitiveness. The 150mm restructuring plan focuses on cost reduction by migrating a large part of European and U.S. 150mm production to Singapore and by upgrading production to finer geometry 200mm wafer fabs. The plan includes the discontinuation of the 150mm production of Rennes (France), the closure as soon as operationally feasible of the 150mm wafer pilot line in Castelletto (Italy) and the downsizing by approximately one-half of the 150mm wafer fab in Carrollton, Texas. Furthermore, the 150mm wafer fab productions in Agrate (Italy) and Rousset (France) will be gradually phased-out in favor of 200mm wafer ramp-ups at existing facilities in these locations, which will be expanded or upgraded to accommodate additional finer geometry wafer capacity. This manufacturing restructuring plan was nearly fully completed in the second quarter of 2007, later than originally anticipated because of unforeseen customer qualification requirements.

In May 2005, the Company announced additional restructuring efforts to improve profitability. These initiatives aimed to reduce the Company's workforce by 3,000 outside Asia, of which 2,300 were planned for Europe. The Company planned to reorganize its European activities by optimizing on a global scale its EWS activities (wafer testing); harmonizing its support functions; streamlining its activities outside its manufacturing areas and by disengaging from certain activities.

The Company announced on July 10, 2007 that management committed to a new restructuring plan in the second quarter of 2007 ("the 2007 restructuring plan"). Such plan aimed at redefining the Company's manufacturing strategy in order to contribute to be more competitive in the semiconductor market. In addition to the prior restructuring measures undertaken in the past years, which include the 150mm restructuring plan and the headcount reduction plan, this new manufacturing plan will pursue: 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 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 the second quarter of 2007, the Company announced it had entered into a definitive agreement with Intel to create a new independent semiconductor company from the key assets of the Company's and Intel's Flash memory business ("FMG deconsolidation"). The new company will combine key research and development, manufacturing and sales and marketing assets of both companies into a streamlined worldwide structure with the scale to produce cost-effective and innovative non-volatile memory solutions. Under the terms of the agreement, the Company will sell its flash memory assets, including its NAND joint venture interest and other NOR resources, to the new company while Intel will sell its NOR assets and resources. In exchange, the Company will receive a 48.6% equity ownership stake and \$468 million in cash at closing. Intel will receive a 45.1% equity ownership stake and \$432 million in cash at closing. Francisco Partners L.P., a Menlo Park, California-based private equity firm, will invest \$150 million in cash for convertible preferred stock representing 6.3% ownership interests, subject to adjustments in certain circumstances.

[Table of Contents](#)

Impairment, restructuring charges and other related closure costs incurred in the second quarter of 2007 and in the first half of 2007 are summarized as follows:

Three months ended June 30, 2007	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
150mm fab plan	—	2	(8)	(6)
Headcount reduction plan	—	(2)	(1)	(3)
2007 restructuring plan	—	(40)	—	(40)
FMG deconsolidation	(857)	—	—	(857)
Total	(857)	(40)	(9)	(906)

Six months ended June 30, 2007	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
150mm fab plan	—	2	(17)	(15)
Headcount reduction plan	—	(4)	(2)	(6)
2007 restructuring plan	—	(40)	—	(40)
FMG deconsolidation	(857)	—	—	(857)
Total	(857)	(42)	(19)	(918)

Impairment, restructuring charges and other related closure costs incurred in the second quarter of 2006 and in the first half of 2006 are summarized as follows:

Three months ended July 1, 2006	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
150mm fab operations	—	(1)	(5)	(6)
Headcount reduction plan	(1)	(25)	(2)	(28)
Total	(1)	(26)	(7)	(34)

Six months ended July 1, 2006	Impairment	Restructuring charges	Other related closure costs	Total impairment, restructuring charges and other related closure costs
150mm fab operations	—	(1)	(10)	(11)
Headcount reduction plan	(1)	(32)	(3)	(36)
Total	(1)	(33)	(13)	(47)

Impairment charges

At June 30, 2007, following the announcement to dispose in the near future its Flash memory business, the Company was required to evaluate the accounting and reporting of the to-be-disposed-of FMG assets under the FAS 144 held-for-sale model. Since FAS 144 sale criteria were met, the Company reported FMG assets as part of current assets on the face of the consolidated balance sheet as at June 30, 2007. These assets were recorded at fair value less costs to

[Table of Contents](#)

sell, which generated an impairment loss of \$857 million in the first half of 2007. Fair value less costs to sell was based on the net consideration of the agreement and significant estimates. The final amount could be materially different subject to adjustments due to business evolution before closing of the transaction.

Additionally, the commitment of the Company to the closure of two front-end sites and one back-end site as part of the 2007 restructuring plan has triggered an impairment review of assets to be disposed of at closure of the manufacturing sites, which is expected to occur within two years. Consequently, the Company reviewed as at June 30, 2007 the recoverability of the assets to be disposed of under FAS 144 “held-for-use” model and the outcome of such impairment test determined that no impairment was required at June 30, 2007.

Finally, in January 2007, NXP Semiconductors B.V. announced that it will withdraw from the alliance the Company operates jointly with Freescale Semiconductor, Inc. for certain research and development activities and the operation of a 300mm wafer pilot line fab in Crolles (France) (“Crolles2 alliance”). Therefore, the Crolles2 alliance will expire on December 31, 2007. Freescale Semiconductor, Inc. has also notified the Company that the Crolles2 alliance will terminate as of such date.

Restructuring charges and other related closure costs

Provisions for restructuring charges and other related closure costs as at June 30, 2007 are summarized as follows:

	150mm fab plan		Total	2005 restructuring initiatives	2007 restructuring plan	Other	Total restructuring & other related closure costs
	Restructuring	Other related closure costs					
Provision as at December 31, 2006	14	—	14	18	—	—	32
Charges incurred in 2007	—	17	17	6	40	—	63
Reversal of provision	(2)	—	(2)	—	—	—	(2)
Amounts paid	(3)	(17)	(20)	(13)	—	—	(33)
Currency translation effect	(1)	—	(1)	(1)	—	—	(2)
Provision as at June 30, 2007	8	—	8	10	40	—	58

150mm fab plan:

Restructuring charges incurred in the first half of 2007 primarily related to transfer, maintenance and decontamination associated with the closure and transfer of production for the sites of Rousset (France) and Agrate (Italy). In the second quarter of 2007, the Company reversed a \$2 million provision recorded in 2003 to cover the Company’s legal obligation to pay penalties to the French governmental institutions related to the closure of Rennes production site. In the second quarter of 2007 the French authorities decided to waive the payment of such penalties.

Restructuring charges incurred in the first half of 2006 primarily related to \$1 million termination benefits and \$10 million of transfer and other costs in Agrate (Italy) and Rousset (France) sites.

2005 restructuring initiatives:

In the first half of 2007, the Company recorded a total restructuring charge amounting to \$6 million, of which \$4 million corresponded to workforce reduction initiatives in Europe and \$2 million was related to reorganization actions aiming at optimizing the Company’s EWS activities.

In the first half of 2006, the Company recorded \$35 million associated with its 2005 restructuring plan. These restructuring charges included \$32 million voluntary termination benefits, mainly in France and Italy, and \$3 million restructuring charges related to EWS activities.

[Table of Contents](#)

2007 restructuring plan:

Pursuant to its commitment to a new restructuring plan aimed at redefining the Company's manufacturing strategy in order to improve its competitiveness, the Company recorded in the second quarter of 2007 a total restructuring charge amounting to \$40 million, mainly related to on-going termination benefits for involuntary leaves. This total charge includes the provision for contractual, legal and past practice termination benefits to be paid for an estimated number of employees in the United States and Morocco.

Total impairment, restructuring charges and other related closure costs

In the first half of 2007, total amounts paid for restructuring and related closure costs amounted to \$33 million.

The 2003 restructuring plan and related manufacturing initiatives are nearly fully completely as at June 30, 2007. Of the total \$330 million expected pre-tax charges to be incurred under the plan, \$331 million have been incurred as of June 30, 2007 (\$15 million in 2007, \$22 million in 2006, \$13 million in 2005, \$76 million in 2004, and \$205 million in 2003).

The 2005 headcount reduction plan, which was nearly fully completed as at June 30, 2007, was originally expected to result in pre-tax charges between of \$100 million, out of which \$92 million have been incurred as of June 30, 2007 (\$6 million in 2007, \$45 million in 2006 and \$41 million in 2005).

The 2007 restructuring plan is expected to result in pre-tax charges in the range of \$270 million to \$300 million, of which \$40 million have been incurred as of June 30, 2007. This plan is expected to be completed in the second half of 2009.

The total actual costs that the Company will incur may differ from these estimates based on the timing required to fully complete the restructuring plans.

8. Interest income, net

Interest income, net consisted of the following:

In million of U.S dollars	(unaudited)		(unaudited)	
	Three months ended		Six months ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Income	36	44	71	73
Expense	(18)	(14)	(35)	(22)
Total	18	30	36	51

Interest expense also included charges related to the amortization of issuance costs incurred by the Company for the outstanding bonds.

9. Available-for-sale financial assets

As at June 30, 2007, the Company had marketable securities amounting to \$931 million, of which \$511 million were purchased and \$40 million were sold in the first half of 2007. These financial assets consisted of floating rate notes issued by various primary financial institutions. These marketable securities were reported as current assets as at June 30, 2007 since they represent investments of funds available for current operations. These financial assets are classified as available-for-sale and are recorded at fair value, with changes in fair value recognized as a separate component of “accumulated other comprehensive income” in the consolidated statement of changes in shareholders’ equity. The Company had \$100 million marketable securities purchased in the second quarter of 2006 and classified as available-for-sale as at July 1, 2006.

10. Short term deposits

In the first half of 2007, the Company did not roll over \$250 million of short term deposits, which had a maturity between three months and one year. As at June 30, 2007 no amount of existing cash was held in short term deposits while as at July 1, 2006 the total amount of existing cash held in short term deposits was \$903 million purchased in the second quarter of 2006.

11. Inventories, net

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.

Provisions for obsolescence are estimated for excess uncommitted inventories based on the previous quarter sales, orders’ backlog and production plans.

Inventories, net of reserve consisted of the following:

In million of U.S. dollars	(unaudited)	(audited)
	As at June 30, 2007	As at December 31, 2006
Raw materials	79	80
Work-in-process	820	1,032
Finished products	438	527
Total	1,337	1,639

As at June 30, 2007 inventories amounting to \$371 million were reported as a component of the line “assets held for sale” on the consolidated balance sheet as part of the assets to be transferred to the newly created flash memory company within FMG deconsolidation.

12. Assets held for sale

As a result on the signing of a definitive agreement for the FMG deconsolidation and upon meeting FAS 144 criteria for assets held for sale, the Company reclassified the assets to be transferred to the newly created company from their original balance sheet classification to the line “assets held for sale”. These assets were reported at fair value less costs to sell as at June 30, 2007, including an impairment loss of \$857 million, reported on the line “impairment, restructuring charges and other related closure costs” of the consolidated income statement for the three months ended as at June 30, 2007. Fair value less costs to sell was based on the net consideration of the agreement and significant estimates. The final amount could be materially different subject to adjustments due to business evolution before closing of the transaction.

[Table of Contents](#)

Assets held for sale consisted of the following:

In million of U.S. dollars	(unaudited)	(audited)
	As at June 30, 2007	As at December 31, 2006
Inventories, net	371	—
Other intangible assets, net	19	—
Property, plant and equipment, net	551	—
Equity investment	263	—
Total	1,204	—

13. Hynix ST joint venture equity investment

The Company signed in 2004 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. In addition, 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. The Company made the total \$250 million capital contributions as previously planned in the joint venture agreement in 2006. The Company accounts for its share in the Hynix ST joint venture under the equity method based on the actual results of the joint venture. As such, the Company recorded earnings totaling \$9 million in the first half of 2007 and a loss of \$4 million in the first half of 2006, reported as "earnings (loss) on equity investments" in the consolidated statements of income.

Due to regulatory and withholding issues the Company could not directly provide the joint venture with the \$250 million long-term financing as originally planned. As a consequence, in the fourth quarter of 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. In the first half of 2007, the Company placed the remaining \$32 million of cash on the guarantee deposit account, which totaled \$250 million as at June 30, 2007 and was reported as "restricted cash for equity investments" on the consolidated balance sheet. In the first half of 2006 the Company had not entered yet into any debt guarantee agreement and no amount was placed as restricted cash on the guarantee deposit account as at July 1, 2006.

The debt guarantee was evaluated under FIN 45. It resulted in the recognition of a \$17 million liability, corresponding to the fair value of the guarantee at inception of the transaction. The liability was reported on the line "Other non-current liabilities" in the consolidated balance sheet as at June 30, 2007 and was recorded against the value of the equity investment, which totaled \$280 million. Following the Company's definitive agreement with Intel to sell its flash memory key assets, including its equity interest in Hynix ST joint venture, as part of FMG deconsolidation, the equity investment was reported as a component of the line "assets held for sale" on the consolidated balance sheet as at June 30, 2007 for an amount of \$263 million. The Company reported the debt guarantee on the line "other investments and other non-current assets" since the terms of the FMG sale agreement do not include the transfer of the debt guarantee.

The Company has identified the joint venture as a Variable Interest Entity (VIE) at June 30, 2007, 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 investments and debt guarantee commitments.

14. Other investments and other non-current assets

Investments and other non-current assets consisted of the following:

In million of U.S. dollars	(unaudited)	(audited)
	As at June 30, 2007	As at December 31, 2006
Cost Investments	41	39
Long-term receivables related to funding	35	36
Long-term receivables related to tax refund	30	33
Debt issuance costs, net	11	12
Cancellable swaps designated as fair value hedge	—	4
Deposits and other non-current assets	41	25
Total	158	149

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 June 30, 2007, 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 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.

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 convert the fixed rate interest expense recorded on the convertible bonds due 2016 to a variable interest rate based upon adjusted LIBOR. The cancellable swaps meet the criteria for designation as a fair value hedge, as further detailed in Note 22 and are reflected at their fair value, which was negative as at June 30, 2007 for approximately \$1 million. As such, the fair value of the cancellable swaps was reported on the line "other non-current liabilities" in the consolidated balance sheet as at June 30, 2007.

[Table of Contents](#)**15. Long-term Debt**

Long-term debt consisted of the following:

In million of U.S dollars	(Unaudited)	(Audited)
	As at June 30, 2007	As at December 31, 2006
Bank loans:		
2.57% (weighted average), due 2007, fixed interest rate	33	65
5.72% (weighted average), due 2007, variable interest rate	27	30
5.79% due 2008, floating interest rate at Libor + 0.40%	43	49
5.75% due 2009, floating interest rate at Libor + 0.40%	50	35
Funding program loans:		
1.43% (weighted average), due 2009, fixed interest rate	16	18
0.90% (weighted average), due 2010, fixed interest rate	40	45
2.79% (weighted average), due 2012, fixed interest rate	13	12
0.49% (weighted average), due 2014, fixed interest rate	9	8
3.33% (weighted average), due 2017, fixed interest rate	55	53
5.34% due 2014, floating interest rate at Libor + 0.017%	140	140
Capital leases:		
4.97%, due 2017, fixed interest rate	23	23
Senior Bonds		
4.55%, due 2013, floating interest rate at EURIBOR + 0.40%	675	659
Convertible debt:		
-0.50% convertible bonds due 2013	2	2
1.5% convertible bonds due 2016	993	991
Total long-term debt	2,119	2,130
Less current portion	(127)	(136)
Total long-term debt, less current portion	1,992	1,994

In August 2003, the Company issued \$1,332 million principal amount at maturity of zero coupon unsubordinated convertible bonds due 2013. The bonds were issued with a negative yield of 0.5% that resulted in a higher principal amount at issuance of \$1,400 million and net proceeds of \$1,386 million. The negative yield through the first redemption right of the holder totals \$21 million and was recorded in capital surplus. The bonds are convertible at any time by the holders at the rate of 29.9144 shares of the Company's common stock for each one thousand dollar face value of the bonds. The holders may redeem their convertible bonds on August 5, 2006 at a price of \$985.09, on August 5, 2008 at \$975.28 and on August 5, 2010 at \$965.56 per one thousand dollar face value of the bonds. Pursuant to the terms of the convertible bonds due 2013, the Company was required to purchase, at the option of the

[Table of Contents](#)

holders, 1,397,493 convertible bonds, at a price of \$985.09 each between August 7 and August 9, 2006. This resulted in a cash payment of \$1,377 million. The outstanding long-term debt corresponding to the 2013 convertible debt amounted to approximately \$2 million as at June 30, 2007 corresponding to the remaining 2,505 bonds valued at August 5, 2008 redemption price. At any time from August 20, 2006 the Company may redeem for cash at their negative accreted value all or a portion of the convertible bonds subject to the level of the Company's share price.

In February 2006, the Company issued \$974 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 43.363087 shares per one thousand dollar face value of the bonds corresponding to 42,235,646 equivalent shares. This conversion rate has been adjusted from 43.118317 shares per one thousand dollar face value of the bonds at issuance, as the result of the extraordinary cash dividend approved by the Annual General Meeting of Shareholders held on April 26, 2007. This new conversion has been effective since May, 21, 2007. 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. In the second quarter 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 the cancellable swap hedging transactions, as described in further detail in Note 22, the effective yield on the \$200 million principal amount of the hedged convertible bonds has increased from 1.5% to 2.0% as of June 30, 2007.

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 Euro 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.

16. Earnings per Share

Basic net earnings per share ("EPS") is computed based on net income available to common shareholders using the weighted-average number of common shares outstanding during the reported period; the number of outstanding shares does not include treasury shares. Diluted EPS is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period, such as stock issuable pursuant to the exercise of stock options outstanding, nonvested shares granted and the conversion of convertible debt.

(In millions of U.S. dollars, except per share amounts):

	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Basic Earnings (Loss) per Share:				
Net income (loss)	(758)	168	(684)	299
Weighted average shares outstanding	898,762,654	895,401,689	898,086,120	894,962,236
Earnings (Loss) per Share (basic)	(0.84)	0.19	(0.76)	0.33

[Table of Contents](#)

	(unaudited)		(unaudited)	
	Three Months Ended		Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Diluted Earnings (Loss) per Share:				
Net income (loss)	(758)	168	(684)	299
Interest expense on convertible debt, net of tax	—	5	—	8
Net income (loss), adjusted	(758)	173	(684)	307
Weighted average shares outstanding	898,762,654	895,401,689	898,086,120	894,962,236
Dilutive effect of stock options	—	135,951	—	419,504
Dilutive effect of nonvested shares	—	951,324	—	1,455,186
Dilutive effect of convertible debt	—	83,877,341	—	71,416,621
Number of shares used in calculating Earnings (Loss) per Share	898,762,654	980,366,305	898,086,120	968,253,547
Earnings (Loss) per Share (diluted)	(0.84)	0.18	(0.76)	0.32

As of June 30, 2007, common shares issued were 910,289,100 shares of which 10,979,721 shares were owned by the Company as treasury stock.

As of June 30, 2007, there were outstanding stock options exercisable into the equivalent of 54,971,536 common shares. There was also the equivalent of 42,310,583 common shares outstanding for convertible debt, out of which 74,936 for the 2013 bonds and 42,235,647 for the 2016 bonds. None of these bonds have been converted to shares during the first half of 2007.

17. Long-term employee benefits and Retirement plans

The Company and its subsidiaries have a number of defined benefit pension plans covering employees in various countries. The plans provide for pension benefits, the amounts of which are calculated based on factors such as years of service and employee compensation levels. Eligibility is generally determined in accordance with local statutory requirements.

For Italian termination indemnity plan (“TFR”), the Company continues to measure the vested benefits to which Italian employees are entitled as if they retired immediately as of June 30, 2007, in compliance with the Emerging Issues Task Force Issue No. 88-1, *Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan* (“EITF 88-1”). Nevertheless, since December 31, 2006, the TFR has been reported according to FAS 132(R), as any other defined benefit plan. The information presented below for the second quarter and first half of 2006 has been modified accordingly.

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

In millions of U.S dollars	(unaudited)		(unaudited)	
	Three Months ended		Six Months ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Service cost	10	10	20	20
Interest cost	7	6	14	11
Expected return on plan assets	(3)	(3)	(7)	(6)
Recognition of prior service cost	—	(5)	—	(5)
Amortization of net (gain) and loss	1	1	1	2
Net periodic benefit cost	15	9	28	22

Employer contributions paid and expected to be paid in 2007 are consistent with the amounts disclosed in the consolidated financial statements for the year ended December 31, 2006.

18. Dividends

At the Annual General Meeting of Shareholders on April 26, 2007 shareholders approved the distribution of \$0.30 per share in cash dividends. The dividend amount of approximately \$269 million was paid in the second quarter of 2007.

At the Annual General Meeting of Shareholders on April 27, 2006 shareholders approved the distribution of \$0.12 per share in cash dividends. The dividend amount of approximately \$107 million was paid in the second quarter of 2006.

19. Treasury Stock

In 2002 and 2001, the Company repurchased 13,400,000 of its own shares, for a total amount of \$348 million, which were reflected at cost as a reduction of the shareholders' equity. No treasury shares were acquired in 2007 and 2006.

The treasury shares have been designated for allocation under the Company's share based remuneration programs on non-vested shares including such plans as approved by the 2005, 2006 and 2007 Annual General Meeting of Shareholders. In the second quarter of 2007, 1,782,326 of these treasury shares have been transferred to employees under the Company's share based remuneration programs, following the vesting as of April 27, 2007 of the first and second tranches of the stock award plans granted in 2006 and 2005 and the acceleration of the vesting of a limited number of stock awards. As of July 1, 2006 637,109 of these treasury shares were transferred to employees under the Company's share based remuneration programs, following the vesting as at April 27, 2006 of the first tranche of the stock award plan granted in 2005.

20. Contingencies and Uncertainties in Income Tax Positions

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 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 adverse material impact on the Company's results of operations, cash flows or its financial position for the period in which they occur.

With the adoption of FIN 48 in the first quarter of 2007, the Company applies a two-step process for the evaluation of uncertain income tax positions based on a "more likely than not" threshold to determine if a tax position will be sustained upon examination by the taxing authorities, as described in details in Note 5. The tax years that remain open for review in the Company's major tax jurisdictions are from 1996 to 2006. Total unrecognized tax benefits as of the date of adoption amounts to \$82 million, of which \$74 million correspond to tax exposure provisions recorded under accounting principles applicable prior to FIN 48 adoption. The total amount of these unrecognized tax benefits would affect the effective tax rate, if recognized. Interest and penalties recognized in the consolidated balance sheets as at the adoption date and as at June 30, 2007 and in the consolidated statement of income for the six months ended June 30, 2007 are not material. Additionally, there is no reasonable evidence that the total amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months. Nevertheless, this assertion is based on events and circumstances as known today. Events may occur in the near future that would cause a material change in the estimate of the unrecognized tax benefit.

21. Claims and Legal proceedings

The Company has received and may in the future receive communications alleging possible infringements, in particular in case of patents and similar intellectual property rights of others. Furthermore, 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 underlying intellectual property right at economically unfavorable terms and

[Table of Contents](#)

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 involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations, other than external patent utilization. These matters mainly include the risks associated with claims from customers or other parties. The Company has accrued for these loss contingencies when the 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.

The Company is currently a party to legal proceedings with SanDisk Corporation ("SanDisk") and Tessera Technologies, Inc ("Tessera"). Based on management's current assumptions made with support of the Company's outside attorneys, the Company is not currently in a position to evaluate any probable loss, which may arise out of such litigation.

22. Derivative instruments

Foreign Currency Forward Contracts Not Designated as a Hedge

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 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 under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133") 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.

Cash Flow Hedges

To further reduce its exposure to U.S. dollar exchange rate fluctuations, the Company also hedges with foreign currency forward contracts and currency options 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 production costs of semi-finished goods.

The foreign currency forward contracts and currency options used to hedge exposures are reflected at their fair value in the consolidated balance sheet and meet the criteria for designation as cash flow hedges. 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. 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. 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. 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 on the expected cash flows on the hedged transactions. The ineffective portion of the hedge is

[Table of Contents](#)

immediately reported in “other income and expenses, net” in the consolidated statements of income. The gain or loss from the effective portion of the hedge is reported as a component of “accumulated other comprehensive income” in the consolidated statements of changes in shareholders’ equity and is reclassified into earnings in the same period in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction. The gain or loss is recognized immediately in “other income and expenses, net” 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.

Fair Value Hedges

In the second quarter 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. These financial instruments correspond to interest rate swaps with a cancellation feature depending on the Company’s convertible bonds convertibility. They convert the fixed rate interest expense recorded on the convertible bond due 2016 to a variable interest rate based upon adjusted LIBOR. The interest rate swaps meet the criteria for designation as a fair value hedge and, as such, both the interest rate swaps and the hedged portion of the bonds are reflected at the 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 is assessed on both a prospective and retrospective basis at each reporting period. The interest rate swaps are highly effective for hedging the change in fair value of the hedged bonds attributable to changes in interest rates and were designated as a fair value hedge at their inception. Any ineffectiveness of the hedge relationship is recorded as a gain or loss on derivatives as a component of “other income and expenses, net”. If the hedge becomes no longer highly effective, the hedged portion of the bonds will discontinue being marked to fair value while the changes in the fair value of the interest rate swaps will continue to be recorded in the consolidated income statement.

The net gain recognized in “other income and expenses, net” for the six months ended June 30, 2007 as a result of the ineffective portion of this fair value hedge was not material.

23. Segment Reporting

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, memories 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.

Beginning with the first quarter of 2005, the Company reported until December 31, 2006 its semiconductor sales and operating income in three segments:

- Application Specific Product Groups (“ASG”) segment, comprised of three product lines – Home, Personal and Communication (“HPC”), Computer Peripherals (“CPG”) and new Automotive Product (“APG”);
- Memory Products Group (“MPG”) segment; and
- Micro, Power, Analog (“MPA”) segment.

In an effort to better align the Company to meet the requirements of the market, together with the pursuit of strategic repositioning in Flash Memory, the Company announced in December 2006 a reorganization of its product segments into three main segments:

- Application Specific Product Groups (“ASG”) segment;
- Industrial and Multisegment Sector (“IMS”) segment; and
- Flash Memory Group (“FMG”) segment.

[Table of Contents](#)

ASG segment includes the existing APG and CPG product lines and the newly created Mobile, Multimedia and Communications Group and Home, Entertainment and Display Group. IMS segment contains the Microcontrollers, Memories and Smartcards Group and the Analog, Power and MEMS Group. FMG segment incorporates all Flash Memory operations, including research and development and product-related activities, front- and back-end manufacturing, marketing and sales.

The new product segments became effective on January 1, 2007. 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. However management believes the 2006 quarter's presentation is representative of 2007 and is using these comparatives when managing the Company.

The Company's principal investment and resource allocation decisions in the Semiconductor business area are for expenditures on research and development and capital investments in front-end and back-end manufacturing facilities. These decisions are not made by product segments, but on the basis of the Semiconductor Business area. All these product segments share common research and development for process technology and manufacturing capacity for most of their products.

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 Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("FAS 131").

The following tables present the Company's consolidated net revenues and consolidated operating income by semiconductor product segment. For the computation of the Groups' internal financial measurements, the Company uses certain internal rules of allocation for the costs not directly chargeable to the Groups, including cost of sales, selling, general and administrative expenses and a significant part of research and development expenses. Additionally, in compliance with the Company's internal policies, certain cost items are not charged to the Groups, including impairment, restructuring charges and other related closure costs, start-up costs of new manufacturing facilities, some strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate level operating expenses and certain other miscellaneous charges.

Net revenues by product segment

In million of U.S dollars	(unaudited)		(unaudited)	
	Three Months Ended		Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net revenues by product segment:				
Application Specific Product Groups segment	1,303	1,367	2,524	2,684
Industrial and Multisegment Sector segment	767	707	1,488	1,328
Flash Memory Group segment	331	407	654	818
Others ⁽¹⁾	17	14	27	28
Total consolidated net revenues	2,418	2,495	4,693	4,858

(1) Includes revenues from sales of subsystems and other products not allocated to product segments.

[Table of Contents](#)

Operating income (loss) by product segment

In million of U.S dollars	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Operating income (loss) by product segment:				
Application Specific Product Groups segment	53	108	52	202
Industrial and Multisegment Sector segment	103	105	210	182
Flash Memory Group segment	(25)	3	(42)	(12)
Total operating income of product segments	131	216	220	372
Others ⁽¹⁾	(903)	(47)	(930)	(63)
Total consolidated operating income (loss)	(772)	169	(710)	309

(1) Operating income (loss) of “Others” includes items such as impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses, such as: strategic or special research and development programs, certain corporate-level operating expenses, certain patent claims and litigations, and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group.

In million of U.S dollars	(unaudited) Three Months Ended		(unaudited) Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Reconciliation to consolidated operating income (loss):				
Total operating income of product segments	131	216	220	372
Strategic and other research and development programs	(4)	(2)	(8)	(5)
Start-up costs	(5)	(14)	(15)	(25)
Impairment, restructuring charges and other related closure costs	(906)	(34)	(918)	(47)
Other non-allocated provisions ⁽¹⁾	12	3	11	14
Total operating loss Others ⁽²⁾	(903)	(47)	(930)	(63)
Total consolidated operating income (loss)	(772)	169	(710)	309

(1) Includes unallocated income and expenses such as certain corporate level operating expenses and other costs.

(2) Operating income (loss) of “Others” includes items such as impairment, restructuring charges and other related closure costs, start-up costs, and other unallocated expenses, such as: strategic or special research and development programs, certain corporate-level operating expenses, certain patent claims and litigations, and other costs that are not allocated to the product segments, as well as operating earnings or losses of the Subsystems and Other Products Group.

VOLUNTARY CERTIFICATION

I, Carlo Ferro, certify that:

1. I have reviewed this report on Form 6-K of STMicroelectronics N.V.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the Unaudited Interim Consolidated Statements of Income, Balance Sheets, Statements of Cash Flow and Statements of Changes in Shareholders' Equity and related Notes, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d) – 15(f) for the company and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: August 3, 2007

By: /s/ Carlo Ferro

Name: **Carlo Ferro**
Title: **Executive Vice President and
Chief Financial Officer**

VOLUNTARY CERTIFICATION OF CARLO BOZOTTI, PRESIDENT AND CHIEF EXECUTIVE OFFICER AND SOLE MEMBER OF OUR MANAGING BOARD OF STMICROELECTRONICS N.V. AND CARLO FERRO, EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER OF STMICROELECTRONICS N.V., PURSUANT TO SECTION 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report on Form 6-K of STMicroelectronics N.V. (the "Company") for the period ending June 30, 2007, as submitted to the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2007

By: /s/ Carlo Bozotti

Name: **Carlo Bozotti**
Title: **President and Chief Executive Officer
and Sole Member of our Managing
Board**

Date: August 3, 2007

By: /s/ Carlo Ferro

Name: **Carlo Ferro**
Title: **Executive Vice President and
Chief Financial Officer**

**MASTER AGREEMENT
BY AND BETWEEN
STMICROELECTRONICS N.V.,
INTEL CORPORATION,
REDWOOD BLOCKER S.A.R.L.,
AND
FRANCISCO PARTNERS II (CAYMAN) L.P.
MAY 22, 2007**

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS	2
1.1 Definitions	2
1.2 Defined Terms Generally	2
ARTICLE II AGREEMENTS	2
2.1 Intel Asset Transfer	2
2.2 ST Asset Contribution	2
2.3 FP Share Purchase	3
2.4 Other Agreements among the Parties and Newco	3
2.5 Closing	3
ARTICLE III REPRESENTATIONS AND WARRANTIES	3
3.1 Intel Representations	3
3.2 ST Representations	6
3.3 FP and FP Holdco Representations	8
ARTICLE IV COVENANTS	11
4.1 Access to Information	11
4.2 Exclusive Dealing	11
4.3 Reasonable Efforts	12
4.4 Certain Consents and Filings; Further Assurances	12
4.5 Press Releases	13
4.6 Certain Deliveries and Notices	13
4.7 Non-Solicitation of Employees	13
4.8 Tax Matters	14
4.9 Operation of the Intel Business Prior to the Closing	15

	<u>Page</u>
4.10 Operation of the ST Business Prior to the Closing	17
4.11 Employee Matters	20
4.12 Additions to and Modifications of Schedules	22
4.13 Third Party Appraisal and Allocation; Dutch Auditors	24
4.14 Notices of Certain Intel Events	25
4.15 Notices of Certain ST Events	25
4.16 Newco Formation and Preparation	26
4.17 Newco Tax Election	28
4.18 Newco Closing Reorganization	28
4.19 Cooperation with Financing	28
4.20 Environmental Consultants	29
4.21 Hynix JV Matters	29
4.22 Facility Transfer Term Sheets	29
4.23 Governmental Consents	29
4.24 Release of Liens	29
4.25 ST Litigation	29
4.26 Intel Litigation	30
4.27 Confidentiality Agreement	30
4.28 Further Assurances	30
ARTICLE V CONDITIONS TO CLOSING	30
5.1 Conditions to Obligations of Intel	30
5.2 Conditions to Obligations of ST	32
5.3 Conditions to Obligations of FP and FP Holdco	34
ARTICLE VI TERMINATION	36
6.1 Grounds for Termination	36

	<u>Page</u>
6.2 Effect of Termination	38
6.3 Termination of Representations and Warranties and Covenants Upon the Closing	39
6.4 Exclusive Remedy	40
ARTICLE VII MISCELLANEOUS	40
7.1 Notices	40
7.2 Amendments; Waivers	42
7.3 Expenses	43
7.4 Successors and Assigns	43
7.5 Governing Law	43
7.6 Counterparts; Effectiveness	43
7.7 Entire Agreement	43
7.8 Captions	43
7.9 Severability	43
7.10 Dispute Resolution	44
7.11 Waiver of Jury Trial	46
7.12 Third Party Beneficiaries	46
7.13 Specific Performance	47
7.14 No Presumption Against Drafting Party	47

MASTER AGREEMENT

THIS MASTER AGREEMENT, dated as of May 22, 2007 (the "Master Agreement" and, as referred to herein, this "Agreement"), is entered into by and among Intel Corporation, a Delaware corporation ("Intel"), STMicroelectronics N.V., a limited liability company organized under the laws of The Netherlands, with its corporate seat in Amsterdam, The Netherlands ("ST"), Redwood Blocker S.a.r.l., a limited liability company organized under the laws of The Grand-Duchy of Luxembourg ("FP"), and Francisco Partners II (Cayman) L.P., an exempted limited partnership organized under the laws of the Cayman Islands ("FP Holdco"). Intel, ST, FP and FP Holdco are sometimes referred to herein as the "Parties" and each individually as a "Party."

A. Intel currently designs, manufactures and produces the Intel Products for use in various consumer electronics and other end applications.

B. ST currently designs, manufactures and produces the ST Products for use in various consumer electronics and other end applications.

C. The parties desire to form a company under the laws of The Netherlands ("Newco"), on the terms and conditions set forth in this Agreement.

D. Intel desires to transfer, and to cause certain of its Affiliates to transfer to Newco and its Affiliates, the Intel Transferred Assets in consideration for the issuance by Newco of the Intel Newco Shares, the payment by Newco of the Intel Cash Consideration, and the assumption by Newco or its Affiliates of the Intel Transferred Liabilities, all on the terms and conditions set forth in the Intel Asset Transfer Agreement, the Intel Ancillary Agreements and this Agreement.

E. ST desires to transfer, and to cause certain of its Affiliates to transfer to Newco and its Affiliates, the ST Transferred Assets in consideration for the issuance by Newco of the ST Newco Shares, the payment by Newco of the ST Cash Consideration, and the assumption by Newco or its Affiliates of the ST Transferred Liabilities, all on the terms and conditions set forth in the ST Asset Contribution Agreement, the ST Ancillary Agreements and this Agreement.

F. FP desires to invest in Newco by purchasing and accepting from Newco the FP Newco Shares, on the terms and conditions set forth in the Share Purchase Agreement.

G. The Parties desire to enter into various agreements with one another and with Newco, to set forth the ongoing governance and operating relationships among the Parties and Newco relating to the business of Newco, all as contemplated by this Agreement.

NOW THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

**ARTICLE I
DEFINITIONS**

1.1 Definitions. Capitalized terms used in this Agreement shall have the respective meanings ascribed to such terms in Appendix A to this Agreement.

1.2 Defined Terms Generally. The definitions set forth in Appendix A or otherwise referred to in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. All references herein to Articles, Sections, Exhibits and Schedules shall be deemed to be references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Unless the context shall otherwise require, any reference to any contract, instrument, statute, rule or regulation is a reference to it as amended and supplemented from time to time (and, in the case of a statute, rule or regulation, to any successor provision). Any reference in this Agreement to a “day” or a number of “days” (without the explicit qualification of “Business”) shall be interpreted as a reference to a calendar day or number of calendar days.

**ARTICLE II
AGREEMENTS**

2.1 Intel Asset Transfer. On the Closing Date, at the Closing, subject to (a) the fulfillment, or waiver by Intel, of each condition to the obligation of Intel to consummate the transactions contemplated by this Agreement, (b) the fulfillment, or waiver by ST, of each condition to the obligation of ST to consummate the transactions contemplated by this Agreement and (c) the fulfillment, or waiver by FP and FP Holdco, of each condition to the obligation of FP and FP Holdco to consummate the transactions contemplated by this Agreement, Intel shall, and the Parties shall cause Newco to, execute and deliver the Intel Asset Transfer Agreement, substantially in the form attached to Schedule 2.1 of the Intel Master Agreement Disclosure Letter and the Intel Ancillary Agreements contemplated thereby to which each, respectively, is a party, and Intel shall, and the Parties shall cause Newco to, consummate and cause their Affiliates to consummate, as applicable, each of the transactions contemplated by the Intel Asset Transfer Agreement and the Intel Ancillary Agreements to be consummated at the Closing.

2.2 ST Asset Contribution. On the Closing Date, at the Closing, subject to (a) the fulfillment, or waiver by ST, of each condition to the obligation of ST to consummate the transactions contemplated by this Agreement, (b) the fulfillment, or waiver by Intel, of each condition to the obligation of Intel to consummate the transactions contemplated by this Agreement and (c) the fulfillment, or waiver by FP and FP Holdco, of each condition to the obligation of FP and FP Holdco to consummate the transactions contemplated by this Agreement, ST shall, and the Parties shall cause Newco to, execute and deliver the ST Asset Contribution Agreement, substantially in the form attached to Schedule 2.2 of the ST Master Agreement Disclosure Letter and the ST Ancillary Agreements contemplated thereby to which each, respectively, is a party, and ST shall, and the Parties shall cause Newco to, consummate and cause their Affiliates to consummate, as applicable, each of the transactions contemplated by

the ST Asset Contribution Agreement and the ST Ancillary Agreements to be consummated at the Closing.

2.3 FP Share Purchase. On the Closing Date, at the Closing, subject to (a) the fulfillment, or waiver by FP and FP Holdco, of each condition to the obligations of FP and FP Holdco to consummate the transactions contemplated by this Agreement, (b) the fulfillment, or waiver by Intel, of each condition to the obligation of Intel to consummate the transactions contemplated by this Agreement and (c) the fulfillment, or waiver by ST, of each condition to the obligation of ST to consummate the transactions contemplated by this Agreement, FP shall, and the Parties shall cause Newco to, execute and deliver the Share Purchase Agreement, substantially in the form attached to Schedule 2.3 of each of the Master Agreement Disclosure Letters and consummate each of the transactions contemplated by the Share Purchase Agreement to be consummated at the Closing.

2.4 Other Agreements among the Parties and Newco. Except as otherwise set forth herein, on the Closing Date, at the Closing, the Parties shall, and shall cause (a) each of their respective Affiliates and (b) Newco to, as the case may be, execute and deliver the agreements identified on Schedule 2.4 to each of the Master Agreement Disclosure Letters to which each, respectively, is a party, substantially in the form attached thereto, to the extent such Party, Affiliate or Newco is a party to such respective agreements.

2.5 Closing. The closing of the transactions contemplated by this Agreement (the “Closing”) shall take place at the offices of Gibson, Dunn & Crutcher LLP, Palo Alto, California, as soon as possible, but in no event later than five Business Days, after fulfillment of the conditions set forth in Article V hereof to each Party’s obligation to close the transactions contemplated by this Agreement or the waiver thereof by such Party, or at such other time or place as the Parties may agree.

ARTICLE III REPRESENTATIONS AND WARRANTIES

3.1 Intel Representations. Except as set forth in the Intel Master Agreement Disclosure Letter, Intel represents and warrants to ST, FP and FP Holdco, as of the date of this Agreement, as follows:

(a) Existence and Good Standing. Intel is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate power and authority required to carry on its business as now conducted and to own and operate its business as now owned and operated by it. Intel is qualified to conduct business and is in good standing in each jurisdiction in which it conducts business other than such jurisdictions where the failure to be so qualified would not reasonably be expected to have an Intel Material Adverse Effect.

(b) Authorization; Enforceability. Intel has all requisite corporate power and authority to execute and deliver this Agreement and each of the Transaction Documents to which it is or will be a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and

delivery by Intel of this Agreement and each of the Transaction Documents to which Intel is a party, and the performance by Intel of its obligations contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action. This Agreement has been and, when executed at the Closing, the other Transaction Documents will have been, duly and validly executed and delivered by Intel and, assuming the due execution and delivery of this Agreement and the other Transaction Documents to which it is a party by the other parties thereto, this Agreement constitutes, and as of the Closing, each of the Transaction Documents to which Intel is a party will constitute, the legal, valid and binding agreement of Intel, enforceable against Intel in accordance with their respective terms, except to the extent (i) that their enforceability may be subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity or (ii) indemnification provisions contained in the Shareholders' Agreement may be limited by applicable securities laws.

(c) Governmental Authorization. Other than the Intel Approvals, the execution, delivery and performance by Intel of this Agreement and the other Transaction Documents to which it is a party, and the consummation by it of the transactions contemplated hereby and thereby, require no Governmental Approval.

(d) Non-Contravention; Consents.

(i) The execution, delivery and performance by Intel of this Agreement and the other Transaction Documents to which Intel is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (A) contravene or conflict with the certificate of incorporation, bylaws or other organizational documents of Intel; (B) assuming receipt of the Intel Approvals, the Newco Approvals and the Intel Contractual Consents, contravene or conflict with or constitute a material violation of any provision of any Applicable Law binding upon or applicable to Intel, the Intel Transferred Assets; or (C) assuming receipt of the Intel Approvals and of the Intel Contractual Consents, (1) constitute a default under, give rise to any right of termination, cancellation, modification, acceleration of, or a loss of any benefit under any Intel Contract, including the Intel Transferred Contracts, (2) result in the creation or imposition of any Lien (other than Permitted Liens) on any Intel Transferred Asset or the assets of any Intel Transferred Entity, or (3) constitute a breach, default or violation of any settlement agreement, judgment, injunction or decree, except in the case of clause (B) or (C), for matters that would not reasonably be expected to have an Intel Material Adverse Effect (*provided* that in determining whether an Intel Material Adverse Effect would result, any adverse effect otherwise excluded by clause (C) of the definition of "Intel Material Adverse Effect" shall be taken into account).

(ii) The execution, delivery and performance by Intel of this Agreement and the other Transaction Documents to which Intel is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not, as of the Closing Date, constitute a default under, give rise to any right of

termination, cancellation, modification, acceleration of, or a loss of any material benefit under, any Contract identified on Schedule 3.1(d)(ii) of the Intel Master Agreement Disclosure Letter; *provided, however*, that for the avoidance of doubt, the Parties acknowledge and agree that the representations and warranties set forth in this Section 3.1(d)(ii) shall not be deemed to be untrue or inaccurate in any respect as a result of (A) any action or omission by Newco that constitutes or results in a default by Intel or any Intel Affiliate or gives rise to any right of termination, cancellation, modification, acceleration of, or a loss of any material benefit under any such Contract; and (B) any withdrawal or voiding after the Closing of any consent granted prior to the Closing by a party to such Contract, which withdrawal or voiding purports to have retroactive effect to the Closing.

(e) Litigation. As of the date hereof, there is no Proceeding or, to the Knowledge of Intel, investigation pending or, to the Knowledge of Intel, threatened in writing, by or against Intel or any of Intel's Subsidiaries seeking to prevent, enjoin, alter or delay the transactions contemplated by this Agreement or any of the other Transaction Documents or encumber the Intel Transferred Interests.

(f) Incorporation by Reference of Additional Representations and Warranties. As of the date hereof (except that with respect to any representation and warranty that specifies another date, such representation and warranty shall be made as of such specified date), subject to the exceptions set forth in the Intel ATA Disclosure Letter, Intel hereby represents and warrants that each of the representations and warranties set forth in Sections 3.1-3.24 of the Intel Asset Transfer Agreement attached to Schedule 2.1 of the Intel Master Agreement Disclosure Letter are true and correct. Upon the consummation of the Closing, the provisions of this Section 3.1(f) shall terminate and cease to be of any further force or effect, as if never made, and no action may be brought based on the same, whether for indemnification, breach of contract, tort or under any other legal theory.

(g) Reliance. Intel has conducted such investigation and inspection of the ST Transferred Assets, the ST Transferred Liabilities, the ST Business and the ST Products that Intel has deemed necessary or appropriate for the purpose of entering into this Agreement and the other Transaction Documents and consummating the transactions contemplated hereby and thereby. In executing this Agreement and the other Transaction Documents to which it is a party, Intel is relying on its own investigation and on the provisions set forth herein and therein and not on any other statements, presentations, representations, warranties or assurances of any kind made by ST, FP, any of their representatives or any other Person. Intel acknowledges that (i) the representations and warranties of (A) ST contained in Section 3.2 hereof and (B) FP and FP Holdco contained in Section 3.3 hereof, constitute the sole and exclusive representations and warranties of each such Party to Intel in connection with this Agreement and the transactions contemplated hereby, and (ii) all other representations and warranties are specifically disclaimed and may not be relied upon or serve as a basis for a claim against ST or FP. INTEL ACKNOWLEDGES THAT ST DISCLAIMS ALL WARRANTIES OTHER THAN THOSE EXPRESSLY CONTAINED IN SECTION 3.2 AS TO THE ST TRANSFERRED ASSETS, WHETHER EXPRESS OR IMPLIED, ORAL OR

WRITTEN, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR WARRANTY FOR FITNESS FOR A PARTICULAR PURPOSE. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED EXPRESSLY IN SECTION 3.2, NEWCO WILL ACQUIRE THE ST TRANSFERRED ASSETS ON AN "AS IS, WHERE IS" BASIS. FROM AND AFTER THE CLOSING, INTEL SHALL HAVE NO RIGHTS OR REMEDIES FOR OR WITH RESPECT TO ANY BREACH BY ST OF ITS REPRESENTATIONS AND WARRANTIES SET FORTH IN SECTION 3.2(f) OF THIS AGREEMENT, AND INTEL SHALL HAVE NO RIGHTS OR REMEDIES FOR OR WITH RESPECT TO ANY BREACH OF ANY PROVISION OF THE SHARE PURCHASE AGREEMENT OR THE ST ASSET CONTRIBUTION AGREEMENT (INCLUDING THE REPRESENTATIONS, WARRANTIES AND INDEMNITIES SET FORTH IN SUCH AGREEMENTS); *PROVIDED, HOWEVER*, THAT NOTHING HEREIN SHALL AFFECT NEWCO'S RIGHTS AND REMEDIES FOR OR WITH RESPECT TO ANY BREACH OF SUCH AGREEMENTS.

3.2 ST Representations. Except as set forth in the ST Master Agreement Disclosure Letter, ST represents and warrants to Intel, FP and FP Holdco, as of the date of this Agreement, as follows:

(a) Existence and Good Standing. ST is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate power and authority required to carry on its business as now conducted and to own and operate its business as now owned and operated by it. ST is qualified to conduct business and is in good standing in each jurisdiction in which it conducts business other than such jurisdictions where the failure to be so qualified would not reasonably be expected to have an ST Material Adverse Effect.

(b) Authorization; Enforceability. ST has all requisite corporate power and authority to execute and deliver this Agreement and each of the Transaction Documents to which it is or will be a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by ST of this Agreement and each of the Transaction Documents to which ST is a party, and the performance by ST of its obligations contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action. This Agreement has been and, when executed at the Closing, the other Transaction Documents will have been, duly and validly executed and delivered by ST and, assuming the due execution and delivery of this Agreement and the other Transaction Documents to which it is a party by the other parties thereto, this Agreement constitutes, and as of the Closing, each of the Transaction Documents to which ST is a party will constitute, the legal, valid and binding agreement of ST, enforceable against ST in accordance with their respective terms, except to the extent (i) that their enforceability may be subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity or (ii) indemnification provisions contained in the Shareholders' Agreement may be limited by applicable securities laws.

(c) Governmental Authorization. Other than the ST Approvals, the execution, delivery and performance by ST of this Agreement and the other Transaction Documents to which it is a party, and the consummation by it of the transactions contemplated hereby and thereby, require no Governmental Approval.

(d) Non-Contravention; Consents.

(i) The execution, delivery and performance by ST of this Agreement and the other Transaction Documents to which ST is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (A) contravene or conflict with the articles of association, governance rules or other organizational documents of ST; (B) assuming receipt of the ST Approvals the Newco Approvals and the ST Contractual Consents, contravene or conflict with or constitute a material violation of any provision of any Applicable Law binding upon or applicable to ST, the ST Transferred Assets or the ST Transferred Entities; or (C) assuming receipt of the ST Approvals and of the ST Contractual Consents, (1) constitute a default under, give rise to any right of termination, cancellation, modification, acceleration of, or a loss of any benefit under any ST Contract, including the ST Transferred Contracts, (2) result in the creation or imposition of any Lien (other than Permitted Liens) on any ST Transferred Asset, or (3) constitute a breach, default or violation of any settlement agreement, judgment, injunction or decree, except in the case of clause (B) or (C), for matters that would not reasonably be expected to have an ST Material Adverse Effect (*provided* that in determining whether an ST Material Adverse Effect would result, any adverse effect otherwise excluded by clause (C) of the definition of "ST Material Adverse Effect" shall be taken into account).

(ii) The execution, delivery and performance by ST of this Agreement and the other Transaction Documents to which ST is a party, and the consummation of the transactions contemplated hereby and thereby, to the Knowledge of ST, do not and will not, as of the Closing Date: (A) contravene or conflict with the articles of association, joint venture agreement or other organizational or governing documents of the Hynix JV; or (B) constitute a default under, give rise to any right of termination, cancellation, modification, acceleration of, or a loss of any material benefit under, the Hynix JV Junior Credit Agreement or any other contract or agreement between ST or any Subsidiary of ST and the Hynix JV.

(e) Litigation. As of the date hereof, there is no Proceeding or to the Knowledge of ST, investigation pending or, to the Knowledge of ST, threatened in writing, by or against ST or any of ST's Subsidiaries seeking to prevent, enjoin, alter or delay the transactions contemplated by this Agreement or any of the other Transaction Documents or encumber the ST Transferred Interests.

(f) Incorporation by Reference of Additional Representations and Warranties. As of the date hereof (except that with respect to any representation and warranty that specifies another date, such representation and warranty shall be made as of such

specified date), subject to the exceptions set forth in the ST ATA Disclosure Letter, ST hereby represents and warrants that each of the representations and warranties set forth in Sections 3.1-3.24 of the ST Asset Contribution Agreement attached to Schedule 2.2 of the ST Master Agreement Disclosure Letter are true and correct. Upon the consummation of the Closing, the provisions of this Section 3.2(f) shall terminate and cease to be of any further force or effect, as if never made, and no action may be brought based on the same, whether for indemnification, breach of contract, tort or under any other legal theory.

(g) Reliance. ST has conducted such investigation and inspection of the Intel Transferred Assets, the Intel Transferred Liabilities, the Intel Business and the Intel Products that ST has deemed necessary or appropriate for the purpose of entering into this Agreement and the other Transaction Documents and consummating the transactions contemplated hereby and thereby. In executing this Agreement and the other Transaction Documents to which it is a party, ST is relying on its own investigation and on the provisions set forth herein and therein and not on any other statements, presentations, representations, warranties or assurances of any kind made by Intel, FP, any of their representatives or any other Person. Intel acknowledges that (i) the representations and warranties of (A) Intel contained in Section 3.1 hereof and (B) FP and FP Holdco contained in Section 3.3 hereof constitute the sole and exclusive representations and warranties of each such Party to ST in connection with this Agreement and the transactions contemplated hereby, and (ii) all other representations and warranties are specifically disclaimed and may not be relied upon or serve as a basis for a claim against Intel or FP. ST ACKNOWLEDGES THAT INTEL DISCLAIMS ALL WARRANTIES OTHER THAN THOSE EXPRESSLY CONTAINED IN SECTION 3.1 AS TO THE INTEL TRANSFERRED ASSETS, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR WARRANTY FOR FITNESS FOR A PARTICULAR PURPOSE. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED EXPRESSLY IN SECTION 3.1, NEWCO WILL ACQUIRE THE INTEL TRANSFERRED ASSETS ON AN "AS IS, WHERE IS" BASIS. FROM AND AFTER THE CLOSING, ST SHALL HAVE NO RIGHTS OR REMEDIES FOR OR WITH RESPECT TO ANY BREACH BY INTEL OF ITS REPRESENTATIONS AND WARRANTIES SET FORTH IN SECTION 3.1(f) OF THIS AGREEMENT, AND ST SHALL HAVE NO RIGHTS OR REMEDIES FOR OR WITH RESPECT TO ANY BREACH OF ANY PROVISION OF THE SHARE PURCHASE AGREEMENT OR THE INTEL ASSET TRANSFER AGREEMENT (INCLUDING THE REPRESENTATIONS, WARRANTIES AND INDEMNITIES SET FORTH IN SUCH AGREEMENTS); *PROVIDED, HOWEVER*, THAT NOTHING HEREIN SHALL AFFECT NEWCO'S RIGHTS AND REMEDIES FOR OR WITH RESPECT TO ANY BREACH OF SUCH AGREEMENTS.

3.3 FP and FP Holdco Representations. Each of FP and FP Holdco represents and warrants to Intel and ST, as of the date of this Agreement, as follows:

(a) Existence and Good Standing. FP is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and FP Holdco is a limited partnership duly organized, validly existing and in good standing

under the laws of its jurisdiction of organization and each has all power and authority required to carry on its business as now conducted and to own and operate its business as now owned and operated by it. Each of FP and FP Holdco is qualified to conduct business and is in good standing in each jurisdiction in which such qualification is required other than such jurisdictions where the failure to be so qualified would not reasonably be expected to have an FP Material Adverse Effect.

(b) Authorization; Enforceability. Each of FP and FP Holdco has all requisite power and authority to execute and deliver this Agreement and each of the Transaction Documents to which it is or will be a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each of FP and FP Holdco of this Agreement and each of the Transaction Documents to which FP or FP Holdco is a party, and the performance by each of FP and FP Holdco of its obligations contemplated hereby and thereby, have been duly and validly authorized by all necessary action. This Agreement has been and, when executed at the Closing, the other Transaction Documents will have been, duly and validly executed and delivered by each of FP and FP Holdco and, assuming the due execution and delivery of this Agreement and the other Transaction Documents to which it is a party by the other Parties thereto, this Agreement constitutes, and as of the Closing, each of the Transaction Documents to which each of FP and FP Holdco is a party will constitute, the legal, valid and binding agreement of each of FP and FP Holdco, enforceable against FP and FP Holdco in accordance with their respective terms, except to the extent that (i) their enforceability may be subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity or (ii) indemnification provisions contained in the Shareholders' Agreement may be limited by applicable securities laws.

(c) Governmental Authorization. Other than the Intel Approvals, the ST Approvals and compliance with any applicable Competition Laws, the execution, delivery and performance by each of FP and FP Holdco of this Agreement and the other Transaction Documents to which it is a party, and the consummation by it of the transactions contemplated hereby and thereby, require no Governmental Approval.

(d) Non-Contravention; Consents. The execution, delivery and performance by each of FP and FP Holdco of this Agreement and the other Transaction Documents to which each of FP and FP Holdco is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (i) contravene or conflict with the certificate of incorporation or bylaws of FP or the partnership agreement and other organizational documents of FP Holdco, (ii) assuming receipt of the Intel Approvals, the ST Approvals, the Newco Approvals and compliance with applicable Competition Laws, contravene or conflict with or constitute a material violation of any provision of any Applicable Law binding upon or applicable to FP or FP Holdco, or (iii) assuming receipt of the Intel Approvals, the ST Approvals, the Newco Approvals and compliance with applicable Competition Laws, contravene or constitute a default under any material agreement to which FP or FP Holdco is a party, except in the case of clause (ii) or (iii), for matters that would not reasonably be expected to have an FP Material Adverse Effect.

(e) Litigation. As of the date hereof, there is no Proceeding or to the Knowledge of FP or FP Holdco, investigation, pending or, to the Knowledge of FP or FP Holdco, threatened in writing, by or against FP or FP Holdco seeking to prevent, enjoin, alter or delay the transactions contemplated by this Agreement or any of the other Transaction Documents.

(f) Reliance. Each of FP and FP Holdco has conducted such investigation and inspection of the Intel Transferred Assets, the Intel Transferred Liabilities, the Intel Business, the Intel Products, the ST Transferred Assets, the ST Transferred Liabilities, the ST Business and the ST Products that FP and FP Holdco, respectively, has deemed necessary or appropriate for the purpose of entering into this Agreement and the other Transaction Documents and consummating the transactions contemplated hereby and thereby. In executing this Agreement and the other Transaction Documents to which it is a party, each of FP and FP Holdco is relying on its own investigation and on the provisions set forth herein and therein and not on any other statements, presentations, representations, warranties or assurances of any kind made by Intel, ST, their representatives or any other Person. Each of FP and FP Holdco acknowledges that (i) the representations and warranties of (A) Intel contained in Section 3.1 hereof and (B) ST contained in Section 3.2 hereof constitute the sole and exclusive representations and warranties of each such Party to FP and FP Holdco in connection with this Agreement and the transactions contemplated hereby, and (ii) all other representations and warranties are specifically disclaimed and may not be relied upon or serve as a basis for a claim against Intel or ST. EACH OF FP AND FP HOLDCO ACKNOWLEDGES THAT INTEL AND ST DISCLAIM ALL WARRANTIES OTHER THAN THOSE EXPRESSLY CONTAINED IN SECTION 3.1 AND SECTION 3.2, RESPECTIVELY, THE INTEL ASSET TRANSFER AGREEMENT AND THE ST ASSET CONTRIBUTION AGREEMENT AS TO THE INTEL TRANSFERRED ASSETS AND ST TRANSFERRED ASSETS, RESPECTIVELY, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR WARRANTY FOR FITNESS FOR A PARTICULAR PURPOSE. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED EXPRESSLY IN SECTION 3.1 AND SECTION 3.2, RESPECTIVELY, NEWCO WILL ACQUIRE THE INTEL TRANSFERRED ASSETS AND ST TRANSFERRED ASSETS, RESPECTIVELY, ON AN "AS IS, WHERE IS" BASIS. FROM AND AFTER THE CLOSING, NEITHER FP NOR FP HOLDCO SHALL HAVE ANY RIGHTS OR REMEDIES FOR OR WITH RESPECT TO ANY BREACH BY (I) INTEL OF ITS REPRESENTATIONS AND WARRANTIES SET FORTH IN SECTION 3.1(f) OF THIS AGREEMENT AND (II) ST OF ITS REPRESENTATIONS AND WARRANTIES SET FORTH IN SECTION 3.2(f) OF THIS AGREEMENT. NEITHER FP NOR FP HOLDCO SHALL HAVE ANY RIGHTS OR REMEDIES FOR OR WITH RESPECT TO ANY BREACH OF ANY PROVISION OF THE INTEL ASSET TRANSFER AGREEMENT OR THE ST ASSET CONTRIBUTION AGREEMENT (INCLUDING THE REPRESENTATIONS, WARRANTIES AND INDEMNITIES SET FORTH IN SUCH AGREEMENTS); *PROVIDED, HOWEVER*, THAT NOTHING HEREIN SHALL AFFECT NEWCO'S RIGHTS AND REMEDIES FOR OR WITH RESPECT TO ANY BREACH OF SUCH AGREEMENTS.

ARTICLE IV COVENANTS

4.1 Access to Information.

(a) Between the date hereof and the Closing, Intel agrees to provide FP and ST and their authorized representatives (including each of their attorneys and accountants and auditors) reasonable access to the offices and properties, employees and auditors of the Intel Business and the Intel Books and Records, upon reasonable prior notice, during normal business hours, under Intel's supervision and at ST or FP's expense, as applicable, in order to conduct a review of the Intel Transferred Assets and the Intel Business.

(b) Between the date hereof and the Closing, ST agrees to provide FP and Intel and their authorized representatives (including each of their attorneys and accountants and auditors) reasonable access to the offices and properties, employees and auditors of the ST Business and the ST Books and Records, upon reasonable prior notice, during normal business hours, under ST's supervision and at Intel or FP's expense, as applicable, in order to conduct a review of the ST Transferred Assets and the ST Business.

(c) Each of the Parties will hold, and will cause its representatives to hold, in confidence all documents and information furnished to it by or on behalf of another Party in connection with the transactions contemplated by this Agreement and the other Transaction Documents pursuant to the terms of the Confidentiality Agreement; *provided, however*, for the sake of clarification, that Intel and ST shall be permitted to respond to direct inquiries relating to the transaction from, and disclose the transaction immediately after the execution hereof to Intel Business Employees and ST Business Employees, respectively, and provided further that nothing herein shall prohibit any public announcement in accordance with Section 4.5 (Press Releases) hereof.

4.2 Exclusive Dealing. Prior to the earlier of the Closing or the termination of this Agreement, none of Intel, ST, or FP will, nor will any of them permit any of their respective Affiliates, officers, directors, agents or advisors to, directly or indirectly: (a) solicit, encourage, initiate or participate in any negotiations or discussions with respect to any possible debt or equity investment in the ST Business or the Intel Business or any possible sale, spin-off or other transfer of all or any material portion of the ST Business or the Intel Business (other than inventory sold in the ordinary course of business), whether by sale or transfer of assets, sale of stock, reorganization, merger or otherwise, other than in connection with the transactions contemplated by this Agreement and the other Transaction Documents including the Contemplated Financing (each such transaction described in this clause (a), a "Prohibited Transaction"); (b) provide or otherwise make available the corporate, legal or financial documents or information relating to the Intel Business, the ST Business or Newco or any analysis or summary thereof of Newco, Intel or ST or any of their respective Affiliates, to any Person who has expressed an interest in making a proposal to enter into any Prohibited Transaction or who could reasonably be expected to consider doing so; (c) assist or cooperate with any Person in making any proposal with respect to any Prohibited Transaction; or (d) enter into any Contract with any Person providing for any Prohibited Transaction. In the event that Intel, ST or FP or any of their respective Affiliates, officers, directors, agents or advisors shall

receive after the date hereof any offer or proposal with respect to any Prohibited Transaction, directly or indirectly, or any request for disclosure or access to any documents or information described in clause (b) above, such Party shall or shall cause its Affiliate, officer, director, agent or advisor to immediately inform the other Parties of such offer or proposal, the identity of the Person making such offer or proposal and the material terms thereof.

4.3 Reasonable Efforts. Each of Intel, ST, FP and FP Holdco will cooperate and use commercially reasonable efforts to take, or cause to be taken, all appropriate actions (and to make, or cause to be made, all filings and notifications necessary, proper or advisable under Applicable Law) to consummate and make effective the transactions contemplated by this Agreement and the Transaction Documents, including commercially reasonable efforts to satisfy all closing conditions and to obtain, as promptly as practicable, all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities and parties to contracts, as are necessary for the consummation of the transactions contemplated by this Agreement and the Transaction Documents to which it is a party.

4.4 Certain Consents and Filings; Further Assurances. Each Party agrees to execute and deliver, or cause to be executed and delivered, such other documents, certificates, agreements and other writings and to take, or cause to be taken, such other commercially reasonable actions as may be necessary or desirable in order to (a) consummate or implement expeditiously the transactions contemplated by this Agreement and the other Transaction Documents and (b) obtain from any Governmental Authorities and other Persons all consents, approvals, authorizations, qualifications and orders as are necessary for the consummation of the transactions contemplated by this Agreement and the Transaction Documents and to promptly make all necessary filings and notifications, and to supply as promptly as practicable any additional information or documentary material that may be reasonably requested to comply with the HSR Act or any applicable Competition Law. Subject to Applicable Laws, and as necessary to address reasonable privilege or confidentiality concerns, prior to the making or submission of any analysis, appearance, presentation, memorandum, brief, argument, opinion or proposal by or on behalf of any Party in connection with Proceedings under or relating to the HSR Act or any other applicable Competition Law, each of Intel, ST, FP and FP Holdco will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any such analyses, appearances, presentations, letters, white papers, memoranda, briefs, arguments, opinions or proposals. In this regard but without limitation, each Party hereto shall promptly inform the other of any material communication between such Party and the Federal Trade Commission, the Antitrust Division of the United States Department of Justice, or any other federal, foreign or state antitrust or competition Governmental Authority regarding the transactions contemplated by this Agreement or the Transaction Documents. Nothing in this Agreement or any of the other Transaction Documents, however, shall require or be construed to require any Party hereto, in order to obtain the consent or successful termination of any review of any such Governmental Authority regarding the transactions contemplated by this Agreement, to (x) sell or hold separate, or agree to sell or hold separate, before or after the Closing Date, any assets or businesses or any interests in any assets or businesses of such Party or any of its Affiliates (or to consent to any sale, or agreement to sell, any assets or businesses, or any interests in any assets or businesses), or to agree to any change in or restriction on the operation by such Party of any assets or businesses or (y) enter into any agreement or be bound by any obligation concerning the benefits to such Party of the transactions contemplated by this

Agreement. Each party shall have responsibility for its respective filing fees associated with the filings under the HSR Act and any other filings required under the Competition Laws of any other jurisdictions in connection with the transactions contemplated by this Agreement or any of the other Transaction Documents.

4.5 Press Releases. None of the Parties nor any of their respective Affiliates, officers, directors or securityholders shall issue any press release or otherwise make any public statement with respect to this Agreement, any of the Transaction Documents or any of the transactions contemplated hereby or thereby without the prior written consent of each of the other Parties, except as may be required by Applicable Law, or by the rules and regulations of, or pursuant to any agreement with, the Nasdaq National Market, the New York Stock Exchange or any other U.S. or non-U.S. securities exchange on which any securities of such Party are then listed or quoted. If any Party determines, with the advice of counsel, that it is required by Applicable Law to publicly disclose this Agreement, any of the Transaction Documents or any of the transactions contemplated by this Agreement or any of the other Transaction Documents, it shall, a reasonable time before making any public disclosure, consult with the other Parties regarding such disclosure and seek confidential treatment for such information to be so disclosed, as may be reasonably requested by any other Party. If any Party determines to make any public statements with respect to this Agreement, any of the Transaction Documents or any of the transactions contemplated hereby or thereby in accordance with the terms of this Agreement, then each other Party shall be entitled to make a public statement following such public statement; *provided* it coordinates the timing thereof with each other Party and obtains such other Party's prior written approval of the contents thereof, not to be unreasonably withheld or delayed. The Parties agree to announce the execution of this Agreement to the employees, customers, vendors and strategic partners of the Intel Business and the ST Business at such time and in such form as is mutually agreed upon by all of the Parties. Any disclosure of the existence or terms of this Agreement, any of the Transaction Documents or any of the transactions contemplated hereby or thereby to any person from whom consent shall be required, to whom notice shall be provided or from whom waiver shall be sought in order to comply with the requirements of this Agreement or any of the other Transaction Documents shall be made at such time and in such form and with such content as is mutually agreed upon by all of the Parties.

4.6 Certain Deliveries and Notices. From the date of this Agreement through the Closing Date, each Party shall promptly inform in writing the other Parties of (a) any event or occurrence that would reasonably be expected to have a material adverse effect on its ability to perform its or their obligations under any of the Transaction Documents, and (b) any breach that cannot or will not be cured by the time of the Closing or failure to satisfy any condition or covenant contained in this Agreement or in any other Transaction Document by such Party, if such failure cannot or will not be cured by the time of the Closing.

4.7 Non-Solicitation of Employees.

(a) Prior to the Closing and until the earlier of the date that is two years following the Closing Date or two years following termination of this Agreement, without the prior written consent of Intel, ST shall not, nor shall it permit any of its

Subsidiaries to, directly or indirectly, recruit or solicit any employee of Intel or any of its Subsidiaries identified on Schedule 4.7(a) to the Intel Master Agreement Disclosure Letter (collectively, for purposes of this Agreement, the “Intel Restricted Employees”) to leave his or her employment with Intel or such Subsidiary.

(b) Prior to the Closing and until the earlier of the date that is two years following the Closing Date or the date that is two years following termination of this Agreement, without the prior written consent of ST, Intel shall not, nor shall it permit any of its Subsidiaries to, directly or indirectly, recruit or solicit any employee of ST or any of its Subsidiaries identified on Schedule 4.7(b) to the ST Master Agreement Disclosure Letter (collectively, for purposes of this Agreement, the “ST Restricted Employees”) to leave his or her employment with ST or any such Subsidiary.

(c) Neither the placement of employment advertisements or other general solicitation for employees not specifically targeted to any Restricted Employee by any means, including through the use of hiring agencies or through employees of each Party who are unaware of the prohibitions against the solicitation of the Restricted Employees shall be a recruitment or solicitation prohibited by this Section 4.7; *provided* that any such hiring agencies and employees are not instructed by persons who knew about the prohibition on the solicitation of the Restricted Employees to solicit for hire Restricted Employees. If a Party (or any Subsidiary thereof) inadvertently violates the prohibition against the solicitation of Restricted Employees, such Party shall (or it shall cause its applicable Subsidiary to), as soon as it is aware it has committed a violation of this section, notify the other Party who formerly employed such Restricted Employee and either withdraw any offer to the solicited individual or ensure that such person, if hired, is restricted from working on, consulting on, or having any knowledge with respect to matters which are designated by the Party who formerly employed such employee in its reasonable discretion as competitively sensitive matters, in which event such inadvertent action shall not be deemed to be a breach of this Section 4.7 so long as there is no repetitive pattern of such actions.

4.8 Tax Matters.

(a) Each Party hereto shall cooperate as reasonably requested by any other Party and at the requesting Party’s sole cost, liability and expense, to maximize the tax efficiency of the transactions contemplated by this Agreement and the other Transaction Documents and the structure of each of Intel’s (and/or its Affiliates), ST’s (and/or its Affiliates) and FP’s (or FP Holdco’s) investment in Newco, subject to the terms of the Shareholders’ Agreement. Requests made pursuant to this Section 4.8(a) shall not be deemed to be reasonable if they result in costs, liabilities and expense to any non-requesting Party (other than in insignificant amounts) that are not determinable with accuracy at the time of the request or that involve costs (other than in insignificant amounts) that will be incurred by any non-requesting Party in years following the year the first of such actions (or the first in a series of related actions) is requested.

(b) Upon the occurrence of a Consolidation, the successor to an entity that merges out of existence or liquidates in connection with such Consolidation shall succeed to all of such entity’s rights and obligations under the Transaction Documents, and shall

execute such joinders and other documents reasonably requested by the other Shareholders to evidence the same.

4.9 Operation of the Intel Business Prior to the Closing. Between the date of this Agreement and the Closing Date, except as contemplated by this Agreement or any other Transaction Document or as set forth in Schedule 4.9 of the Intel Master Agreement Disclosure Letter, or unless ST and FP shall otherwise agree in writing (which consent shall not be unreasonably withheld or delayed), Intel shall, and shall cause its Subsidiaries to, (x) operate the Intel Business in the ordinary course of business in all material respects and (y) continue to make capital expenditures which are, in the aggregate, consistent in all material respects with the Intel Business Capital Expenditures Plan. Between the date of this Agreement and the Closing Date, except as otherwise agreed in this Agreement or any other Transaction Document or as set forth in Schedule 4.9 of the Intel Master Agreement Disclosure Letter, unless ST and FP shall otherwise consent in writing (which consent shall not be unreasonably withheld or delayed), Intel shall, and shall cause its Subsidiaries to:

(a) pay the material debts and Taxes of the Intel Business and the Intel Transferred Entities in the ordinary course of business;

(b) use commercially reasonable efforts to (i) maintain the tangible fixed assets included in the Intel Transferred Assets as a whole in all material respects in at least as good condition as they are being maintained on the date hereof, subject to normal wear and tear, (ii) maintain in effect all material Permits and Governmental Approvals of the Intel Business, (iii) not terminate, other than for cause, nor materially decrease the compensation of, the key executives of the Intel Business, and (iv) maintain satisfactory relationships with the customers, partners, suppliers and others having material business relationships with the Intel Business;

(c) not sell, assign, or transfer any of the Intel Transferred Assets, or license any of the Intel Transferred Intellectual Property, except, in each case, in the ordinary course of business and except for the transfer of Intel Transferred Assets to Intel Transferred Entities as contemplated or permitted hereby, and not permit any of the Intel Transferred Assets to be subjected (whether by action or omission) to any Lien, other than the Permitted Liens;

(d) not sell, assign, or transfer any of the Intel Transferred Interests and not permit any of the Intel Transferred Interests to be subjected to any Share Encumbrances;

(e) not fail to pay or discharge when due any Liability of which the failure to pay or discharge would cause any material damage or loss to the Intel Transferred Assets and the Intel Transferred Entities, taken as a whole;

(f) not waive or amend any material term of or terminate any material Intel Transferred Contract or relinquish any material rights thereunder, other than in the ordinary course of business;

(g) not make any material change in its accounting principles, methods or practices relating to the Intel Business, and maintain the Intel Books and Records in the

usual, regular and ordinary manner on a basis consistent with prior years, except, in either case, for any change required by a change in GAAP, a change in the accounting practices of Intel generally, or a change resulting from the preparation of the Intel Business Audited Financial Statements;

(h) not grant to any Intel Business Employee any increase in compensation or in severance or termination pay, grant any severance or termination pay (or amend in any material respect any existing arrangement for the foregoing), or enter into any employment deferred compensation or similar agreement with any such employee, except as may be required under Applicable Law, any termination policy of Intel (whether existing as of the date hereof or adopted hereafter) or any employment or termination agreement in effect on the date hereof or in the ordinary course of business, or establish, adopt or amend (except as required by Applicable Law) any collective bargaining, bonus, profit-sharing, thrift, pension, retirement, deferred compensation, compensation, stock option, restricted stock or other benefit plan or arrangement covering any director, officer or employee of the Intel Business, that is material in the aggregate to the Intel Business;

(i) not enter into or renew (other than automatic renewal) any Intel Transferred Contracts that exclusively relate to the Intel Business that provide for payment obligations (whether by Intel or any of its Subsidiaries or the counterparty thereto) that are material, in the aggregate, to the Intel Business, except for those described the Intel Business Capital Expenditures Plan;

(j) not make any acquisition, directly or indirectly, of all or substantially all of the assets of any business or equity interests in any Person or any business, whether by merger, consolidation or otherwise, that relates to the Intel Business;

(k) not incur any additional Intel Transferred Liabilities for capital expenditures that are material, in the aggregate, to the Intel Business, except for those described in the Intel Business Capital Expenditures Plan;

(l) not make any loans or advances to or capital contributions or investments in, any other Person with respect to the Intel Business that are material in the aggregate to the Intel Business, other than in the ordinary course of business or as contemplated by the Transaction Documents;

(m) not agree to any exclusivity, non-competition or similar provision or covenant restricting the Intel Business from competing in any line of business or with any Person or in any location or engaging in any activity or business (including with respect to the development, manufacture, marketing or distribution of their respective products or services), or pursuant to which any benefit or right is required to be given or lost as a result of so competing or engaging, the effect of which would be binding on Newco or any of its Affiliates after the Closing Date;

(n) not settle, or make a binding offer to settle, any material Claim or Proceeding relating to the Intel Business unless such settlement would not encumber any assets of Newco, impose any obligation or other Liability on Newco, impose any

restriction that would apply to Newco or the conduct of the Newco Business or include any acknowledgment of validity, enforceability, infringement or Claim interpretation with regard to any of the Intellectual Property relating to such Claim or Proceeding;

(o) not engage in (i) any trade loading practices or any other promotional sales or discount activity with any customers or distributors with any intent of accelerating to prior fiscal quarters (including the current fiscal quarter) sales to the trade or otherwise than would otherwise reasonably be expected to occur in subsequent fiscal quarters, or (ii) any other promotional sales or discount activity, in each case, in a manner outside the ordinary course of business, and not significantly inconsistent with past practices;

(p) maintain sales incentive plans and programs and sales quotas or incentives for Intel Products, in each case, in the ordinary course of business, and not significantly inconsistent with past practices;

(q) use commercially reasonable efforts to prevent any representation or warranty of Intel hereunder or under the Intel Asset Transfer Agreement from being inaccurate in any material respect at the Closing; *provided, however*, that this covenant shall not be satisfied solely by virtue of any amendment of any schedule to the Intel ATA Disclosure Letter; and

(r) not enter into any agreement to take any action that would violate in any material respect any of the foregoing.

For purposes of Sections 4.9(a)-(f), and (i), all references therein to “Intel Transferred Assets,” “Intel Transferred Entities,” “Intel Transferred Interests,” “Intel Transferred Intellectual Property,” and “Intel Transferred Contracts,” shall be deemed to mean all applicable assets or properties owned by Intel or any of its Subsidiaries prior to the Closing which would be included in the applicable section of the Intel ATA Disclosure Letter on the Determination Date if such asset or property was owned by Intel or any of its Subsidiaries on the Determination Date.

4.10 Operation of the ST Business Prior to the Closing. Between the date of this Agreement and the Closing Date, except as contemplated by this Agreement or any other Transaction Document or as set forth in Schedule 4.10 of the ST Master Agreement Disclosure Letter, or unless Intel and FP shall otherwise agree in writing (which consent shall not be unreasonably withheld or delayed), ST shall, and shall cause its Subsidiaries to, (x) operate the ST Business in the ordinary course of business in all material respects (y) continue to make capital expenditures which are, in the aggregate, consistent in all material respects with the ST Business Capital Expenditures Plan. Between the date of this Agreement and the Closing Date, except as otherwise agreed in this Agreement or any other Transaction Document or as set forth in Schedule 4.10 of the ST Master Agreement Disclosure Letter, unless Intel and FP shall otherwise consent in writing (which consent shall not be unreasonably withheld or delayed), ST shall, and shall cause its Subsidiaries to:

(a) pay the material debts and Taxes of the ST Business and the ST Transferred Entities in the ordinary course of business;

(b) use commercially reasonable efforts to (i) maintain the tangible fixed assets included in the ST Transferred Assets as a whole in all material respects in at least as good condition as they are being maintained on the date hereof, subject to normal wear and tear, (ii) maintain in effect all material Permits and Governmental Approvals of the ST Business, (iii) not terminate, other than for cause, nor materially decrease the compensation of, the key executives of the ST Business, and (iv) maintain satisfactory relationships with the customers, partners, suppliers and others having material business relationships with the ST Business;

(c) not sell, assign, or transfer any of the ST Transferred Assets, or license any of the ST Transferred Intellectual Property, except, in each case, in the ordinary course of business and except for the transfer of ST Transferred Assets to ST Transferred Entities as contemplated or permitted hereby, and not permit any of the ST Transferred Assets to be subjected (whether by action or omission) to any Lien, other than the Permitted Liens;

(d) not sell, assign, or transfer any of the ST Transferred Interests and not permit any of the ST Transferred Interests to be subjected to any Share Encumbrances;

(e) not fail to pay or discharge when due any Liability of which the failure to pay or discharge would cause any material damage or loss to the ST Transferred Assets and the ST Transferred Entities, taken as a whole;

(f) not waive or amend any material term of or terminate any material ST Transferred Contract or relinquish any material rights thereunder, other than in the ordinary course of business;

(g) not make any material change in its accounting principles, methods or practices relating to the ST Business, and maintain the ST Books and Records in the usual, regular and ordinary manner on a basis consistent with prior years, except, in either case, for any change required by a change in GAAP, a change in the accounting practices of ST generally, or a change resulting from the preparation of the ST Business Audited Financial Statements;

(h) not grant to any ST Business Employee any increase in compensation or in severance or termination pay, grant any severance or termination pay (or amend in any material respect any existing arrangement for the foregoing), or enter into any employment deferred compensation or similar agreement with any such employee, except as may be required under Applicable Law, any termination policy of ST (whether existing as of the date hereof or adopted hereafter) or any employment or termination agreement in effect on the date hereof or in the ordinary course of business, or establish, adopt or amend (except as required by Applicable Law) any collective bargaining, bonus, profit-sharing, thrift, pension, retirement, deferred compensation, compensation, stock option, restricted stock or other benefit plan or arrangement covering any director, officer or employee of the ST Business, that is material in the aggregate to the ST Business;

(i) not enter into or renew (other than automatic renewal) any ST Transferred Contracts that exclusively relate to the ST Business that provides for payment obligations

(whether by ST or any of its Subsidiaries or the counterparty thereto) that are material, in the aggregate, to the ST Business, except for those described the ST Business Capital Expenditures Plan;

(j) not make any acquisition, directly or indirectly, of all or substantially all of the assets of any business or equity interests in any Person or business, whether by merger, consolidation or otherwise, that relates to the ST Business;

(k) not incur any additional ST Transferred Liabilities for capital expenditures that are material, in the aggregate, to the ST Business, except for those described in the ST Business Capital Expenditures Plan;

(l) not make any loans or advances to or capital contributions or investments in, any other Person with respect to the ST Business that are material in the aggregate to the ST Business, other than in the ordinary course of business or as contemplated by the Transaction Documents;

(m) not agree to any exclusivity, non-competition or similar provision or covenant restricting the ST Business from competing in any line of business or with any Person or in any location or engaging in any activity or business (including with respect to the development, manufacture, marketing or distribution of their respective products or services), or pursuant to which any benefit or right is required to be given or lost as a result of so competing or engaging, the effect of which would be binding on Newco or any of its Affiliates after the Closing Date;

(n) not settle, or make any binding offer to settle, any material Claim or Proceeding relating to the ST Business unless such settlement would not encumber any assets of Newco, impose any obligation or other Liability on Newco, impose any restriction that would apply to Newco or the conduct of the Newco Business or include any acknowledgment of validity, enforceability, infringement, or Claim interpretation with regard to any of the Intellectual Property relating to such Claim or Proceeding;

(o) not engage in (i) any trade loading practices or any other promotional sales or discount activity with any customers or distributors with any intent of accelerating to prior fiscal quarters (including the current fiscal quarter) sales to the trade or otherwise than would otherwise reasonably be expected to occur in subsequent fiscal quarters, (ii) any other promotional sales or discount activity, (iii) any practice which would have the effect of accelerating to the period prior to the Closing collections of receivables of any ST Transferred Entity that would otherwise be reasonably expected (based on past practice) to be made after the Closing, or (iv) any practice which would have the effect of postponing to the period after the Closing payments by any ST Transferred Entity that would otherwise be reasonably expected (based on past practice) to be made in the period prior to the Closing, in each case, in a manner outside the ordinary course of business, and not significantly inconsistent with past practices;

(p) maintain sales incentive plans and programs and sales quotas or incentives for ST Products, in each case, in the ordinary course of business, and not significantly inconsistent with past practices;

(q) use commercially reasonable efforts to prevent any representation or warranty of ST hereunder or under the ST Asset Contribution Agreement from being inaccurate in any material respect at the Closing; *provided, however*, that this covenant shall not be satisfied solely by virtue of any amendment of any schedule to the ST ACA Disclosure Letter; and

(r) not enter into any agreement to take any action that would violate in any material respect any of the foregoing.

For purposes of Sections 4.10(a)-(f), and (i), all references therein to “ST Transferred Assets,” “ST Transferred Entities,” “ST Transferred Interests,” “ST Transferred Intellectual Property,” and “ST Transferred Contracts,” shall be deemed to mean all applicable assets or properties owned by ST or any of its Subsidiaries prior to the Closing which would be included in the applicable section of the ST ATA Disclosure Letter on the Determination Date if such asset or property was owned by ST or any of its Subsidiaries on the Determination Date.

4.11 Employee Matters.

(a) Employment Offers. Subject to Applicable Law, within 10 days following Newco’s formation pursuant to Section 4.16 (Newco Formation and Preparation), or such other period of time after the date hereof as may be reasonably agreed by Newco, Intel, ST and FP, Newco may make offers of employment to Intel Business Employees (other than any Intel Excluded Employees) and ST Business Employees (other than any ST Excluded Employees), to be effective as of the Closing or on such later date specified in the offer as may reasonably be agreed by Newco, Intel, ST and FP, provided that to the extent permitted by Applicable Law, the offers to any inactive Intel Business Employee or ST Business Employee shall be effective on the date such Business Employee returns to active employment. Notwithstanding the foregoing, ST Designated Employees (to the extent employed by ST immediately prior to the Closing) shall automatically transfer to Newco on the Closing (or if such ST Designated Employee is inactive, at such time as specified by Applicable Law). Schedule 4.11(a) of the ST Master Agreement Disclosure Letter sets forth the ST Designated Employees. Notwithstanding anything in this Agreement to the contrary, in no event shall the acceptance of employment by any Intel Business Employee or ST Business Employee be a condition to the Closing. The offers of employment for each such Intel Business Employee (other than Intel Excluded Employees) and ST Business Employee (other than ST Excluded Employees) will (i) be subject to requirements of Applicable Law for the jurisdiction in which the Intel Business Employee or ST Business Employee is located and include employment terms reasonably determined by Newco, and (ii) supersede, to the extent permitted by Applicable Law any prior agreements regarding the terms and conditions of employment with such Intel Business Employee or ST Business Employee as in effect prior to the Closing Date; *provided, however*, that in no event shall any prior agreement with respect to Intellectual Property be superseded, except that unless otherwise agreed by Intel and Newco or ST

and Newco, as the case may be, all Intel Transferred Employees and ST Transferred Employees shall be permitted to disclose to Newco all information in their possession or otherwise known by them which is directly related to the Intel Business or ST Business, as applicable, and not related to Patents or Confidential Information of Intel or ST, respectively, in each case, to the extent not an Intel Transferred Asset or ST Transferred Asset. As of the Closing Date, the Intel Transferred Entities shall employ only Intel Transferred Employees, and the ST Transferred Entities shall employ only ST Transferred Employees.

(b) Excluded Employees; Allocated Positions. Prior to the Closing, the Parties shall cooperate in good faith, and in accordance with the provisions set forth in Schedule 4.11(b) of each of the Intel Master Agreement Disclosure Schedule and the ST Master Agreement Disclosure Schedule, to (i) identify those Intel Business Employees to whom an employment offer shall not be made pursuant to Section 4.11(a) (collectively, the “Intel Excluded Employees”) and those ST Business Employees to whom an employment offer shall not be made pursuant to Section 4.11(a) (collectively, the “ST Excluded Employees”), (ii) identify such other employees of Intel and ST who shall be offered Newco Allocated Positions and (iii) avoid any transfer of employees to Newco or any of its Subsidiaries in excess of the number of employees reasonably necessary to operate the Newco Business at the Closing.

(c) Executive Agreements. Intel, ST, FP, and FP Holdco agree to recommend to Newco that, within 10 days following the formation of Newco, Newco should (i) negotiate in good faith offers of employment with the individuals identified in Schedule 4.11(c) of each of the Intel Master Agreement Disclosure Letter and ST Master Agreement Disclosure Letter for the positions identified on such Schedule; and (ii) adopt and execute employment and severance agreements with such individuals in substantially the forms attached to Schedule 4.11(c) to each of the Master Agreement Disclosure Letters, to be effective on the Closing Date as of the Effective Time.

(d) Employee Information and Access. Each of Intel and ST agrees to provide to each other and to FP and Newco certain general information concerning their respective compensation and benefit programs and specific information relating to individual Business Employees, subject to Applicable Law and, to the extent required, any such employee’s proper consent, solely for the purpose of Newco formulating offers of employment to such employees; *provided, however*, that neither Intel nor ST will make personnel records available for inspection or copying except with respect to Intel Transferred Employees who are employed by an Intel Transferred Entity as of the Closing Date and ST Transferred Employees who are employed by an ST Transferred Entity as of the Closing Date.

(e) Equity Plan. The Parties shall cause Newco to implement the Equity Plan at or prior to the Closing.

4.12 Additions to and Modifications of Schedules.

(a) If on any date on or prior to the date two Business Days prior to the Closing Date (the “Determination Date”), any of the information provided by Intel in any of the Specified Intel Schedules or by ST in any of the Specified ST Schedules or by Newco in any of the Specified Newco Schedules, as the case may be, is not true, accurate and complete in all material respects on and as of such date, the Party that provided such schedule shall be entitled to amend such schedule to make additions to or modifications of such schedule necessary to make the information set forth therein true, accurate and complete in all material respects and shall promptly deliver such amended schedule to the other Party, and such schedule shall be deemed amended to reflect such additions and modifications for all purposes. If any of the Specified Intel Representations made by Intel, the Specified ST Representations made by ST, or the Specified Newco Representations made by Newco, as the case may be, would not be true, accurate and complete in all material respects on and as of the Closing Date unless additional information with respect thereto were set forth in a new schedule not previously included in the applicable Disclosure Letter, such Party shall be entitled to amend such Disclosure Letter to add such new schedule, and shall promptly deliver such new schedule to the other Party, which schedule shall thereupon be deemed to be a part of such Disclosure Letter for all purposes.

(b) On the Determination Date, each of Intel and ST may, but shall not be obligated to, (i) amend and deliver to Newco any schedule to the Intel ATA Disclosure Letter or ST ACA Disclosure Letter, as applicable, upon which any Intel Transferred Assets or ST Transferred Assets described in Section 2.1 (and to the extent of such amendments, any Liabilities associated with such Intel Transferred Assets or ST Transferred Assets that would be Intel Transferred Liabilities or ST Transferred Liabilities under Section 2.3 of the Intel Asset Transition Agreement or ST Asset Contribution Agreement, as the case may be, including Liabilities under any Intel Transferred Contract or ST Transferred Contract included in such amendment, shall be Intel Transferred Liabilities or ST Transferred Liabilities, as applicable) of each of the Intel Asset Transfer Agreement and the ST Asset Contribution Agreement are listed or identified, and (ii) deliver any such new schedule to the Intel ATA Disclosure Letter or ST ACA Disclosure Letter, as applicable, upon which any Intel Transferred Assets or ST Transferred Assets described in Section 2.1 (and to the extent of such amendments, any Liabilities associated with such Intel Transferred Assets or ST Transferred Assets that would be Intel Transferred Liabilities or ST Transferred Liabilities under Section 2.3 of the Intel Asset Transition Agreement or ST Asset Contribution Agreement, as the case may be, including Liabilities under any Intel Transferred Contract or ST Transferred Contract included in such amendment, shall be Intel Transferred Liabilities or ST Transferred Liabilities, as applicable) of each of the Intel Asset Transfer Agreement and the ST Asset Contribution Agreement are listed or identified, if Intel or ST, as the case may be, in its sole discretion, determines that such amendments will provide greater assurances that the representations made by Intel in Section 3.17 (Intel Transferred Assets) of the Intel Asset Transfer Agreement and by ST in Section 3.17 (ST Transferred Assets) of the ST Asset Contribution Agreement, respectively, are accurate on the Closing Date, or in order that each such schedule shall more accurately reflect the

removal of any assets or Liabilities on any such schedule which have, in the ordinary course of the Intel Business or the ST Business, as the case may be, ceased to exist or which have been disposed of or extinguished by the Intel Business or the ST Business in accordance with Section 4.9 and Section 4.10, respectively, as applicable, in the ordinary course of business between the date hereof (or, if such schedule was prepared as of an earlier date, such earlier date) and the Determination Date.

(c) On or within 30 days after the Closing Date, each of Intel and ST may (i) further amend and deliver to Newco any schedule to the Intel ATA Disclosure Letter or ST ACA Disclosure Letter, as applicable, upon which any Intel Transferred Assets or ST Transferred Assets described in Section 2.1 (and to the extent of such amendments, any Liabilities associated with such Intel Transferred Assets or ST Transferred Assets that would be Intel Transferred Liabilities or ST Transferred Liabilities under Section 2.3 of the Intel Asset Transition Agreement or ST Asset Contribution Agreement, as the case may be, including Liabilities under any Intel Transferred Contract or ST Transferred Contract included in such amendment, shall be Intel Transferred Liabilities or ST Transferred Liabilities, as applicable) of each of the Intel Asset Transfer Agreement and the ST Asset Contribution Agreement are listed or identified, and (ii) deliver any such new schedule to the Intel ATA Disclosure Letter or ST ACA Disclosure Letter, as applicable, upon which any Intel Transferred Assets or ST Transferred Assets described in Section 2.1 (and to the extent of such amendments, any Liabilities associated with such Intel Transferred Assets or ST Transferred Assets that would be Intel Transferred Liabilities or ST Transferred Liabilities under Section 2.3 of the Intel Asset Transition Agreement or ST Asset Contribution Agreement, as the case may be, including Liabilities under any Intel Transferred Contract or ST Transferred Contract included in such amendment, shall be Intel Transferred Liabilities or ST Transferred Liabilities, as applicable) of each of the Intel Asset Transfer Agreement and the ST Asset Contribution Agreement are listed or identified, if Intel or ST, as the case may be, in its sole discretion, determines that such amendments will provide greater assurances that the representations made by Intel in Section 3.17 (Intel Transferred Assets) of the Intel Asset Transfer Agreement and by ST in Section 3.17 (ST Transferred Assets) of the ST Asset Contribution Agreement, respectively, are accurate as of the Closing Date, or in order that, each such schedule shall more accurately reflect the removal of any assets or Liabilities on any such schedule which have, in the ordinary course of the Intel Business or the ST Business, as the case may be, ceased to exist or which have been disposed of or extinguished by the Intel Business or the ST Business, as applicable, in the ordinary course of business between the Determination Date (or, if such schedule was prepared as of an earlier date, such earlier date) and the Closing Date in accordance with Section 4.9 and Section 4.10, respectively.

(d) For any additions or modifications made by a Party (i) to correct inaccuracies of the Specified Intel Representations or Specified ST Representations, as the case may be (including those representations and warranties which are expressed with respect to a date prior to the date hereof) for facts, events or circumstances occurring prior to or existing on and as of the date hereof, and, in the case of a representation or warranty made to the Knowledge of a Party, of which such Party had Knowledge on and as of the date hereof, (ii) to reflect any facts, events or circumstances which resulted from

a breach of Section 4.9 or Section 4.10 hereof, as applicable, or (iii) to update, correct or otherwise modify any of the representations set forth in Section 3.2 (Authorization and Enforceability), Section 3.4 (Non-contravention), Section 3.7 (Litigation), Section 3.9 (Compliance with Applicable Laws), Section 3.10 (Tax Matters), Section 3.11 (Intellectual Property), Section 3.13 (Financial Information), Section 3.14 (Absence of Certain Changes), Section 3.17 (Intel Transferred Assets or ST Transferred Assets, as applicable), Section 3.20 (Inventories), Section 3.21 (Advisory Fees), Section 3.22 (Transferred Entities and Transferred Interests) and Section 3.23 (Investment Representations) of the Intel Asset Transfer Agreement or ST Asset Contribution Agreement, then in each such case, Newco shall be entitled to indemnification therefor pursuant to, and subject to the limitations set forth in, Article VI of the Intel Asset Transfer Agreement or ST Asset Contribution Agreement, as applicable, to the same extent as if such additions and modifications had not been made.

(e) Notwithstanding anything in this Agreement to the contrary, any addition or modification to the Specified Intel Schedules and/or the Specified ST Schedules shall be disregarded for purposes of determining whether (i) the conditions set forth in Section 5.1(a) (Performance by ST) shall have been satisfied in respect of the representations and warranties set forth in Section 3.14(i) (Absence of Certain Changes) of the ST Asset Contribution Agreement, (ii) the conditions set forth in Section 5.2(a) (Performance by Intel) shall have been satisfied in respect of the representations and warranties set forth in Section 3.14(i) (Absence of Certain Changes) of the Intel Asset Transfer Agreement, and (iii) the conditions set forth in Section 5.3(a) (Performance by Intel) and Section 5.3(b) (Performance by ST) shall have been satisfied in respect of the representations and warranties set forth in Section 3.14(i) of the ST Asset Contribution Agreement or Section 3.14(i) of the Intel Asset Transfer Agreement.

(f) Other than as set forth in Section 4.12(a), (b), (c), and (d) without the consent of the other Party or Parties, as applicable, no Party may make any changes, supplements, amendments or modifications to any Disclosure Letter with respect to any fact, event or circumstance occurring after the date hereof.

4.13 Third Party Appraisal and Allocation; Dutch Auditors.

(a) As soon as practicable but no later than 20 days following the date hereof, ST shall identify to Intel three “internationally-recognized” firms, at least two of which are “Big 4” firms reasonably believed not to have a conflict of interest; and (b) as soon as reasonably practicable, but no later than 10 days after the receipt of the names, Intel, in its sole discretion, shall select one of the firms (the “Third Party Appraisal Firm”) for each of Intel and ST to retain to perform the Third Party Appraisals.

(b) Intel and ST shall each select an office of the Third Party Appraisal Firm that will jointly: (i) value Newco’s net assets; and (ii) allocate the value of Newco’s net assets to Newco’s individual assets and liabilities, in accordance with GAAP, which allocation shall become Newco’s opening balance sheet.

(c) Each Party agrees to pursue and timely obtain, or to cause Newco or its Affiliates to pursue and timely obtain, such auditor's certificates pursuant to article 2.204b and 2.204c (as applicable) of the Dutch Civil Code as are required to give effect to the transactions contemplated in this Agreement and the other Transaction Documents.

4.14 Notices of Certain Intel Events. Intel shall promptly notify ST and FP of:

(a) any notice or other communication from any Person alleging the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement or the Intel Asset Transfer Agreement to the extent such consent would have been required to have been disclosed on Schedule 3.8(b) of the Intel ATA Disclosure Letter;

(b) any notice or other communication from any Governmental Authority regarding any material Governmental Approval in connection with the transactions contemplated by this Agreement;

(c) any Claims, investigations or Proceedings commenced or, to its Knowledge, threatened against, relating to or involving or otherwise affecting Intel or the Intel Business that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 3.7 (Litigation) of the Intel Asset Transfer Agreement or that challenge or in any manner seek to prohibit the transactions contemplated hereby or the consummation of the Closing; and

(d) any damage, destruction or other casualty loss that is material to the Intel Transferred Assets, taken as a whole;

provided, however, that the delivery of any notice pursuant to this Section 4.14 shall not limit or otherwise affect the remedies available to Newco under the Intel Asset Transfer Agreement.

4.15 Notices of Certain ST Events. ST shall promptly notify Intel and FP of:

(a) any notice or other communication from any Person alleging the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement or the ST Asset Contribution Agreement to the extent such consent would have been required to have been disclosed on Schedule 3.8(b) of the ST ACA Disclosure Letter;

(b) any notice or other communication from any Governmental Authority regarding any material Governmental Approval in connection with the transactions contemplated by this Agreement;

(c) any Claims, investigations or Proceedings commenced or, to its Knowledge, threatened against, relating to or involving or otherwise affecting ST or the ST Business that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 3.7 (Litigation) of the ST Asset Contribution Agreement or that challenge the consummation of the transactions contemplated hereby or thereby;

(d) any damage, destruction or other casualty loss that is material to the ST Transferred Assets, taken as a whole;

provided, however, that the delivery of any notice pursuant to this Section 4.15 shall not limit or otherwise affect the remedies available to Newco under the ST Asset Contribution Agreement.

4.16 Newco Formation and Preparation. As soon as reasonably practicable following the expiration or termination of the waiting period (and any extension thereof) applicable to the consummation of the transactions contemplated hereby under the HSR Act and any other applicable similar merger notification laws or regulations of foreign Governmental Authorities, the Parties hereto shall take any and all actions necessary in order to incorporate Newco as a private company with limited liability organized under the laws of The Netherlands and prepare Newco to commence its operations immediately following the Closing, including without limitation, to:

(a) cause a civil law notary (i) to execute a Deed of Incorporation in a form reasonably agreed by the Parties in which the Parties each shall be named as joint incorporators of Newco, (ii) to register Newco with the Dutch Trade Register and (iii) to execute a deed of issuance of shares in Newco's capital, which shall reflect the shareholdings of the Parties in Newco in the following manner: ST 48.58%, Intel 45.10% and FP Holdco 6.32%, and take all other actions reasonably necessary in connection therewith;

(b) provide the initial capitalization to Newco as provided in the Deed of Incorporation, which capitalization shall be at least equal to the minimum capitalization provided by the laws of The Netherlands, in the respective percentages as provided in subsection (a) above;

(c) cause Newco to purchase and maintain directors and officers insurance as required by Section 6.9 of the Shareholders' Agreement;

(d) establish upon incorporation of Newco the Management Board of Newco which shall, prior to the Closing, have a sole Managing Director, who shall be FP; *provided* that FP shall not, in its capacity as the Managing Director, cause Newco to take any action or execute any agreement or document that is not contemplated by this Agreement unless each of Intel and ST shall consent thereto in writing, and in no event shall Newco conduct operations or engage in the conduct of any business prior to the Closing; *provided, further,* that each of Intel and ST shall advance 50% of all costs or expenses incurred by or on behalf of FP on behalf of or for the benefit of Newco in the performance of the activities set forth in this Section 4.16, and immediately after the Closing, Newco shall reimburse Intel and ST for all amounts so advanced; *provided, further* that prior to the Closing, to the maximum extent permitted by Applicable Law, the Managing Director of Newco shall not be personally liable for any obligations of Newco and ST and Intel shall each indemnify FP and its directors, officers, employees and agents, solely in respect of actions in its capacity as sole Managing Director (the "Indemnified Persons") against 50% of all Losses resulting from or arising out of, and

shall hold the Indemnified Persons harmless from, any action taken or any failure to take any action at or prior to the Closing; *provided, however*, that no indemnification shall be provided to any Indemnified Person for a Loss if such Loss resulted primarily from any action not permitted by this Agreement or approved by Intel and ST or resulted primarily from an act of fraud, dishonesty or other willful misconduct by FP; *provided, further*, that to the extent permitted by Applicable Law, 50% of all expenses (including legal fees) actually and reasonably incurred by an Indemnified Person in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by each of ST and Intel prior to the final disposition of such claim upon receipt by ST and Intel of an undertaking by or on behalf of an Indemnified Person to repay such amount if it shall be determined that the Indemnified Person is not entitled to be indemnified therefor pursuant to this Section 4.16(d);

(e) FP shall, in its capacity as Managing Director, cause Newco to take all actions required by this Agreement to be taken by Newco prior to the Closing and any other such actions as are reasonably necessary to consummate the transactions contemplated by this Agreement and the other Transaction Documents;

(f) vote at a general meeting of shareholders of Newco the shares of which such Party is the registered holder or for which such Party shall otherwise have the ability to control or direct the voting thereof at any such general meeting of shareholders, or execute a written resolution with respect to such shares, in favor of any resolution required by or necessary pursuant to the Transaction Documents to effect the Closing; *provided*, that the foregoing shall not require any Party to waive any right that such Party has under any Transaction Document, or to consent (or withhold its consent) to any waiver requested by any party under any Transaction Document;

(g) FP shall, in its capacity as Managing Director, adopt any resolution required or necessary to be adopted by Newco to effect the Closing, to the extent required by Applicable Law;

(h) cause Newco to organize such Subsidiaries as reasonably requested by the Parties;

(i) cause Newco to open bank accounts as reasonably requested by any Party in order to facilitate the actions set forth herein and to carry out the transactions contemplated by the Transaction Documents;

(j) cause Newco to execute and deliver the Intel Option Agreement to Intel or an Affiliate of Intel at least five days prior to the Closing Date;

(k) cause Newco to execute each Transaction Document to which it is to become a party as well as any other instruments, certificates, authorizations and other documents or papers required to be executed and delivered by Newco on or before the Closing;

(l) cause Newco to execute any waivers or consents, including in connection with the waiver of closing conditions as set forth in the Transaction Documents, (i) with

respect to any obligation or duty of ST, if Intel and FP each consents in writing to Newco granting such waiver or consent, (ii) with respect to any obligation or duty of Intel, if ST and FP each consents in writing to Newco granting such waiver or consent, and (iii) with respect to any obligation or duty of FP, if Intel and ST each consents in writing to Newco granting such waiver or consent; *provided, further*, that Newco shall refrain from executing or otherwise granting any waiver or consent without the prior written consent of the Parties as set forth in the preceding clause; and

(m) cause Newco to take all actions set forth in Section 2.10 (Deliveries by Newco) of the Intel Asset Transfer Agreement and Section 2.10 (Deliveries by Newco) of the ST Asset Contribution Agreement;

provided that, in addition to the provisions set forth above in this Section 4.16, the Parties shall use reasonable efforts to prevent Newco from taking any actions not set forth above without the prior consent of each of the Parties, which consent shall not be unreasonably withheld or delayed.

4.17 Newco Tax Election. The Parties agree that, unless Intel otherwise directs, (a) the organizational documents of Newco shall authorize Newco to elect, and Newco will elect, effective upon its formation, to be treated as a partnership for U.S. income tax purposes, and (b) Newco's principal operating subsidiary will elect, effective upon its formation, to be treated as a disregarded entity for U.S. income tax purposes, and the Parties shall cooperate as reasonably requested by Intel (including by executing any such election) in order to effectuate such elections. The Parties acknowledge that any such election shall be filed on Internal Revenue Service Form 8832 (or any successor form) no later than 75 days after the formation under Dutch law of Newco or such principal operating subsidiary, as the case may be. The Parties further agree that they will notify Intel prior to the direct or indirect acquisition or formation by Newco or its Subsidiaries of any entity that will become a Subsidiary of Newco, and shall cooperate as Intel may request to cause any such entity to be an "eligible entity" as defined in U.S. Treasury Regulation Section 301.7701-3(a) and to elect such tax status with respect to such entity (either as a disregarded entity, partnership or corporation) for U.S. federal income tax purposes as Intel may request, effective as of the date of formation of such entity unless otherwise requested by Intel.

4.18 Newco Closing Reorganization. On or immediately prior to the Closing Date, the Parties shall cause Newco to take the actions contemplated by Schedule 4.18 to each Master Agreement Disclosure Letter.

4.19 Cooperation with Financing. Each Party shall, and shall cause its Subsidiaries, and cause Newco and its Subsidiaries, and their respective appropriate representatives to, provide, reasonable cooperation in connection with the arrangement of the Contemplated Financing as may be reasonably requested by any other Party, including, using reasonable efforts to: (a) provide due diligence materials to the parties to the Commitment Letter or other potential financing sources; (b) assist Newco and its financing sources in the preparation, if applicable, of an offering document for such Contemplated Financing and materials for rating agency presentations; (c) cooperate with the marketing efforts of Newco and its financing sources for such Contemplated Financing; (d) provide such other documents as may be reasonably requested

by Newco; and (e) facilitate the pledge of collateral owned by Newco or its Subsidiaries to secure the Contemplated Financing at and after the Effective Time.

4.20 Environmental Consultants. As promptly as practicable (but in no event later than 40 days) after the date hereof, (a) Intel shall select and engage the Environmental Consultant to conduct the ST Environmental Reports and (b) ST shall select and engage the Environmental Consultant to conduct the Intel Environmental Reports.

4.21 Hynix JV Matters. As soon as practicable following the date hereof, ST shall agree to maintain such minimum ownership interest in Newco for such minimum period of time (not to exceed two years) as Hynix may reasonably require in order for Newco to be a "Designated Third Party" for purposes of the agreements set forth in both (a) that certain letter agreement between Hynix and ST dated March 23, 2007 amending the Joint Venture Agreement, dated as of November 16, 2004 (as supplemented and amended by letter agreements dated April 8, 2005, April 19, 2005, April 27, 2005 and June 10, 2005) of the Hynix JV and (b) the Agreement on the Amendment of the Articles of Association of the Hynix JV between Hynix and ST dated March 23, 2007.

4.22 Facility Transfer Term Sheets.

(a) Intel shall, and shall cause its Subsidiaries to effect the transfer of the Intel Real Property at the Closing in accordance with the terms of the Facility Transfer Term Sheets attached to Schedule 4.22(a) of the Intel Master Agreement Disclosure Letter, subject to the terms and conditions thereof.

(b) ST shall, and shall cause its Subsidiaries to effect the transfer of the ST Transferred Facilities at the Closing in accordance with the terms of the Facility Transfer Term Sheets attached to Schedule 4.22(b) of the ST Master Agreement Disclosure Letter, subject to the terms and conditions thereof.

4.23 Governmental Consents. From the date hereof until the earlier of the Closing Date or the date upon which this Agreement is terminated in accordance with Section 6.1(c), Intel shall, and shall cause its Subsidiaries to, use commercially reasonable efforts to take or cause to be taken all actions, and do or cause to be done all things necessary on their part to obtain the Governmental Consents on the terms and conditions that satisfy the requirements set forth in Schedule 5.1(f) of the Intel Master Agreement Disclosure Letter and Schedule 5.2(f) of the ST Master Agreement Disclosure Letter as soon as reasonably practicable, including preparing and filing as soon as reasonably practicable all documentation to effect all necessary notices, reports and other filings.

4.24 Release of Liens. On the Closing Date, the Intel Transferors and ST Transferors shall deliver the Intel Transferred Assets and ST Transferred Assets, respectively, to Newco and its Subsidiaries free and clear of Liens, other than Permitted Liens, except as otherwise provided in the Intel Asset Transfer Agreement and the ST Asset Contribution Agreement.

4.25 ST Litigation. ST shall be financially responsible for any and all costs and liabilities, including but not limited to license fees, royalties, and damages awarded by a court or administrative agency, that accrue in or as a result of Proceedings with respect to ST Products

imported, used or sold prior to Closing. Newco shall be financially responsible for any and all costs and liabilities, including but not limited to license fees, royalties, and damages awarded by a court or administrative agency, that accrue in or as a result of Proceedings with respect to ST Products imported, used or sold by Newco or any of its Subsidiaries on or subsequent to Closing. Notwithstanding the above, each Party shall be responsible for their respective legal fees and associated costs related to such Proceedings regardless of when incurred.

4.26 Intel Litigation. Intel shall be financially responsible for any and all costs and liabilities, including but not limited to license fees, royalties, and damages awarded by a court or administrative agency, that accrue in or as a result of Proceedings with respect to Intel Products imported, used or sold prior to Closing. Newco shall be financially responsible for any and all costs and liabilities, including but not limited to license fees, royalties, and damages awarded by a court or administrative agency, that accrue in or as a result of Proceedings with respect to Intel Products imported, used or sold by Newco or any of its Subsidiaries on or subsequent to Closing. Notwithstanding the above, each Party shall be responsible for their respective legal fees and associated costs related to such Proceedings regardless of when incurred.

4.27 Confidentiality Agreement. Immediately following the formation of Newco pursuant to Section 4.16, the Parties shall cause Newco to become a party to the Confidentiality Agreement.

4.28 Further Assurances. Each Party agrees to execute and deliver, or cause to be executed and delivered, such other documents, certificates, agreements and other writings and to take, or cause to be taken, such other commercially reasonable actions as may be necessary or desirable in order to consummate or implement expeditiously the transactions contemplated by this Agreement.

ARTICLE V CONDITIONS TO CLOSING

5.1 Conditions to Obligations of Intel. The obligations of Intel to consummate the Closing are subject to the satisfaction or waiver of each of the following conditions:

(a) Performance by ST. (i) ST shall have performed and satisfied in all material respects its obligations and covenants hereunder to the extent such obligations and covenants are required to be performed and satisfied by it on or prior to the Closing Date, (ii) the representations and warranties of ST contained in Section 3.2 shall be true and correct at and as of the Closing as if made at and as of the Closing Date (rather than at and as of the date hereof), *provided, however*, that those representations and warranties set forth in Sections 3.1 — 3.24 of the ST Asset Contribution Agreement (incorporated herein by reference) and which within such sections address matters only as of a certain date specific shall be true and correct as of such certain date), except, in any case, for failures of such representations and warranties (disregarding any materiality or ST Material Adverse Effect qualifications contained in any such representation or warranty) to be true and correct that have not had and would not reasonably be expected to have an ST Material Adverse Effect, and (iii) Newco shall have received a certificate signed by a duly authorized executive officer of ST to the foregoing effect.

(b) Performance by FP and FP Holdco. (i) Each of FP and FP Holdco shall have performed and satisfied in all material respects its obligations and covenants hereunder to the extent such obligations and covenants are required to be performed and satisfied by it on or prior to the Closing Date, (ii) the representations and warranties of FP and FP Holdco contained in Section 3.3 shall be true and correct at and as of the Closing as if made at and as of such date (other than those representations and warranties which address matters only as of a certain date which shall be true and correct as of such certain date), except, in any case, for failures of such representations and warranties (disregarding any materiality or FP Material Adverse Effect qualifications contained in any such representation or warranty) to be true and correct that have not had and would not reasonably be expected to have an FP Material Adverse Effect, and (iii) Newco shall have received a certificate signed by a duly authorized executive officer of each of FP and FP Holdco to the foregoing effect.

(c) No Violation. No Governmental Authority shall have enacted, issued, promulgated or entered any Applicable Law which is in effect on the Closing Date which has or would have the effect of prohibiting, restraining or enjoining the consummation of the transactions contemplated by this Agreement. No temporary restraining order, preliminary or permanent injunction, cease and desist order or other order issued by any court or other Governmental Authority that has the effect of making the transactions contemplated hereby illegal or otherwise prohibiting consummation of the transfers contemplated hereby or the consummation of the Closing, or imposing upon Intel material fines or penalties in respect thereof, shall be in effect as of the Closing Date, and there shall be no pending or threatened actions or proceedings by any Governmental Authority (or determinations by any Governmental Authority) challenging or in any manner seeking to prohibit the transfer contemplated hereby or the consummation of the Closing.

(d) Transaction Documents. Each of ST, FP, FP Holdco and Newco (and each of their respective Affiliates) shall have executed and delivered to Intel each Transaction Document, substantially in the form attached hereto, or attached to the form of Intel Asset Transfer Agreement or ST Asset Contribution Agreement, to which each of them, respectively, is a party.

(e) Governmental Approvals. The waiting period (and any extension thereof) applicable to the consummation of the transactions contemplated hereby under the HSR Act shall have expired or been terminated, and any waiting period (and any extension thereof) under any other applicable similar merger notification laws or regulations of foreign Governmental Authorities shall have expired or been terminated. Any Governmental Approvals required under any such laws or regulations in connection with the consummation of the transactions contemplated hereby shall have been obtained.

(f) Consents. Intel shall have received the Consents identified on Schedule 5.1(f) of the Intel Master Agreement Disclosure Letter on terms and conditions that satisfy the requirements set forth in Schedule 5.1(f) of the Intel Master Agreement Disclosure Letter.

(g) No ST Material Adverse Effect. There shall not have occurred since the date hereof any ST Material Adverse Effect that is continuing, and Newco shall have received a certificate signed by a duly authorized executive officer of ST to the foregoing effect.

(h) Audited Financial Statements. ST shall have delivered to Intel audited statements of revenue and direct expenses for the ST Business for the years ended December 31, 2005 and December 31, 2006, and the following balance sheet captions: accounts receivable, inventories, fixed assets, intangible assets and equity investments, as of December 31, 2005 and December 31, 2006 and related notes to these statements. The financial statements shall be prepared to report the ST Business as it has been reported in ST's consolidated financial statements applying GAAP and following the presentation basis adopted by ST in its consolidated financial statements, consistently applied (collectively, "ST Business Audited Financial Statements").

(i) Contemplated Financing. The Contemplated Financing shall have been provided to Newco; *provided* that the Contemplated Financing does not result in Newco and its Subsidiaries having more than \$1,300,000,000 of aggregate Indebtedness outstanding as of the Closing.

(j) Dutch Auditor's Certificates. Each Party (and its Affiliates), as applicable, shall have obtained such auditor's certificate(s) pursuant to article 2:204b or 2:204c (as applicable) of the Dutch Civil Code as are required to give effect to the transactions contemplated in this Agreement and the other Transaction Documents.

(k) Minimum Cash. On the Closing Date, following payment by Newco of any fees and expenses incurred by Newco in connection with the Closing of the Transactions contemplated hereby, but in any event not including the costs set forth in Section 4.16(d), Newco shall have on hand at least \$500,000,000 in Cash and Cash Equivalents.

5.2 Conditions to Obligations of ST. The obligations of ST to consummate the Closing are subject to the satisfaction or waiver of each of the following conditions:

(a) Performance by Intel. (i) Intel shall have performed and satisfied in all material respects its obligations and covenants hereunder to the extent such obligations and covenants are required to be performed and satisfied by it on or prior to the Closing Date, (ii) the representations and warranties of Intel contained in Section 3.1 shall be true and correct at and as of the Closing as if made at and as of the Closing Date (rather than at and as of the date hereof); *provided, however*, that those representations and warranties set forth in Sections 3.1 — 3.24 of the Intel Asset Transfer Agreement (incorporated herein by reference) and which within such sections address matters only as of a certain date specific shall be true and correct as of such certain date), except, in any case, for failures of such representations and warranties (disregarding any materiality or Intel Material Adverse Effect qualifications contained in any such representation or warranty) to be true and correct that have not had and would not reasonably be expected to have an Intel Material Adverse Effect, and (iii) Newco shall have received a certificate signed by a duly authorized executive officer of Intel to the foregoing effect.

(b) Performance by FP and FP Holdco. (i) Each of FP and FP Holdco shall have performed and satisfied in all material respects its obligations and covenants hereunder to the extent such obligations and covenants are required to be performed and satisfied by it on or prior to the Closing Date, (ii) the representations and warranties of FP and FP Holdco contained in Section 3.3 shall be true and correct at and as of the Closing as if made at and as of such date (other than those representations and warranties which address matters only as of a certain date which shall be true and correct as of such certain date), except, in any case, for failures of such representations and warranties (disregarding any materiality or FP Material Adverse Effect qualifications contained in any such representation or warranty) to be true and correct that have not had and would not reasonably be expected to have an FP Material Adverse Effect, and (iii) Newco shall have received a certificate signed by a duly authorized executive officer of each of FP and FP Holdco to the foregoing effect.

(c) No Violation. No Governmental Authority shall have enacted, issued, promulgated or entered any Applicable Law which is in effect on the Closing Date which has or would have the effect of prohibiting, restraining or enjoining the consummation of the transactions contemplated by this Agreement. No temporary restraining order, preliminary or permanent injunction, cease and desist order or other order issued by any court or other Governmental Authority that has the effect of making the transactions contemplated hereby illegal or otherwise prohibiting consummation of the transfers contemplated hereby or the consummation of the Closing, or imposing upon ST material fines or penalties in respect thereof, shall be in effect as of the Closing Date, and there shall be no pending or threatened actions or proceedings by any Governmental Authority (or determinations by any Governmental Authority) challenging or in any manner seeking to prohibit the transfer contemplated hereby or the consummation of the Closing.

(d) Transaction Documents. Each of Intel, FP, FP Holdco and Newco (and each of their respective Affiliates) shall have executed and delivered to ST each Transaction Document substantially in the form attached hereto, or attached to the form of Intel Asset Transfer Agreement or ST Asset Contribution Agreement, to which each of them, respectively, is a party.

(e) Governmental Approvals. The waiting period (and any extension thereof) applicable to the consummation of the transactions contemplated hereby under the HSR Act shall have expired or been terminated, and any waiting period (and any extension thereof) under any other applicable similar merger notification laws or regulations of foreign Governmental Authorities shall have expired or been terminated. Any Governmental Approvals required under any such laws or regulations in connection with the consummation of the transactions contemplated hereby shall have been obtained.

(f) Consents. Intel shall have received the Consents identified on Schedule 5.2(f) of the ST Master Agreement Disclosure Letter on terms and conditions that satisfy the requirements set forth in Schedule 5.2(f) of the ST Master Agreement Disclosure Letter.

(g) No Intel Material Adverse Effect. There shall not have occurred since the date hereof any Intel Material Adverse Effect that is continuing, and Newco shall have received a certificate signed by a duly authorized executive officer of Intel to the foregoing effect.

(h) Audited Financial Statements. Intel shall have delivered to ST audited statements of revenues and direct expenses for the Intel Business for the years ended December 31, 2005 and December 30, 2006, and the following balance sheet captions: accounts receivable, inventories, fixed assets and, if applicable, other assets as of December 31, 2005 and December 30, 2006, and related notes to these statements. The financial statements shall be prepared to report the Intel Business as it has been reported in Intel's consolidated financial statements applying GAAP and following the presentation basis adopted by Intel in its consolidated financial statements, consistently applied (collectively, "Intel Business Audited Financial Statements").

(i) Contemplated Financing. The Contemplated Financing shall have been provided to Newco; *provided* that the Contemplated Financing does not result in Newco and its Subsidiaries having more than \$1,300,000,000 of aggregate Indebtedness outstanding as of the Closing.

(j) Dutch Auditor's Certificates. Each Party (and its Affiliates), as applicable, shall have obtained such auditor's certificate(s) pursuant to article 2:204b or 2:204c (as applicable) of the Dutch Civil Code as are required to give effect to the transactions contemplated in this Agreement and the other Transaction Documents.

(k) Minimum Cash. On the Closing Date, following payment by Newco of any fees and expenses incurred by Newco in connection with the Closing of the Transactions contemplated hereby, but in any event not including the costs set forth in Section 4.16(d), Newco shall have on hand at least \$500,000,000 in Cash and Cash Equivalents.

5.3 Conditions to Obligations of FP and FP Holdco. The obligations of FP and FP Holdco to consummate the Closing are subject to the satisfaction or waiver of each of the following conditions:

(a) Performance by Intel. (i) Intel shall have performed and satisfied in all material respects its obligations and covenants hereunder to the extent such obligations and covenants are required to be performed and satisfied by it on or prior to the Closing Date, (ii) the representations and warranties of Intel contained in Section 3.1 shall be true and correct at and as of the Closing as if made at and as of the Closing Date (rather than at and as of the date hereof), *provided, however*, that those representations and warranties set forth in Sections 3.1 — 3.24 of the Intel Asset Transfer Agreement (incorporated herein by reference) and which within such sections address matters only as of a certain date specific shall be true and correct as of such certain date), except, in any case, for failures of such representations and warranties (disregarding any materiality or Intel Material Adverse Effect qualifications contained in any such representation or warranty) to be true and correct that have not had and would not reasonably be expected to have an Intel

Material Adverse Effect, and (iii) Newco shall have received a certificate signed by a duly authorized executive officer of Intel to the foregoing effect.

(b) Performance by ST. (i) ST shall have performed and satisfied in all material respects its obligations and covenants hereunder to the extent such obligations and covenants are required to be performed and satisfied by it on or prior to the Closing Date, (ii) the representations and warranties of ST contained in Section 3.2 shall be true and correct at and as of the Closing as if made at and as of the Closing Date (rather than at and as of the date hereof); *provided, however*, that those representations and warranties set forth in Sections 3.1 — 3.24 of the ST Asset Contribution Agreement (incorporated herein by reference) and which within such sections address matters only as of a certain date specific shall be true and correct as of such certain date), except, in any case, for failures of such representations and warranties (disregarding any materiality or ST Material Adverse Effect qualifications contained in any such representation or warranty) to be true and correct that have not had and would not reasonably be expected to have an ST Material Adverse Effect, and (iii) Newco shall have received a certificate signed by a duly authorized executive officer of ST to the foregoing effect.

(c) No Violation. No Governmental Authority shall have enacted, issued, promulgated or entered any Applicable Law which is in effect on the Closing Date which has or would have the effect of prohibiting, restraining or enjoining the consummation of the transactions contemplated by this Agreement. No temporary restraining order, preliminary or permanent injunction, cease and desist order or other order issued by any court or other Governmental Authority that has the effect of making the transactions contemplated hereby illegal or otherwise prohibiting consummation of the transfers contemplated hereby or the consummation of the Closing, or imposing upon FP or FP Holdco material fines or penalties in respect thereof, shall be in effect as of the Closing Date, and there shall be no pending or threatened actions or proceedings by any Governmental Authority (or determinations by any Governmental Authority) challenging or in any manner seeking to prohibit the transfer contemplated hereby or the consummation of the Closing.

(d) Transaction Documents. Each of Intel, ST and Newco (and each of their respective Affiliates) shall have executed and delivered to FP and FP Holdco each Transaction Document, substantially in the form attached hereto, or attached to the form of Intel Asset Transfer Agreement or ST Asset Contribution Agreement, to which each of them, respectively, is a party.

(e) Governmental Approvals. The waiting period (and any extension thereof) applicable to the consummation of the transactions contemplated hereby under the HSR Act shall have expired or been terminated, and any waiting period (and any extension thereof) under any other applicable similar merger notification laws or regulations of foreign Governmental Authorities shall have expired or been terminated. Any Governmental Approvals required under any such laws or regulations in connection with the consummation of the transactions contemplated hereby shall have been obtained.

(f) No Intel Material Adverse Effect. There shall not have occurred since the date hereof any Intel Material Adverse Effect that is continuing, and Newco shall have received a certificate signed by a duly authorized executive officer of Intel to the foregoing effect.

(g) No ST Material Adverse Effect. There shall not have occurred since the date hereof any ST Material Adverse Effect that is continuing, and Newco shall have received a certificate signed by a duly authorized executive officer of ST to the foregoing effect.

(h) Audited Financial Statements. Intel shall have delivered to FP the Intel Business Audited Financial Statements and ST shall have delivered to FP the ST Business Audited Financial Statements.

(i) Contemplated Financing. The Contemplated Financing shall have been provided to Newco; *provided* that the Contemplated Financing does not result in Newco or its Subsidiaries having more than \$1,300,000,000 of aggregate Indebtedness outstanding as of the Closing.

(j) Dutch Auditor's Certificates. Each Party (and its Affiliates), as applicable, shall have obtained such auditor's certificate(s) pursuant to article 2:204b or 2:204c (as applicable) of the Dutch Civil Code as are required to give effect to the transactions contemplated in this Agreement and the other Transaction Documents.

(k) Minimum Cash. On the Closing Date, following payment by Newco of any fees and expenses incurred by Newco in connection with the Closing of the Transactions contemplated hereby, but in any event not including the costs set forth in Section 4.16(d), Newco shall have on hand at least \$500,000,000 in Cash and Cash Equivalents.

ARTICLE VI TERMINATION

6.1 Grounds for Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written agreement of the Parties;

(b) by written notice from any Party to the other Parties if:

(i) the Closing has not been effected on or prior to the close of business on the Termination Date; *provided, however*, that the right to terminate this Agreement pursuant to this Section 6.1(b)(i) shall not be available to any Party whose failure to fulfill any of its obligations contained in this Agreement has been the cause of, or resulted in, the failure of the Closing to have occurred on or prior to the aforesaid date; *provided, further*, that if the sole conditions to Closing in Article V that remain unsatisfied (or unwaived) as of the aforesaid date are set forth in any of Sections 5.1(e) (Governmental Approvals), 5.1(f) (Governmental Consents), 5.1(i) (Contemplated Financing), 5.1(k) (Minimum

Cash), 5.2(e) (Governmental Approvals), 5.2(f) (Governmental Consents), 5.2(i) (Contemplated Financing), 5.2(k) (Minimum Cash), 5.3(e) (Governmental Approvals), 5.3(i) (Contemplated Financing), or 5.3(k) (Minimum Cash), provided that a binding commitment in respect of the Contemplated Financing obtained by one or more Parties shall be in full force and effect with a term ending no earlier than February 29, 2008, then any Party may, in its sole discretion and upon written notice to the other Parties, extend the aforesaid date to a date no later than February 29, 2008 (and in such event, all references herein to the Termination Date shall be to such date as so extended); *provided, further*, that after such Termination Date (as so extended) any further extension of the term of this Agreement shall require the consent of each Party;

(ii) any Applicable Law shall be enacted or become applicable that makes the transactions contemplated hereby or the consummation of any of the Closing illegal or otherwise prohibited;

(iii) any judgment, injunction, order or decree enjoining any Party hereto from consummating the transactions contemplated hereby or the Closing is entered, and such judgment, injunction, order or decree shall become final and nonappealable;

(iv) any other Party is in material breach or material default of any covenant contained herein or there are any inaccuracies or misrepresentations in another Party's representations or warranties herein (disregarding any materiality or "Material Adverse Effect" qualifications contained in any such representation or warranty) which have had, or if not cured prior to the Closing Date would have, in the case of Intel, an Intel Material Adverse Effect, in the case of ST, an ST Material Adverse Effect, or in the case of FP, an FP Material Adverse Effect, as the case may be, and such breach or default, shall not be cured or waived within 20 Business Days after written notice is delivered by any of the non-breaching Parties specifying, in reasonable detail, such claimed material breach or default and demanding its cure or satisfaction; provided that if it is not reasonably practicable to cure such breach or default within 20 Business Days but such breaching Party is using its commercially reasonable efforts to promptly cure, then such Party shall have an additional 10 Business Days to cure the breach;

(c) by written notice from ST to the other Parties as follows:

(i) if the conditions to the obligations of Intel to close set forth in Sections 5.1(a) (Performance by ST), 5.1(c) (No Violation), 5.1(e) (Governmental Approvals), 5.1(g) (No ST Material Adverse Effect) and 5.1(h) (Audited Financial Statements) hereof have been satisfied as of December 15, 2007, but the condition to the obligation of ST to close set forth in Section 5.2(f) (Governmental Consents) has not been satisfied as of such date; then ST may provide written notice of termination to the other Parties on December 15, 2007 provided that any such written notice from ST (i) shall not be effective until December 31, 2007 and (ii) shall only become effective on December 31, 2007 if

(A) the condition to the obligation of ST to close set forth in Section 5.2(f) (Governmental Consents) has not been satisfied as of such date and (B) if the conditions to the obligations of Intel to close set forth in Sections 5.1(a) (Performance by ST), 5.1(c) (No Violation), 5.1(e) (Governmental Approvals), 5.1(g) (No ST Material Adverse Effect) and 5.1(h) (Audited Financial Statements) hereof have been satisfied on December 31, 2007;

(ii) if the Termination Date shall have been extended by any Party to February 29, 2008 in accordance with Section 6.1(b)(i), then ST and Intel shall meet prior to January 15, 2008 to discuss the next steps to be pursued by Intel, and unless ST shall have agreed in writing no later than January 15, 2008 to extend the Governmental Consents Termination Date to February 29, 2008, then ST may provide written notice of termination to the other Parties on January 15, 2008, provided that any such written notice from ST (A) shall not be effective until January 31, 2008 and (B) shall only become effective on January 31, 2008 if (1) the condition to the obligation of ST to close set forth in Section 5.2(f) (Governmental Consents) has not been satisfied as of such date and (2) if the conditions to the obligations of Intel to close set forth in Sections 5.1(a) (Performance by ST), 5.1(c) (No Violation), 5.1(e) (Governmental Approvals), 5.1(g) (No ST Material Adverse Effect) and 5.1(h) (Audited Financial Statements) hereof have been satisfied on January 31, 2008; or

(iii) if the Termination Date shall have been extended by any Party to February 29, 2008 in accordance with Section 6.1(b)(i) and the conditions to the obligations of Intel to close set forth in Sections 5.1(a) (Performance by ST), 5.1(c) (No Violation), 5.1(e) (Governmental Approvals), 5.1(g) (No ST Material Adverse Effect) and 5.1(h) (Audited Financial Statements) hereof have been satisfied as of February 29, 2008, but the condition to the obligation of ST to close set forth in Section 5.2(f) (Governmental Consents) has not been satisfied as of such date, then ST may provide written notice of termination to the other Parties.

6.2 Effect of Termination.

(a) If this Agreement is terminated pursuant to Section 6.1(a), (b), or (c), all obligations of the Parties hereunder (except for this Section 6.2, Section 4.7 (Non-Solicitation of Employees) and Article VII (Miscellaneous)) shall terminate without Liability of any Party to any other Party and the representations and warranties made herein shall not survive beyond a termination of this Agreement. Nothing contained in this Section 6.2 shall relieve any Party of Liability for any breach of any representation, warranty or covenant contained in this Agreement that occurred prior to the date of termination of this Agreement.

(b) If (i) ST terminates this Agreement pursuant to Section 6.1(c)(i), (ii) or (iii) or (ii) if (A) the conditions to the obligations of Intel to close set forth in Sections 5.1(a) (Performance by ST), 5.1(c) (No Violation), 5.1(e) (Governmental Approvals), 5.1(g) (No ST Material Adverse Effect) and 5.1(h) (Audited Financial Statements) hereof have

been satisfied on December 31, 2007, (B) the condition to the obligation of ST to close set forth in Section 5.2(f) has not been satisfied as of December 31, 2007, (C) the Termination Date has not been extended under Section 6.1(b)(i), and (D) any Party terminates this Agreement pursuant to Section 6.1(b)(i), then Intel shall pay to ST a fee of \$75,000,000 (the "Termination Fee") in immediately available funds no later than five Business Days after such termination and Intel shall reimburse FP for (1) up to \$2,500,000 of its reasonable costs and expenses actually incurred or accrued by FP in connection with the transactions contemplated hereby, plus (2) up to \$5,000,000 of costs and expenses actually incurred or accrued by FP or its Affiliates on behalf of Newco, plus (3) any additional amounts incurred by FP or its Affiliates on behalf of Newco as may be agreed between Intel, ST and FP, in the cases of clauses (2) and (3), for the services described on Schedule 7.3 to each of the Master Agreement Disclosure Letters (the amounts set forth in (1), (2) and (3), collectively, the "FP Costs"). In the event that ST terminates this Agreement pursuant to Section 6.1(c)(i), (ii) or (iii), the Termination Fee and the FP Costs shall be payable by Intel regardless of whether or not any other Party shall have terminated this Agreement on the same date pursuant to Section 6.1(b)(i).

(c) If any termination of this Agreement prior to Closing is attributable to a willful breach (i) by Intel of any representation or warranty of Intel contained in this Agreement, in no event shall the Liability of Intel for such breach to ST exceed \$75,000,000 million or of Intel to FP and FP Holdco, collectively, exceed \$7,500,000 million plus any additional expenses incurred by FP and its Affiliates on behalf of Newco as agreed by Intel, ST and Newco after the date hereof for services described on Schedule 7.3 to each of the Master Agreement Disclosure Letters, or (ii) by ST of any representation or warranty of ST contained in this Agreement, in no event shall the Liability of ST for such breach to Intel exceed \$75,000,000 or of ST to FP and FP Holdco, collectively, exceed \$7,500,000 plus any additional expenses incurred by FP and its Affiliates on behalf of Newco as agreed by Intel, ST and Newco after the date hereof for services described on Schedule 7.3 to each of the Master Agreement Disclosure Letters.

(d) Each of the Parties acknowledges that the agreements contained in this Section 6.2 are an integral part of the transactions contemplated by this Agreement and the other Transaction Documents. In the event that Intel or ST shall fail to pay the Termination Fee when due, Intel or ST, as the case may be, shall reimburse the other for all reasonable costs and expenses actually incurred or accrued by the other (including reasonable fees and expenses of counsel) in connection with the collection under and enforcement of this Section 6.2.

6.3 Termination of Representations and Warranties and Covenants Upon the Closing. Except as otherwise provided pursuant to the Intel Asset Transfer Agreement and the ST Asset Contribution Agreement including without limitation Section 5.18 (Master Agreement Covenants) thereof, the representations and warranties of the Parties contained in Article III of this Agreement, and the covenants contained in Section 4.9 and Section 4.10 of this Agreement, shall terminate and be of no further force or effect immediately upon the consummation of the Closing; *provided, however* that the representations and warranties set forth in Sections 3.1(a), 3.2(a), and 3.3(a) (Existence and Good Standing), Sections 3.1(b), 3.2(b) and 3.3(b),

(Authorization; Enforceability) and Sections 3.1(g), 3.2(g), and 3.3(f) (Reliance) shall survive until the expiration of the applicable statute of limitations.

6.4 Exclusive Remedy. The Parties hereby acknowledge and agree that following the Closing, no Person other than Newco shall have any rights with respect to any breach of any of the representations or warranties contained in Article III hereof or the covenants specified in Section 5.18 (Master Agreement Covenants) of each of the Intel Asset Transfer Agreement and the ST Asset Contribution Agreement. Newco's sole remedy for any such breach (a) by Intel, shall be pursuant to Article VI of the Intel Asset Transfer Agreement and (b) by ST, shall be pursuant to Article VI of the ST Asset Contribution Agreement.

ARTICLE VII MISCELLANEOUS

7.1 Notices. All notices and other communications pursuant to this Agreement shall be in writing and shall be deemed given if delivered personally, telecopied, sent by nationally-recognized overnight courier or mailed by U.S. registered or certified mail (return receipt requested), postage prepaid, to the Parties at the addresses set forth below or to such other address as the Party to whom notice is to be given may have furnished to the other Party in writing in accordance herewith. Any such notice or communication shall be deemed to have been delivered and received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of telecopier delivery, on the date sent if confirmation of receipt is received and such notice is also promptly mailed by registered or certified mail (return receipt requested), (c) in the case of a nationally-recognized overnight courier in circumstances under which such courier guarantees next Business Day delivery, on the next Business Day after the date when sent and (d) in the case of mailing, on the fifth Business Day following that on which the piece of mail containing such communication is posted to the address provided herein or to such other address as the Person to whom notice is given may have previously furnished to the others in writing in the manner set forth above. Any Party hereto may give any notice, request, demand, claim or other communication hereunder using any other means (including ordinary mail or electronic mail), but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the individual for whom it is intended. Notices to Parties pursuant to this Agreement shall be given:

- (a) to Intel Corporation: Intel Corporation
2200 Mission College Boulevard
Santa Clara, CA 95054
Attention: Treasurer
Telephone: (408) 765-8080
Facsimile: (408) 765-6038

with a copy to:

Intel Corporation
2200 Mission College Boulevard
Santa Clara, CA 95054
Attention: General Counsel
Telephone: (408) 765-8080
Facsimile: (408) 653-8050

and a copy to (which shall not constitute notice to Intel):

Gibson, Dunn & Crutcher LLP
1881 Page Mill Rd.
Palo Alto, CA 94304
Attention: Russell C. Hansen
Telephone: (650) 849-5300
Facsimile: (650) 849-5333

(b) if to STMicroelectronics N.V.:

STMicroelectronics N.V.
Chemin du Champ-des-Filles, 39
1228 Plan-les-Ouates
Geneva, Switzerland
Attention: Pierre Ollivier, Group Vice President and General Counsel
Telephone: 41 22 929 58 76
Facsimile: 41 22 929 59 06

with a copy to (which shall not constitute notice to ST):

STMicroelectronics N.V.
1310 Electronics Drive
Mail Station 2346
Carrollton, TX 75006
Attention: Steven K. Rose, Vice President, Secretary and General Counsel
Telephone: (972) 466-6412
Facsimile: (972) 466-7044

and a copy to (which shall not constitute notice to ST):

Shearman & Sterling LLP
525 Market Street
San Francisco, CA 94105
Attention: John D. Wilson
Telephone: (415) 616-1100
Facsimile: (415) 616-1199

(c) if to FP or FP Holdco:

Francisco Partners
2882 Sand Hill Road
Suite 289
Menlo Park, CA 94025
Attention: David ibnAle
Telephone: (650) 233-2900
Facsimile: (650) 233-2999

with a copy to:

Francisco Partners
40 Berkeley Square
London W1J 5AL
United Kingdom
Attention: Phokion Potamianos
Telephone: 44 0 207 907 8600
Facsimile: 44 0 207 907 8650

and a copy to (which shall not constitute notice to FP and FP Holdco):

Davis Polk & Wardwell
1600 El Camino Real
Menlo Park, CA 94025
Attention: William M. Kelly
Martin A. Wellington
Telephone: (650) 752-2000
Facsimile: (650) 752-2112

7.2 Amendments; Waivers.

(a) Any provision of this Agreement or any other Transaction Document may be amended or waived if, and only if, such amendment or waiver is in writing and signed in the case of an amendment, by all Parties, or in the case of a waiver, by the Party against whom the waiver is to be effective.

(b) No waiver by a Party of any default, misrepresentation or breach of a warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of a warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent occurrence. No failure or delay by a Party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided under Applicable Law.

7.3 Expenses. Except as set forth in (a) Section 5.8(c) of the Intel Asset Transfer Agreement, (b) Section 5.8(c) of the ST Asset Contribution Agreement and (c) Schedule 7.3 of each of the Intel Master Agreement Disclosure Letter and the ST Master Agreement Disclosure Letter, all costs and expenses incurred in connection with this Agreement and the other Transaction Documents and in closing and carrying out the transactions contemplated hereby and thereby shall be paid by the Party incurring such cost or expense.

7.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs, personal representatives and permitted assigns. No Party hereto may transfer or assign either this Agreement or any of its rights, interests or obligations hereunder, whether directly or indirectly, by operation of law, merger or otherwise, without the prior written approval of each other Party; *provided* that each of FP and FP Holdco may transfer or assign its rights and obligations under this Agreement, in whole or from time to time in part, to one or more of its Affiliates at any time prior to the Closing; *provided, further*, that in the event of any such assignment, any of the terms "FP" or "FP Holdco," in any Transaction Document, shall apply to any such assignee, *mutatis mutandis*. No such transfer or assignment shall relieve the transferring or assigning Party of its obligations hereunder if such transferee or assignee does not perform such obligations.

7.5 Governing Law. This Agreement shall be construed in accordance with and this Agreement and any disputes or controversies related hereto shall be governed by the internal laws of the State of New York without giving effect to the conflicts of laws principles thereof that would apply the laws of any other jurisdiction.

7.6 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts and the signatures delivered by telecopy, each of which shall be an original, with the same effect as if the signatures were upon the same instrument and delivered in person. This Agreement shall become effective when each Party hereto shall have received a counterpart hereof signed by the other Parties.

7.7 Entire Agreement. This Agreement (including the Schedules and Exhibits referred to herein, which are hereby incorporated by reference), the other Transaction Documents and the Confidentiality Agreements constitute the entire agreement between the Parties with respect to the subject matter hereof and thereof and supersede all prior agreements, understandings and negotiations, both written and oral, between and among the Parties with respect to the subject matter of this Agreement. Neither this Agreement nor any provision hereof is intended to confer upon any Person other than the Parties any rights or remedies hereunder. No representation, warranty, promise, inducement or statement of intention has been made by either Party that is not embodied in this Agreement or such other documents, and neither party shall be bound by, or be liable for, any alleged representation, warranty, promise, inducement or statement of intention not embodied herein or therein.

7.8 Captions. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

7.9 Severability. If any provision of this Agreement, or the application thereof to any Person, place or circumstance, shall be held by a court of competent jurisdiction to be invalid,

unenforceable or void, the remainder of this Agreement and such provisions as applied to other Persons, places and circumstances shall remain in full force and effect only if, after excluding the portion deemed to be unenforceable, the remaining terms shall provide for the consummation of the transactions contemplated hereby in substantially the same manner as originally set forth at the later of the date this Agreement was executed or last amended.

7.10 Dispute Resolution.

(a) With the exception of disputes involving intellectual property ownership and infringement issues, any dispute arising under this Agreement shall be finally resolved by arbitration. The Parties waive their right to any form of appeal to a court on any questions of law arising out of the arbitration award. Any dispute or claim between the Parties which is beyond the scope of this Section shall be submitted to the exclusive jurisdiction of the courts of the State of New York and the Federal courts of the United States of America located in the State of New York. The Parties hereby consent to and grant any such court jurisdiction over such Parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 7.1 or in such other manner as may be permitted by Applicable Law, shall be valid and sufficient service thereof.

(b) Mediation. Prior to arbitration, however, the Party making the original claim shall provide the other Party with a written description of the dispute or claim and the senior executives of the Parties shall meet in an attempt to resolve such dispute or claim. If the disagreements cannot be resolved by the senior management after 90 days from the date any Party made a written demand for resolution, a binding arbitration shall be held.

(c) Arbitration Rules. The rules of the arbitration shall be agreed upon by the Parties prior to the arbitration and shall be based upon the nature of the disagreement. To the extent that the Parties cannot agree on the rules of the arbitration after 30 days from the date any party makes a written demand for resolution, then, subject to Section 7.10(d), the Rules of Arbitration of the ICC in effect as of the Closing Date shall apply.

(d) Mandatory Rules. As a minimum set of rules in the arbitration the Parties agree as follows:

(i) The arbitration shall be held by one arbitrator appointed by mutual agreement of the Parties. If the Parties cannot agree on a single arbitrator within 15 days from the date written demand for arbitration has been received by the other Party, each Party shall identify one independent individual. The individuals appointed by the Parties shall then meet to appoint a single arbitrator. If an arbitrator still cannot be agreed upon within an additional 15 day period, he or she shall be appointed by the ICC.

(ii) The place of arbitration shall be New York, New York. Hearings and meetings shall be held in New York or at such other place as the Parties may agree.

(iii) The English language shall be used in the proceedings. Documents and written testimonies may be submitted in any language provided that the Party submitting such documents and testimonies shall provide, at its own expense, a translation of the same in the English language.

(iv) The arbitrator shall specify the basis for the award, the basis for the damages award and a breakdown of the damages awarded, and the basis of any other remedy authorized under this section. The award shall be considered as a final and binding resolution of the dispute or claim.

(v) The Parties agree to maintain the confidentiality of the arbitral proceedings, the existence of the same and the status of the hearings. In addition, the Parties undertake to maintain the confidentiality of any document exchanged in, produced in, or created by the Parties for the arbitration proceedings as well as the confidentiality of the award. Notwithstanding the foregoing, if the disclosure of the arbitral proceedings, or of any of the documents exchanged in, produced in or created for the arbitration proceedings or if the disclosure of the award is required by applicable law, rule or regulation or is compelled by a court or governmental agency, authority or body: (A) the Parties shall use the legitimate and legal means available to minimize the scope of their disclosure to third parties; and (B) the Party compelled to make the disclosure shall inform the other Party and the arbitrator at least 20 Business Days in advance of the disclosure (or if 20 Business Days' notice is not practicable because the Party is required to make the disclosure less than 20 Business Days after becoming aware of the event or occurrence giving rise to such disclosure requirement, then notice to the other Party and the arbitrator shall be provided as soon as practicable after such event or occurrence).

(vi) The duty of the Parties to arbitrate any dispute or claim within the scope of this Section shall survive the expiration or termination of this Agreement for any reason. The Parties specifically agree that any action must be brought, if at all, within two years from discovery of the cause of action.

(vii) The discretion of the arbitrator to fashion remedies shall be no broader than the legal and equitable remedies available to a court (unless the parties expressly agree otherwise prior to the start of arbitration). In no event, however, shall the arbitrator award a remedy which enjoins a Party or its customers to stop manufacturing, using, marketing, selling, offering for sale, or importing such Party's products. In addition, notwithstanding anything herein to the contrary, in no event, shall the arbitrator award a remedy which enjoins a Party to license to the other Party any of its intellectual property rights of whatever nature. The arbitrator will have no authority to award damages in excess of compensatory damages and each Party expressly waives and foregoes any right to punitive, exemplary or similar damages, except as such damages may be required by statute. In no event shall the amount of damages awarded to the prevailing Party exceed or otherwise be inconsistent with any of the applicable

limitations on damages set forth in this Agreement, including Sections 6.2 and 6.4.

(viii) The arbitrator may not order any conservatory or interim relief measures of any kind. In any event, however, either Party may apply for conservatory or interim relief measures to the courts of the State of New York or the Federal courts of the United States of America located in the State of New York which shall have exclusive jurisdiction to grant such injunctive relief.

(ix) The Parties shall agree upon what, if any, disclosure to the other parties to the arbitration shall be permitted. If the Parties can not agree on the form of disclosure within 30 days after the appointment of the arbitrator, then the Parties agree that in addition to the Rules of Arbitration of the ICC, the arbitrators shall apply the IBA Rules of Evidence. In case of conflict between Rules of Arbitration of the ICC and the IBA Rules of evidence, the Rules of Arbitration of the ICC shall prevail. Notwithstanding anything herein to the contrary, in no event shall anything verbally or in writing used strictly for settlement purposes between the Parties be permitted by the arbitration to be used as evidence for either Party's case.

(x) The Parties shall equally bear the costs of the arbitration. Each Party shall bear the fees and expenses of its appointed experts and shall bear its own legal expenses. For the purpose of this clause, the term "costs of arbitration" includes only: (A) the fees and expenses of the arbitrator; (B) in the case of an arbitration governed by the ICC Rules, the ICC administrative expenses fixed by the Court of Arbitration of the ICC; (C) the fees and expenses of any experts appointed by the arbitrator.

7.11 Waiver of Jury Trial. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (a) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (b) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (c) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (d) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.11.

7.12 Third Party Beneficiaries. Effective on the Closing Date, Newco shall be deemed a third party beneficiary of the covenants set forth in the Sections referenced in Section 5.18 (Master Agreement Covenants) of each of the Intel Asset Transfer Agreement and ST Asset

Contribution Agreement. No provision of this Agreement shall create any third party beneficiary rights in any other Person, including any employee or former employee of Intel or ST or any of their respective Affiliates (including any beneficiary or dependent thereof).

7.13 Specific Performance. The Parties hereby acknowledge and agree that the failure of any Party to perform its agreements and covenants hereunder, including its failure to take all actions as are necessary on its part to the consummation of the transactions contemplated herein, may cause irreparable injury to the other Party, for which damages, even if available, may not be an adequate remedy. Accordingly, each Party hereby consents to the issuance of injunctive relief by any court of competent jurisdiction to compel performance of such Party's obligations and to the granting by any court of the remedy of specific performance of its obligations hereunder.

7.14 No Presumption Against Drafting Party. Intel, ST, FP and FP Holdco acknowledge that each of the Parties hereto has been represented by counsel in connection with the negotiation and execution of this Agreement and the other Transaction Documents. Accordingly, any rule of law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the drafting party has no application and is expressly waived.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date first above written.

INTEL CORPORATION

By: _____
Name: _____
Title: _____

STMICROELECTRONICS N.V.

By: _____
Name: _____
Title: _____

[Signature page to Master Agreement]

FRANCISCO PARTNERS II (CAYMAN) L.P.

By: FRANCISCO PARTNERS GP II (CAYMAN) L.P., its
General Partner

By: FRANCISCO PARTNERS GP II MANAGEMENT (CAYMAN)
Limited, its General Partner

By: _____
Name: _____
Title: _____

REDWOOD BLOCKER S.A.R.L.

By: _____
Name: _____
Title: _____

[Signature page to Master Agreement]

APPENDIX A
TO MASTER AGREEMENT

“Affiliate”, with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” or “under common control with”), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

“Agreement” has the meaning set forth in the introduction to this Agreement.

“Applicable Law” means, with respect to any Person, any federal, state, local or foreign statute, law, ordinance, rule, administrative interpretation, regulation, order, writ, injunction, directive, judgment, decree or other requirement of any Governmental Authority applicable to such Person or any of its Affiliates or any of their respective properties, assets, officers, directors, employees, consultants or agents.

“Articles of Association” means the Articles of Association of Newco, in substantially the form attached to Schedule 2.4 of both of the Master Agreement Disclosure Letters, as amended from time to time.

“Bank Guarantee” shall have the meaning set forth in Section 5.11(g) of the ST Asset Contribution Agreement.

“Business” means the Intel Business or the ST Business, as applicable.

“Business Day” means each day other than a Saturday, Sunday or other day on which commercial banks in New York, New York or Geneva, Switzerland are authorized or required by law to close.

“Cash and Cash Equivalents” means all cash on hand and cash equivalents of a Person (whether or not related to the applicable Business), including currency and coins, negotiable checks, bank accounts, marketable securities, commercial paper, certificates of deposit, treasury bills, surety bonds and money market funds.

“Claims” means all rights to causes of action, claims, demands, rights and privileges against third parties, whether liquidated or unliquidated, fixed or contingent, choate or inchoate.

“Closing” shall have the meaning set forth in Section 2.5 of this Agreement.

“Closing Date” means the date of the Closing, as further described in Section 2.5 of this Agreement.

“Commitment Letter” means that certain Senior Secured Credit Facilities Commitment Letter dated May 22, 2007 by and between Goldman Sachs Credit Partners L.P., JP Morgan

Chase Bank, N.A., J.P. Morgan Securities Inc., Merrill Lynch Capital Corporation, Francisco Partners (Cayman) II, L.P., Intel Corporation and STMicroelectronics NV.

“Competition Law” means the Sherman Antitrust Act of 1890, the Clayton Act of 1914, the HSR Act, the Federal Trade Commission Act, and all other domestic or foreign Applicable Laws passed by a domestic or foreign Governmental Authority that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition.

“Confidential Information” means any (i) information in tangible form that bears a “confidential,” “proprietary,” “secret” or similar legend, including the Intel Transferred Trade Secrets set forth on Schedule 2.1(h) of the Intel ATA Disclosure Letter, the Intel Retained Trade Secrets, the ST Transferred Trade Secrets set forth on Schedule 2.1(h) to the ST ACA Disclosure Letter, the ST Retained Trade Secrets, any books and records of any Party, and any other confidential information disclosed by any Party to any other Party(ies) in connection with the negotiation, evaluation and implementation of the Transaction Documents, including any information disclosed on the ST ACA Disclosure Letter or the Intel ATA Disclosure Letter and any information provided pursuant to Section 4.1 of this Agreement; (ii) information that a Party observes or perceives by inspection of tangible objects (including without limitation documents, prototypes, or samples) or otherwise while present at another Party’s facilities or any other location at which tangible objects embodying another Party’s Confidential Information is accessible; and (iii) any information to which a Party receives access as a result of the relationship of the Parties or such Party’s performance under a Transaction Document. Each Party will make a reasonable good faith effort to identify as “confidential” or the like the information in tangible form that it wishes to be treated as Confidential Information pursuant to this Agreement, but a Party’s failure to so mark any such information shall not relieve a Receiving Party of its obligations under this Agreement. Notwithstanding the foregoing, “Confidential Information” does not include: (x) any information that is or has become generally available to the public other than as a result of a disclosure by the Receiving Party or any Affiliate thereof in breach of any of the provisions of the Confidentiality Agreement or any other similar contract to which the Receiving Party, or any Affiliate thereof is bound; (y) any information that has been independently developed by the Receiving Party (or any Affiliate thereof) without violating any of the provisions of the Confidentiality Agreement or any other similar contract to which the Receiving Party, or any Affiliate thereof is bound; or (z) any information made available to the Receiving Party (or any Affiliate thereof) on a non-confidential basis by any third party who is not prohibited from disclosing such information to the Receiving Party by a legal, contractual or fiduciary obligation.

“Confidentiality Agreement” means that certain Confidentiality Agreement among Intel, ST and FP dated as of May 22, 2007.

“Consolidation” means either the FP Consolidation or a transaction undertaken by an Intel Affiliate or ST Affiliate pursuant to the last sentence of Section 6.9 of the Shareholders’ Agreement.

“Contemplated Financing” means either of: (i) the debt financing pursuant to the Commitment Letter; or (ii) substitute debt financing on substantially equivalent economic terms

that is adequate to provide working capital requirements and funds for other general corporate purposes of Newco and its Subsidiaries following the Closing.

“Contract” means each contract, agreement, option, lease, license, cross-license, sale and purchase order, commitment and other instrument of any kind, whether written or oral.

“Control” has the meaning such that a Person (or group of related Persons) exercises Control over a Party when such Person or group owns or controls (either directly or indirectly) any of the following: (a) if the Party issues voting stock or other voting securities, more than 50% of the outstanding stock or securities entitled to vote for the election of directors or similar managing authority; or (b) if such Party does not issue voting stock or other voting securities, more than 50% of the ownership interest that represents the right to make decisions for such Party; or (c) any other ability to elect more than half of the board of directors or similar managing authority of the subject Party, whether by contract or otherwise.

“Copyrights” means copyrights and mask work rights (whether or not registered) and registrations and applications therefor, worldwide.

“Determination Date” shall have the meaning set forth in Section 4.12(a) of this Agreement.

“Disclosure Letters” means the Intel ATA Disclosure Letter, the ST ACA Disclosure Letter, the Intel Master Agreement Disclosure Letter and the ST Master Agreement Disclosure Letter.

“Effective Time” means, unless otherwise agreed by the Parties, 12:01 a.m. GMT on the Closing Date.

“Embedded PCM Product” means an Integrated Circuit that is comprised of a PCM Product and a microcontroller, processor or other non-memory device.

“Environmental Consultants” means one or more third-party environmental consultants with expertise in the relevant jurisdictions.

“Environmental Laws” means any Applicable Laws of any Governmental Authority in effect as of the Closing Date, unless otherwise noted, relating to pollution, protection or remediation of the environment, the use, storage, treatment, generation, manufacture, distribution, transportation, processing, handling, Release, disposal of or exposure to Hazardous Substances or, as such relate to Hazardous Substances, public and occupational health and safety.

“Environmental Liability” means any Liability or Loss, including the cost of any Remedial Action, arising in connection with (i) the use, generation, storage, treatment, manufacture, distribution, transportation, processing, handling, disposal or Release of any Hazardous Substances, (ii) the violation of or liability under any Environmental Laws or any Governmental Approval relating to any Hazardous Substances or (iii) any third party claim, litigation or proceeding relating to any Hazardous Substance or Environmental Laws.

“Environmental Permits” means all permits, licenses or other authorizations of any Governmental Authority required pursuant to applicable Environmental Law.

“Equity Plan” means an equity compensation plan for Newco, with terms reasonably satisfactory to Newco, Intel, ST, and FP, pursuant to which no more than 6% of the outstanding share capital of Newco at the Closing Date shall be reserved for issuance.

“Exchange Act” means the United States Securities Exchange Act of 1934.

“Fab 18” means the facilities described in the Facility Transfer Term Sheet for the Lachish Facility, Israel that are contemplated to be transferred by Intel or any Subsidiary of Intel to Newco at the Closing and any Intel Transferred Assets located on such premises.

“Flash Memory Integrated Circuit” means a non-volatile memory integrated circuit that contains memory cells that are electrically programmable and electrically erasable whereby the memory cells consist of one or more transistors that have a floating gate, charge-trapping regions or any other functionally equivalent structure utilizing one or more different charge levels (including binary or multi-level cell structures) with or without any on-chip control, I/O and other support circuitry.

“FP” has the meaning set forth in the introduction to this Agreement.

“FP Consolidation” shall have the meaning set forth in Section 6.9 of the Shareholders’ Agreement.

“FP Costs” shall have the meaning set forth in Section 6.2(b) of this Agreement.

“FP Holdco” has the meaning set forth in the introduction to this Agreement.

“FP Material Adverse Effect” means any event, change or circumstance that, individually or in the aggregate with all other such events, changes or circumstances, that is materially adverse to the ability of FP or FP Holdco to perform its obligations under any Transaction Document to which it is or will be a party or to consummate the transactions contemplated thereby.

“FP Newco Shares” shall have the meaning set forth in Section 2.1 of the Share Purchase Agreement.

“GAAP” means generally accepted accounting principles in the United States of America, applied on a consistent basis, as in effect as of the date hereof.

“Governmental Approval” means an authorization, consent, approval, permit or license issued by, or a registration or filing with, or notice to, or waiver from, any Governmental Authority.

“Governmental Authority” means any United States or non-United States federal, territorial, state or local governmental authority, quasi-governmental authority, instrumentality, court, government or self-regulatory organization, commission, tribunal or organization or any

regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing.

“Governmental Consents Termination Date” means December 31, 2007 subject to extension as provided in Article VI of this Agreement.

“Hazardous Substance” shall mean any hazardous substance within the meaning of Section 101(14) of the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601(14), and any chemical, substance, material, agent or waste defined or regulated as toxic, hazardous, extremely hazardous or radioactive, or as a pollutant or contaminant, under any applicable Environmental Law, including petroleum, petroleum derivatives, petroleum by-products or other hydrocarbons, asbestos or asbestos-containing material and polychlorinated biphenyls.

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

“Hynix JV” means Hynix-ST Semiconductor Ltd., a wholly foreign-owned entity established under the laws of the People’s Republic of China.

“Hynix JV Junior Credit Agreement” means the US\$250,000,000 Facility Agreement, dated August 24, 2006, among the Hynix JV, as borrower, and DBS Bank Ltd. as arranger and original lender, agent and security agent.

“IBA Rules of Evidence” means the IBA Rules on the Taking of Evidence in International Commercial Arbitration.

“ICC” means the International Chamber of Commerce.

“Indebtedness” means any (i) indebtedness for borrowed money, (ii) indebtedness evidenced by any bond, debenture, note, mortgage, indenture or other debt instrument or debt security, or (iii) guarantees with respect to any indebtedness or obligation of a type described in clauses (i) through (ii) above of any other Person.

“Indemnified Persons” has the meaning set forth in Section 4.16(d) of this Agreement.

“Indemnitee” shall (i) for purposes of the Intel Asset Transfer Agreement, have the meaning set forth in Section 6.2(c) of the Intel Asset Transfer Agreement, and (ii) for purposes of the ST Asset Contribution Agreement, have the meaning set forth in Section 6.2(c) of the ST Asset Contribution Agreement.

“Indemnitor” shall (i) for purposes of the Intel Asset Transfer Agreement, have the meaning set forth in Section 6.2(c) of the Intel Asset Transfer Agreement, and (ii) for purposes of the ST Asset Contribution Agreement, have the meaning set forth in Section 6.2(c) of the ST Asset Contribution Agreement.

“Integrated Circuit” means an integrated unit comprising one or more active and/or passive circuit elements associated on one or more substrates, such unit forming, or contributing

to the formation of, a circuit for performing electrical functions (including, if provided therewith, housing and/or supporting means).

“Intel” has the meaning set forth in the introduction to this Agreement.

“Intel Ancillary Agreements” means the Intel Assignment and Assumption Agreements, Intel Bills of Sale, Intel Intellectual Property Agreement, Intel Transition Services Agreements, Intel Facility Transfer Agreements, Intel Joint Development Agreement, Intel Supply Agreements, Intel Assumption of Excluded Liabilities, Intel Copyright Assignment, Intel Patent Assignment and Intel Trademark Assignment.

“Intel Approvals” means the required consents, waivers and approvals of Intel set forth on Schedule 3.3 of the Intel ATA Disclosure Letter and Schedule 3.1(c) of the Intel Master Agreement Disclosure Letter.

“Intel Architecture Emulators” means software, firmware, or hardware that, through emulation, simulation or any other process, allows a computer that does not contain an Intel Compatible Processor (or a Processor that is not an Intel Compatible Processor) to execute binary code that is capable of being executed on an Intel Compatible Processor.

“Intel Asset Transfer Agreement” means that certain Asset Transfer Agreement to be entered into by Intel and Newco as of the Closing Date, in substantially the form attached to Schedule 2.1 to the Intel Master Agreement Disclosure Letter.

“Intel Assignment and Assumption Agreement” means, collectively, the Assignment and Assumption Agreements to be entered into by Newco or its Affiliates, on one hand, and Intel or its Affiliates, on the other hand, as of the Closing Date, in substantially the form attached as Exhibit A to the Intel Asset Transfer Agreement.

“Intel Assumption of Excluded Liabilities” shall have the meaning set forth in Section 2.4 of the Intel Asset Transfer Agreement.

“Intel ATA Disclosure Letter” means the disclosure letter, as agreed to between the Parties as of the date of the Master Agreement (with such amendments or new schedules as may be subsequently made pursuant to Section 4.12 of this Agreement), containing the Schedules required by the provisions of such agreement.

“Intel Bill of Sale” means any bill of sale or other similar document reasonably requested by any Party and reasonably necessary to transfer any Intel Transferred Asset in accordance with applicable law to be executed by one or more Intel Transferors in favor of Newco or a Subsidiary of Newco as of the Closing Date, each in substantially the form attached as Exhibit B to the Intel Asset Transfer Agreement.

“Intel Books and Records” means all of the books of account, general and financial records, invoices, shipping records, customer records, supplier lists, correspondence and other documents, records and files of Intel and its Subsidiaries whether in hard copy or computer format which relate exclusively to the Intel Business and are necessary for the conduct of such Intel Business after the Closing (excluding all personnel records or any employee information for

Intel Business Employees who are not Intel Transferred Employees employed by an Intel Transferred Entity as of the Closing Date).

“Intel Bus” means a proprietary bus or other proprietary data path first introduced by Intel or any Intel Licensed Subsidiary that (i) is capable of transmitting and/or receiving information within an Integrated Circuit or between two or more Integrated Circuits, together with the set of protocols defining the electrical, physical, timing and functional characteristics, sequences and control procedures of such bus or data path; and (ii) to which neither Intel nor any Intel Licensed Subsidiary (during any time such Intel Licensed Subsidiary has met the requirements of being a Licensed Subsidiary) has granted a license or committed to grant a license through its participation in a government sponsored, industry sponsored, or contractually formed group or any similar organization that is dedicated to creating publicly available standards or specifications; and (iii) which neither Intel nor any Intel Licensed Subsidiary (during any time such Intel Licensed Subsidiary has met the requirements of being a Licensed Subsidiary) has publicly disclosed without an obligation of confidentiality.

“Intel Business” means the sale, manufacture, design and or development of NOR Flash Memory Products, Phase Change Memory technology (subject to Schedule 2.2(o) to the Intel ATA Disclosure Letter), and Stacked Memory Products.

“Intel Business Audited Financial Statements” shall have the meaning set forth in Section 5.2(h) of this Agreement.

“Intel Business Capital Expenditures Plan” means the plan set forth on Schedule 3.14(e) of the Intel ATA Disclosure Letter setting forth (i) the actual capital expenditures of Intel with respect to the Intel Business for its first fiscal quarter of 2007; and (ii) the budgeted capital expenditures of Intel with respect to the Intel Business for the second, third and fourth fiscal quarters of 2007.

“Intel Business Employees” means the employees who are identified on Schedule 3.12(c) of the Intel ATA Disclosure Letter.

“Intel Compatible Chipsets” means one or more Integrated Circuits that alone or together are capable of electrically interfacing directly (with or without buffering or pin reassignment) with an Intel Compatible Processor to form the connection between the Intel Compatible Processor and any other device (or group of devices) including Processors, input/output devices, and networks; provided that an Integrated Circuit that functions primarily as a memory storage device shall not be deemed to be an Intel Compatible Chipset.

“Intel Compatible Compilers” means a compiler that generates object code that can, without any additional processing other than linkage processing, be executed on any Intel Processor.

“Intel Compatible Processors” means any Processor that (i) can perform substantially the same functions as an Intel Processor by compatibly executing or otherwise processing (A) 50% or more of the instruction set of an Intel Processor or (B) binary code versions of applications or other software targeted to run on or with an Intel Processor, in order to achieve substantially the same result as an Intel Processor; or (ii) is substantially compatible with an Intel Processor Bus.

“Intel Contract” means any Contract of Intel or its Subsidiaries.

“Intel Contractual Consents” shall have the meaning set forth in Section 3.8(b) of the Intel Asset Transfer Agreement.

“Intel Copyright Assignment” means any agreement for the assignment of Intel Transferred Copyrights by an Intel Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“Intel Environmental Reports” means reports or audits prepared by the Environmental Consultants summarizing the results of Phase I, Phase II and environmental compliance audits regarding the Owned Intel Real Property, the Leased Intel Real Property and any property that is the subject of an Intel Lease, which shall be reasonably satisfactory to FP and ST in form and substance, and paid for by ST. At the request of Newco, Intel shall review the Intel Environmental Reports and confirm that all Environmental Liabilities identified in such reports are sufficiently identified as to scope as that term is used in clause (iii) of the definition of Intel Pre-Closing Environmental Liability. If Intel believes the issues are not sufficiently identified, Intel must pay for the additional investigation to further characterize the Environmental Liability sufficient to meet the criteria in clause (iii) of the definition of Intel Pre-Closing Environmental Liability.

“Intel Excluded Employees” shall have the meaning set forth in Section 4.11(b) of this Agreement.

“Intel Facility Transfer Agreements” means the Intel Facility Transfer Agreements to be entered into by and between Intel and Newco on the Closing Date, based on the terms and conditions set forth in the Intel Facility Transfer Term Sheets.

“Intel Facility Transfer Term Sheets” means the term sheets attached to Schedule 4.22(a) to the Intel Master Agreement Disclosure Letter reflecting the terms and conditions upon which the agreements and other related documents effecting the transfer by Intel and its Subsidiaries of the Intel Transferred Facilities to Newco and its Subsidiaries shall be substantially based.

“Intel Intellectual Property Agreement” means the Intellectual Property Agreement to be entered into by and between Intel and Newco on the Closing Date, in substantially the form attached to Schedule 2.1 of the Intel Master Agreement Disclosure Letter.

“Intel Joint Development Agreement” means the Joint Development Agreement by and between Intel and Newco to be entered into on the Closing Date, in substantially the form attached to the Schedule 2.1 of the Intel Master Agreement Disclosure Letter.

“Intel Leases” means all leases or other occupancy agreements pursuant to which Intel or its Subsidiaries lease or occupy the Leased Intel Real Property.

“Intel Master Agreement Disclosure Letter” means the disclosure letter, as delivered by Intel to ST and FP as of the date of the Master Agreement (with such amendments as may be subsequently made pursuant to the terms of such agreement), containing the Schedules required by the provisions of such agreement.

“Intel Material Adverse Effect” means any event, change or circumstance that, individually or in the aggregate with all other such events, changes or circumstances, (i) results in a material adverse effect on, or material adverse change in, the Intel Transferred Assets, taken as a whole, or (ii) any event, change or circumstance that is materially adverse to the ability of Intel to perform its obligations under any Transaction Document to which it is or will be a party or to consummate the transactions contemplated thereby, other than, in the case of clause (i) above, such changes, effects or circumstances reasonably attributable to: (A) economic, capital market or political conditions generally in the United States or foreign economies in any locations where the Intel Business has material operations or sales, provided the changes, effects or circumstances do not have a materially disproportionate effect (relative to other industry participants) on the Intel Business, (B) conditions generally affecting the industry in which the Intel Business operates, provided that the changes, effects or circumstances do not have a materially disproportionate effect (relative to other industry participants) on the Intel Business; (C) the announcement or pendency of the transactions contemplated by the Transaction Documents; (D) outbreak of hostilities or war, acts of terrorism or acts of God; or (E) compliance with Intel’s obligations or the satisfaction of the conditions to the closing of the transactions contemplated by the Transaction Documents.

“Intel Newco Shares” shall have the meaning set forth in Section 2.6(a) of the Intel Asset Transfer Agreement.

“Intel Option” means that certain Option to Purchase Ordinary Shares to be entered into between Newco and Intel or one or more of Intel’s Affiliate(s), in substantially the form attached to Schedule 4.16(d) of the Intel Master Agreement Disclosure Letter.

“Intel Patent Assignment” means any agreement for the assignment of Intel Transferred Patents by an Intel Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“Intel Post-Closing Environmental Liability” shall mean any Environmental Liability, including a worsening of existing conditions, to the extent arising out of or relating to (i) Newco’s acts occurring after the Closing Date, (ii) Newco’s inaction occurring one year or later after the Closing Date, or (iii) Newco’s inaction occurring within one year after the Closing Date if Newco knew about the existing condition and its inaction worsened the existing condition; and in connection with a Newco Business or the Intel Business, the Owned Intel Real Property, the Leased Intel Real Property, the Intel Transferred Assets or the Intel Transferred Entities or the ownership or operation of a Newco Business or the Intel Business, the Owned Intel Real Property, the Leased Intel Real Property or the Intel Transferred Assets, the Intel Transferred Entities by, or the disposal or treatment of Hazardous Substances generated by, Newco or an Affiliate of Newco (including an Intel Transferred Entity) after the Closing Date.

“Intel Pre-Closing Environmental Liability” shall mean any Environmental Liability which (i) relates to the ownership or operation of the Intel Business (as now or previously conducted), the Owned Intel Real Property, the Leased Intel Real Property, the Intel Transferred Assets, the Intel Transferred Entities, the Intel Shared Facilities or any other real property or facility owned, leased, operated or used in connection with the Intel Business (as now or previously conducted) or for the disposal or treatment of Hazardous Substances generated in

connection with the Intel Business, the Owned Intel Real Property, the Leased Intel Real Property, the Intel Transferred Assets, or the Intel Transferred Entities, (ii) arises out of or relates to acts occurring or conditions existing on or prior to the Closing Date, but only to the extent that the Environmental Liability arising out of or relating to acts occurring or conditions existing on or prior to the Closing Date can be identified from (A) the Intel Environmental Reports so long as such reports are issued not later than one year subsequent to the Closing or (B) documents or data generated prior to the Closing and in the possession of Intel prior to the Closing, and (iii) is identified in the foregoing documents and/or data with sufficient specificity so as to clearly identify the scope of the Environmental Liability that is attributable to the Intel Business, the Owned Intel Real Property, the Leased Intel Real Property, the Intel Transferred Assets, or the Intel Transferred Entities. Notwithstanding the foregoing, Intel Pre-Closing Environmental Liability shall not include any Intel Post-Closing Environmental Liability.

“Intel Processor” means a Processor first developed by, for or with substantial participation by Intel or any Intel Licensed Subsidiary, or the design of which has been purchased or otherwise acquired by Intel or any Intel Licensed Subsidiary, including the Intel® 8086, 80186, 80286, 80386, 80486, Celeron®, Core™, Pentium®, Xeon™, StrongARM, XScale®, Itanium®, MXP, IXP, 80860 and 80960 microprocessor families, and the 8087, 80287, and 80387 math coprocessor families.

“Intel Processor Bus” means an Intel Bus that is capable of connecting one or more Intel Processors to each other or to an Intel Compatible Chipset.

“Intel Products” means all NOR Flash Memory Products and all Stacked Memory Products, manufactured, sold, or under development by Intel as of the Effective Date, including those listed on Schedule 1.1(c) of the Intel ATA Disclosure Letter.

“Intel Proprietary Product” means Intel Compatible Processors, Intel Architecture Emulators, Intel Compatible Compilers, any product that implements an Intel Processor Bus, and Intel Compatible Chipsets.

“Intel Real Property” means all real property, leaseholds and other interests in real property owned or leased by Intel or its Subsidiaries and used or held for use exclusively in the Intel Business, including all real property identified in Schedule 3.6 of the Intel ATA Disclosure Letter, together in each case with Intel’s or its Subsidiary’s right, title and interest in and to all structures, facilities or improvements currently or as of the Closing Date located thereon and all easements, licenses, rights and appurtenances relating to the foregoing.

“Intel Restricted Employees” shall have the meaning set forth in Section 4.7(a) of this Agreement.

“Intel Retained Trade Secrets” means trade secrets, know-how and other proprietary information owned by Intel or any Licensed Subsidiary thereof as of the Closing Date and not included in the Intel Transferred Trade Secrets that are or have been used by Intel in connection with the Intel Business.

“Intel Supply Agreement” means the Supply Agreement identified on Schedule 2.1 of both of the Master Agreement Disclosure Letters to be entered into by and between Intel and Newco on the Closing Date, in substantially the form attached to such schedule.

“Intel Trademark Assignment” means any agreement for the assignment of Intel Transferred Trademarks by an ST Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“Intel Transferors” shall have the meaning set forth in the Recitals of the Intel Asset Transfer Agreement.

“Intel Transferred Assets” shall have the meaning set forth in Section 2.1 of the Intel Asset Transfer Agreement.

“Intel Transferred Contracts” means all unexpired contracts set forth on Schedule 2.1(e) of the Intel ATA Disclosure Letter, together with the Intel Transferred Purchase Orders, the Intel Transferred Sales Orders and the Intel Leases.

“Intel Transferred Copyrights” means the Copyrights identified on Schedule 2.1(i) of the Intel ATA Disclosure Letter.

“Intel Transferred Employees” means the Intel Business Employees who accept an offer of employment from Newco and who begin their employment with Newco at the Closing (or, to the extent permitted by Applicable Law with respect to inactive employees on short-term, medical or other leave of absence, at the time such employee returns to active status) or such other date as the parties may reasonably agree.

“Intel Transferred Entity Books and Records” means the minute books, stock records, Tax Returns and other records related to Taxes, if any, in each case of each of the Intel Transferred Entities

“Intel Transferred Intellectual Property” means, collectively, the Intel Transferred Copyrights, Intel Transferred Patents, Intel Transferred Trademarks and Intel Transferred Trade Secrets.

“Intel Transferred Interests” means 100% of the outstanding equity, voting and profit interests in the Intel Transferred Entities.

“Intel Transferred Liabilities” shall have the meaning set forth in Section 2.3 of the Intel Asset Transfer Agreement.

“Intel Transferred Patents” means those Patents identified on Schedule 2.1(h) of the Intel ATA Disclosure Letter.

“Intel Transferred Permits” means those Permits identified on Schedule 2.1(l) of the Intel ATA Disclosure Letter.

“Intel Transferred Sales Orders” means all pending and unfulfilled sales orders or portions thereof for Intel Products.

“Intel Transferred Trade Secrets” means any Trade Secrets owned by Intel or any of its Subsidiaries as of the Closing Date (including any such Trade Secrets that consist of technical documentation of the nature of the files and other documentation identified on Schedule 2.1(h) to the Intel ATA Disclosure Letter) that are used exclusively in the Intel Business and not materially embodied or used in or with any other current product or service of Intel or any of its Subsidiaries.

“Intel Transferred Trademarks” means those Trademarks identified on Schedule 2.1(k) of the Intel ATA Disclosure Letter.

“Intel Transition Services Agreement” means the Intel Transition Services Agreement identified on Schedule 2.1 of both of the Master Agreement Disclosure Letters to be entered into by and between Intel and Newco on the Closing Date, in substantially the form attached to such schedule.

“Intellectual Property” means intellectual property rights arising from or in respect of the following, whether protected, created or arising under the laws of the United States or any other jurisdiction: Copyrights, Trade Secrets, Patents and Trademarks.

“Italian Newco” means the entity that will be formed in Italy prior to the Closing Date in connection with the demerger of assets and liabilities of the ST Business from STMicroelectronics S.r.l. and which will operate certain Italian assets of the ST Business following the Closing.

“Knowledge” means, with respect to any Person, the actual knowledge of such Person. Notwithstanding the foregoing, with respect to any Person that is a corporation, limited liability company, partnership or other business entity, actual knowledge shall be deemed to mean the actual knowledge of all directors and officers of any such Person; *provided, however*, that (i) with respect to Intel, “Knowledge” shall be deemed to be solely the actual knowledge of the individuals identified in Section A of Schedule 1.1(b) of the Intel ATA Disclosure Letter, after obtaining from the individuals identified in Section B of Schedule 1.1(b) of the Intel ATA Disclosure Letter a certification as to their actual knowledge of each matter with respect to which Intel makes any representation or warranty as to its Knowledge under any Transaction Document, (ii) with respect to ST, “Knowledge” shall be deemed to be solely the actual knowledge of the individuals identified on Schedule 1.1(b) of the ST ACA Disclosure Letter, after obtaining from the individuals identified on Schedule 1.1(b) of the ST ACA Disclosure Letter a certification as to their actual knowledge of each matter with respect to which ST makes any representation or warranty as to its Knowledge under any Transaction Document, and (iii) with respect to FP, “Knowledge” shall be deemed to be solely the actual knowledge of David ibnAle, Phokion Potamianos, and Keith Toh.

“Leased Intel Real Property” means the Intel Real Property listed in Schedule 3.6(b) of the Intel ATA Disclosure Letter.

“Leased ST Real Property” means the ST Real Property listed in Schedule 3.6(b) of the ST ACA Disclosure Letter.

“Letters of Approval” means the Letters of Approval dated December 7, 2005 and the Letter of Approval dated September 17, 1996, in each case, issued to Intel Electronics Ltd. by the Investment Center pursuant to the Israel Law for the Encouragement of Capital Investments, 1959.

“Liability” means, with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, asserted or unasserted, accrued or unaccrued, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, absolute, contingent, executory, determined, determinable or otherwise and whether or not the same is required to be accrued on the financial statements of such Person.

“Licensed Subsidiary” means any corporation, partnership, joint venture, limited liability company or other entity recognized in any jurisdiction in the world, now or hereafter, in which Intel, ST or Newco, as the case may be, owns or controls (either directly or indirectly) any of the following:

- (i) if such entity has voting shares or stock or other voting securities, more than 50% of the outstanding shares or stock or securities entitled to vote for the election of directors or similar managing authority; or
- (ii) if such entity does not have voting shares or stock or other voting securities, more than 50% of the ownership interest that represents the right to make decisions for such entity; or
- (iii) any other ability to elect more than half of the board of directors or similar managing authority of the subject entity, whether by contract or otherwise.

An entity shall be deemed to be a Licensed Subsidiary under this Agreement only so long as the Party (Newco, Intel or ST, as the case may be) owning or controlling the shares, stock, securities or other ownership interest required above has not contractually or otherwise surrendered, limited or in any other way constrained its authority to elect the managing authority or make decisions for the entity, and only so long as all the requisite conditions of being a Licensed Subsidiary are met. For clarity, any event causing a Person that was once a Licensed Subsidiary to no longer meet the requisite conditions of being a Licensed Subsidiary as set forth in this Section, shall render such Person to be no longer a Licensed Subsidiary.

“Lien” means, with respect to any asset, any lien, mortgage, pledge, hypothecation, right of others, claim, security interest, encumbrance, lease, sublease, license, interest, option, charge or other restriction or limitation of any nature whatsoever in respect of such asset, including any Share Encumbrance; *provided, however*, that any license of Intellectual Property shall not be considered a Lien on such Intellectual Property.

“Losses” means any and all deficiencies, judgments, settlements, demands, claims, suits, actions or causes of action, assessments, liabilities, losses, damages (excluding indirect, incidental or consequential damages), interest, fines, penalties, costs and expenses (including

reasonable legal, accounting and other costs and expenses) incurred in connection with investigating, defending, settling or satisfying any and all demands, claims, actions, causes of action, suits, proceedings, assessments, judgments or appeals, and in seeking indemnification therefor.

“Management Board” means the “Managing Board” as referenced in the Articles of Association.

“Managing Director” means any member of Newco’s Management Board.

“Master Agreement” has the meaning set forth in the introduction to this Agreement..

“Master Agreement Disclosure Letter” means each of the Intel Master Agreement Disclosure Letter and the ST Master Agreement Disclosure Letter.

“Memory Device” shall mean an Integrated Circuit alone and not in combination with any other product containing one or more memory cells, together with the circuit elements connected to the memory cells that are functionally necessary for carrying out memory hierarchy functions in association with the memory cells, including, by way of example, decoding circuits, control circuits for memory sequencing, sensing circuits, input protection circuits, high speed interface circuits, signal I/O amplification circuits, redundancy circuits, delay elements, test mode control circuits, reliability stress algorithms, address transition detection circuits, user selectable operating mode detection circuits, reference generators or voltage generator modules. Memory Device does not include Processors or Intel Proprietary Products.

“NAND Flash Memory Integrated Circuit” means a Flash Memory Integrated Circuit wherein the memory cells included in the Flash Memory Integrated Circuit are arranged in groups of serially connected memory cells (each such group of serially connected memory cells called a “string”) in which the drain of each memory cell of a string (other than the first memory cell in the string) is connected in series to the source of another memory cell in such string, the gate of each memory cell in such string is directly accessible, and the drain of the uppermost bit of such string is coupled to the bitline of the memory array.

“NAND Flash Memory Product” means a NAND Flash Memory Integrated Circuit, in die, wafer, or packaged form, that utilizes (i) electrically programmable and electrically erasable utilizing floating gate to substrate Fowler-Nordheim charge transfer mechanism for both programming and erase operations; (ii) electrically programmable and electrically erasable utilizing floating gate to substrate Fowler-Nordheim charge transfer mechanism for programming and hot-hole injection for erase operations; or (iii) memory cells arranged in groups of serially connect memory cells (each such group of serially connect memory cells called a “string”) in which the drain of each memory cell of a string (other than the first memory cell in the string) is connected in series to the source of another memory cell in such string, the gate of each memory cell in such string is directly accessible, and the drain of the uppermost bit of such string is coupled to the bitline of the memory array.

“Newco” means [NEWCO], a Besloten Vennootschap organized under the laws of the Netherlands, to be named by mutual agreement of Intel, ST and FP.

“Newco Allocated Positions” means those positions with Newco for which a Intel Business Employee or a ST Business Employee is not allocated on Schedule 3.12(c) to the Intel ATA Disclosure Letter or Schedule 3.12(c) to the ST ACA Disclosure Letter.

“Newco Approvals” means any Governmental Approval which Intel, ST and FP reasonably agree Newco must obtain in order to consummate the transactions contemplated by the Transaction Documents.

“Newco Business” means the sale, manufacture, design and/or development of advanced memory solutions, including Flash Memory Integrated Circuits, Phase Change Memory Products, Stacked Memory Products and platform memory products which include data management memory components for applications including without limitation cellular phones, memory cards, digital audio players, data processing platform memory and embedded form factors.

“NOR Flash Memory Integrated Circuit” means a Flash Memory Integrated Circuit wherein the memory cells included in the Flash Memory Integrated Circuit are arranged in groups of connected memory cells in which the gate, source and drain of each memory cell is directly accessible.

“NOR Flash Memory Product” means a NOR Flash Memory Integrated Circuit, in die, wafer or packaged form, utilizing a hot carrier injection programming mechanism and one floating gate charge storage region per transistor whereby the memory array is arranged so that the drain of one memory cell is connected directly to a source line through at most one memory transistor.

“Ordinary Shares” means ordinary shares of Newco, par value [] eurocent per share.

“Owned Intel Real Property” means the Intel Real Property listed in Schedule 3.6(a) of the Intel ATA Disclosure Letter.

“Owned ST Real Property” means the Intel Real Property listed in Schedule 3.6(a) of the ST ACA Disclosure Letter.

“Party” has the meaning set forth in the introduction to this Agreement.

“Patents” means patents and applications worldwide, including continuation, divisional, continuation in part, reexamination, or reissue patent applications and patents issuing thereon.

“Permits” means all permits, licenses, franchises, approvals, certificates, consents, waivers, concessions, exemptions, orders, registrations, notices or other authorizations of any Governmental Authority necessary for a Party or its Subsidiaries to own, lease and operate such Party’s Transferred Assets and to carry on such Party’s Business as currently conducted.

“Permitted Liens” means (i) Liens for Taxes or governmental assessments, charges or claims the payment of which is not yet due or which are both (A) being contested in good faith, and (B) described in reasonable detail on a Schedule to the applicable Transaction Document, (ii) statutory Liens of landlords and statutory Liens of carriers, warehousemen, mechanics or

materialmen incurred in the ordinary course of business which are either for sums not yet due or are immaterial in amount, (iii) zoning, entitlement, and other land use laws, and (iv) easements and other imperfections of title or encumbrances, in each case, that do not materially detract from the value of the relevant Transferred Asset or materially interfere with any present or intended use of such Transferred Asset.

“Permitted Transferee” means with respect to a Shareholder, any direct or indirect wholly owned subsidiary of such Shareholder, any parent company that directly or indirectly wholly owns such Shareholder, or any direct or indirect wholly owned subsidiary of such parent company.

“Person” means an individual, corporation, partnership, association, limited liability company, trust, estate or other similar business entity or organization, including a Governmental Authority and any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

“Phase Change Memory” or “PCM” means a Memory Device in die, wafer or packaged form, adjusting the phase of material, such as a chalcogenide, as a means to store one or more different data states (including binary or multi-level cell structures) with or without any on-chip control, I/O and other support circuitry.

“Phase Change Memory Products” or “PCM Products” mean non-volatile memory Integrated Circuits that contain memory cells that are electrically programmable and electrically erasable whereby the memory cells consist of one or more structures that contain a chalcogenide or any other functionally equivalent phase change material utilizing one or more different material phases (including binary or multi-level cell structures), with or without any on-chip control, I/O and other support circuitry.

“Preferred Shares” means convertible preferred shares of Newco, par value [] eurocent per share.

“Proceeding” means any action, suit, claim, charge, hearing, arbitration, audit, or proceeding (public or private).

“Processor” means any Integrated Circuit or combination of Integrated Circuits capable of processing digital data, such as a microprocessor or coprocessor (including a math coprocessor, graphics coprocessor, or digital signal processor).

“Prohibited Transaction” shall have the meaning set forth in Section 4.2 of this Agreement.

“Receiving Party” shall (i) for purposes of the Intel Asset Transfer Agreement, have the meaning set forth in Section 5.1(b) of the Intel Asset Transfer Agreement, (ii) for purposes of the ST Asset Contribution Agreement, have the meaning set forth in Section 5.1(b) of the ST Asset Contribution Agreement and (iii) for purposes of the Intel Intellectual Property Agreement and the ST Intellectual Property Agreement, with respect to Confidential Information of a Party, mean another Party that is not a Licensing Affiliate of such Party and that receives (or receives

access to) such Confidential Information pursuant to or in connection with the Intel Intellectual Property Agreement or the ST Intellectual Agreement.

“Release” means (i) any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, or other release of any Hazardous Substance at, in, on, into, or onto the environment; (ii) the abandonment or discard of barrels, containers, tanks, or other receptacles containing or previously containing any Hazardous Substance; or (iii) any release, emission, or discharge, as those terms are defined in any applicable Environmental Laws.

“Remedial Action” means investigation, evaluation, risk assessment, monitoring, response, removal, clean-up, remediation, corrective action or other terms of similar import and any related closure, post-closure, operations and maintenance or engineering control activities.

“Share Encumbrances” means Liens, claims, options, rights of other parties, voting trusts, proxies, shareholder or similar agreements, encumbrances or other restrictions (other than restrictions imposed by applicable securities laws).

“Share Purchase Agreement” means the Share Purchase Agreement to be entered into by FP and Newco as of the Closing Date, in substantially the form attached to Schedule 2.3 to the Intel Master Agreement Disclosure Letter and to Schedule 2.3 to the ST Master Agreement Disclosure Schedule.

“Shareholder” means each Person (other than Newco) that shall be a party to the Shareholders’ Agreement, whether in connection with the execution and delivery thereof as of the Closing Date or otherwise, so long as such Person shall beneficially own, hold of record or be a registered holder of any Shares.

“Shareholders’ Agreement” means the Shareholders’ Agreement by and among Intel (as used in this definition, “Intel” has the meaning ascribed to such term in the Shareholders’ Agreement), ST (as used in this definition, “ST” has the meaning ascribed to such term in the Shareholders’ Agreement), FP (as used in this definition, “FP” has the meaning ascribed to such term in the Shareholders’ Agreement), FP Holdco and Newco to be entered into on the Closing Date, substantially in the form attached to Schedule 2.4 to both of the Master Agreement Disclosure Letters.

“Shares” means the Ordinary Shares, the Preferred Shares and any other shares of the share capital of Newco issued on or after the date of the Shareholders’ Agreement.

“Specified Intel Representations” means any representation or warranty made by Intel in Sections 3.1 through 3.24 (other than Section 3.17) of the Intel Asset Transfer Agreement or Sections 3.1(a) through 3.1(g) of this Agreement (other than Section 3.17 of the Intel Asset Transfer Agreement).

“Specified Intel Schedules” means Schedule 3.1 through 3.24 (other than Schedule 3.17) of the Intel ATA Disclosure Letter or Schedules 3.1(a) through 3.1(g) of the Intel Master Agreement Disclosure Letter.

“Specified Newco Representations” means any representation or warranty made by Newco in Sections 4.1 through 4.8 of either of the Intel Asset Transfer Agreement or the ST Asset Contribution Agreement.

“Specified Newco Schedules” means Schedules 4.1 through 4.9 of the Newco ATA Disclosure Letter or Newco ACA Disclosure Letter.

“Specified ST Representations” means any representation or warranty made by ST in Sections 3.1 through 3.24 (other than Section 3.17) of the ST Asset Contribution Agreement or Sections 3.2(a) through 3.2(g) of this Agreement (other than Section 3.17 of the ST Asset Contribution Agreement).

“Specified ST Schedules” means Schedule 3.1 through 3.24 (other than Schedule 3.17) of the ST ACA Disclosure Letter or Schedules 3.2(a) through 3.2(g) of the ST Master Agreement Disclosure Letter.

“ST” has the meaning set forth in the introduction to this Agreement.

“ST ACA Disclosure Letter” means the disclosure letter, as agreed to between the Parties as of the date of the Master Agreement (with such amendments as may be subsequently made pursuant to the terms of such agreement), containing the Schedules required by the provisions of such agreement.

“ST Ancillary Agreements” means the ST Assignment and Assumption Agreements, ST Bills of Sale, ST Intellectual Property Agreement, ST Transition Services Agreements, ST Facility Transfer Agreements, ST Joint Development Agreement, ST Back-End Supply Agreement, ST M5 Consortium Agreement, ST R2 Consortium Agreement, TFR Indemnification Agreement, Bank Guarantee, ST Assumption of Excluded Liabilities, ST Copyright Assignment, ST Patent Assignment, ST Trademark Assignment and the Newco Transition Services Agreement.

“ST Approvals” means the required consents, waivers and approvals of ST set forth on Schedule 3.3 of the ST ACA Disclosure Letter and Schedule 3.2(c) of the ST Master Agreement Disclosure Letter.

“ST Asset Contribution Agreement” means that certain Asset Contribution Agreement to be entered into by ST and Newco as of the Closing Date, in substantially the form attached to Schedule 2.4 to the ST Master Agreement Disclosure Letter.

“ST Assignment and Assumption Agreement” means, collectively, the Assignment and Assumption Agreements to be entered into by Newco or its Affiliates, on one hand, and ST or its Affiliates, on the other hand, as of the Closing Date in substantially the form attached as Exhibit A to the ST Asset Contribution Agreement.

“ST Assumption of Excluded Liabilities” shall have the meaning set forth in Section 2.4 of the ST Asset Contribution Agreement.

“ST Back-End Supply Agreement” means the ST Back-End Supply Agreement identified on Schedule 2.4 of the ST Master Agreement Disclosure Letter to be entered into by and between ST and Newco on the Closing Date, in substantially the form attached to such schedule.

“ST Bill of Sale” means any bill of sale or other similar document reasonably requested by any Party and reasonably necessary to transfer any ST Transferred Asset in accordance with applicable law to be executed by one or more ST Transferors in favor of Newco or a Subsidiary of Newco as of the Closing Date, each in substantially the form attached as Exhibit B to the ST Asset Contribution Agreement.

“ST Books and Records” means all of the books of account, general and financial records, invoices, shipping records, customer records, supplier lists, correspondence and other documents, records and files of ST and its Subsidiaries whether in hard copy or computer format which relate exclusively to the ST Business and are necessary for the conduct of such ST Business after the Closing (excluding all personnel records or any employee information for ST Business Employees who are not ST Transferred Employees employed by an ST Transferred Entity as of the Closing Date).

“ST Business” means the sale, manufacture, design and or development of NOR Flash Memory Products, NAND Flash Memory Products, Phase Change Memory Products and Stacked Memory Products.

“ST Business Audited Financial Statements” shall have the meaning set forth in Section 5.1(h) of this Agreement.

“ST Business Capital Expenditures Plan” means the plan set forth on Schedule 3.14(e) of the ST ACA Disclosure Letter setting forth (i) the actual capital expenditures of ST with respect to the ST Business for its first fiscal quarter of 2007; and (ii) the budgeted capital expenditures of ST with respect to the ST Business for the second, third and fourth fiscal quarters of 2007.

“ST Business Employees” means the employees who are identified on Schedule 3.12(c) of the ST ACA Disclosure Letter.

“ST Contract” means any Contract of ST or its Subsidiaries.

“ST Contractual Consents” shall have the meaning set forth in Section 3.8(b) of the ST Asset Contribution Agreement.

“ST Copyright Assignment” means any agreement for the assignment of ST Transferred Copyrights by an ST Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“ST Designated Employees” means those ST Business Employees who are identified as ST Designated Employees on Schedule 4.11(a) of the ST Master Disclosure Letter.

“ST Environmental Reports” means reports or audits prepared by the Environmental Consultants summarizing the results of Phase I, Phase II and environmental compliance audits regarding the Owned ST Real Property, the Leased ST Real Property and any property that is the

subject of an ST Lease, which shall be reasonably satisfactory to FP and Intel in form and substance, and paid for by Intel. At the request of Newco, ST shall review the ST Environmental Reports and confirm that all Environmental Liabilities identified in such reports are sufficiently identified as to scope as that term is used in clause (iii) of the definition of ST Pre-Closing Environmental Liability. If ST believes the issues are not sufficiently identified, ST must pay for the additional investigation to further characterize the Environmental Liability sufficient to meet the criteria in clause (iii) of the definition of ST Pre-Closing Environmental Liability.

“ST Excluded Employees” shall have the meaning set forth in Section 4.11(b) of this Agreement.

“ST Facility Transfer Agreements” means the ST Facility Transfer Agreements to be entered into by and between ST and Newco on the Closing Date, based on the terms and conditions set forth in the ST Facility Transfer Term Sheets.

“ST Facility Transfer Term Sheets” means the term sheets attached to Schedule 4.22(a) to the ST Master Agreement Disclosure Letter reflecting the terms and conditions upon which the agreements and other related documents effecting the transfer by ST and its Subsidiaries of the ST Transferred Facilities to Newco and its Subsidiaries shall be substantially based.

“ST Intellectual Property Agreement” means the Intellectual Property Agreement to be entered into by and between ST and Newco on the Closing Date, in substantially the form attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter.

“ST Joint Development Agreement” means the Joint Development Agreement by and between ST and Newco entered into on the Closing Date, based substantially on the term sheet attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter, and reasonably acceptable to ST, FP and ST.

“ST Leases” means all leases or other occupancy agreements pursuant to which ST or its Subsidiaries lease or occupy the Leased ST Real Property.

“ST M5 Consortium Agreement” means the ST M5 Consortium Agreement to be entered into by and between Italian Newco and STMicroelectronics S.r.l. on or prior to the Closing Date, in substantially the form attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter.

“ST Master Agreement Disclosure Letter” means the disclosure letter, as delivered by ST to ST and FP as of the date of the Master Agreement (with such amendments as may be subsequently made pursuant to the terms of such agreement), containing the Schedules required by the provisions of such agreement.

“ST Material Adverse Effect” means any event, change or circumstance that, individually or in the aggregate with all other such events, changes or circumstances, (a) results in a material adverse effect on, or material adverse change in, the ST Transferred Assets, taken as a whole, or (b) any event, change or circumstance that is materially adverse to the ability of ST to perform its obligations under any Transaction Document to which it is or will be a party or to consummate the transactions contemplated thereby, other than, in the case of clause (a) above, such changes,

effects or circumstances reasonably attributable to: (i) economic, capital market or political conditions generally in the United States or foreign economies in any locations where the ST Business has material operations or sales, provided the changes, effects or circumstances do not have a materially disproportionate effect (relative to other industry participants) on the ST Business, (ii) conditions generally affecting the industry in which the ST Business operates, provided that the changes, effects or circumstances do not have a materially disproportionate effect (relative to other industry participants) on the ST Business; (iii) the announcement or pendency of the transactions contemplated by the Transaction Documents; (iv) outbreak of hostilities or war, acts of terrorism or acts of God; or (v) compliance with ST's obligations or the satisfaction of the conditions to the closing of the transactions contemplated by the Transaction Documents.

“ST Newco Shares” shall have the meaning set forth in Section 2.6(a) of the ST Asset Contribution Agreement.

“ST Patent Assignment” means any agreement for the assignment of ST Transferred Patents by an ST Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“ST Post-Closing Environmental Liability” shall mean any Environmental Liability, including a worsening of existing conditions, to the extent arising out of or relating to (i) Newco's acts occurring after the Closing Date, (ii) Newco's inaction occurring one year or later after the Closing Date, or (iii) Newco's inaction occurring within one year after the Closing Date if Newco knew about the existing condition and its inaction worsened the existing condition; and in connection with a Newco Business or the ST Business, the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets or the ST Transferred Entities or the ownership or operation of a Newco Business or the ST Business, the Owned ST Real Property, the Leased ST Real Property or the ST Transferred Assets, the ST Transferred Entities by, or the disposal or treatment of Hazardous Substances generated by, Newco or an Affiliate of Newco (including an ST Transferred Entity) after the Closing Date.

“ST Pre-Closing Environmental Liability” shall mean any Environmental Liability which (i) relates to the ownership or operation of the ST Business (as now or previously conducted), the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets, the ST Transferred Entities, the ST Shared Facilities or any other real property or facility owned, leased, operated or used in connection with the ST Business (as now or previously conducted) or for the disposal or treatment of Hazardous Substances generated in connection with the ST Business, the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets, or the ST Transferred Entities, (ii) arises out of or relates to acts occurring or conditions existing on or prior to the Closing Date, but only to the extent that the Environmental Liability arising out of or relating to acts occurring or conditions existing on or prior to the Closing Date can be identified from (A) the ST Environmental Reports so long as such reports are issued not later than one (1) year subsequent to the Closing or (B) documents or data generated prior to the Closing and in the possession of ST prior to the Closing, and (iii) is identified in the foregoing documents and/or data with sufficient specificity so as to clearly identify the scope of the Environmental Liability that is attributable to the ST Business, the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets, or the ST

Transferred Entities. Notwithstanding the foregoing, ST Pre-Closing Environmental Liability shall not include any ST Post-Closing Environmental Liability.

“ST Products” means NOR Flash Memory Products, NAND Flash Memory Products, and Stacked Memory Products, including those listed on Schedule 1.1(c) of the ST ACA Disclosure Letter.

“ST R2 Consortium Agreement” means the ST R2 Consortium Agreement to be entered into by and between Italian Newco and STMicroelectronics S.r.l. on or prior to the Closing Date, in substantially the form attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter.

“ST Real Property” means all real property, leaseholds and other interests in real property owned or leased by ST or its Subsidiaries and used or held for use exclusively in the ST Business, including all real property identified in Schedule 3.6 of the ST ACA Disclosure Letter, together in each case with ST’s or its Subsidiary’s right, title and interest in and to all structures, facilities or improvements currently or as of the Closing Date located thereon and all easements, licenses, rights and appurtenances relating to the foregoing.

“ST Restricted Employees” shall have the meaning set forth in Section 4.7(b) of this Agreement.

“ST Retained Trade Secrets” means trade secrets, know-how and other proprietary information owned by ST or any Licensed Subsidiary thereof as of the Effective Date and not included in the ST Transferred Trade Secrets that are or have been used by ST in connection with the ST Business.

“ST Trademark Assignment” means any agreement for the assignment of ST Transferred Trademarks by an ST Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“ST Transferors” shall have the meaning set forth in the Recitals of the ST Asset Contribution Agreement.

“ST Transferred Assets” shall have the meaning set forth in Section 2.1 of the ST Asset Contribution Agreement.

“ST Transferred Contracts” means all unexpired contracts set forth on Schedule 2.1(e) of the ST ACA Disclosure Letter, together with the ST Transferred Purchase Orders, the ST Transferred Sales Orders and the ST Leases.

“ST Transferred Employees” means the ST Business Employees and ST Designated Employees who accept an offer of employment from Newco and who begin their employment with Newco at the Closing (or, to the extent permitted by Applicable Law with respect to inactive employees on short-term, medical or other leave of absence, at the time such employee returns to active status) or such other date as the parties may reasonably agree.

“ST Transferred Entities” means the entities set forth on Schedule 1.1(a) of the ST ACA Disclosure Letter.

“ST Transferred Intellectual Property” means, collectively, the ST Transferred Copyrights, ST Transferred Patents, ST Transferred Trademarks and ST Transferred Trade Secrets.

“ST Transferred Interests” means 100% of the outstanding equity, voting and profit interests in the ST Transferred Entities.

“ST Transferred Liabilities” shall have the meaning set forth in Section 2.3 of the ST Asset Contribution Agreement.

“ST Transferred Purchase Orders” means each purchase order or portion thereof issued by ST or a Subsidiary of ST to the extent relating to the ST Business.

“ST Transferred Sales Orders” means all pending and unfulfilled sales orders or portions thereof for ST Products.

“ST Transferred Trademarks” means those Trademarks identified on Schedule 2.1(k) of the ST ACA Disclosure Letter.

“ST Transferred Trade Secrets” means any Trade Secrets owned by ST or any of its Subsidiaries as of the Closing Date (including any such Trade Secrets that consist of technical documentation of the nature of the files and other documentation identified on Schedule 2.1(h) to the ST ACA Disclosure Letter) that are used exclusively in the ST Business and not materially embodied or used in or with any other current product or service of ST or any of its Subsidiaries.

“ST Transition Services Agreement” means the ST Transition Services Agreement identified on Schedule 2.4 of the ST Master Agreement Disclosure Letter to be entered into by and between ST and Newco on the Closing Date, in substantially the form attached to such schedule.

“Stacked Memory Products” means the assembly of multiple Memory Devices packaged together as a single product unit which fits within the footprint associated with a single Memory Device socket. Notwithstanding the foregoing, nothing in this Agreement shall be deemed to include within the Intel Transferred Assets or ST Transferred Assets any Intellectual Property for non-NOR Flash Integrated Circuits that may be components of Stacked Memory Products.

“Subsidiary” means, with respect to any Person, (i) any corporation, limited liability company or other similar entity as to which more than 50% of the outstanding capital stock or other securities having voting rights or power is owned or controlled, directly or indirectly, by such Person and/or by one or more of such Person’s direct or indirect subsidiaries and (ii) any Person with a partnership, joint venture or other similar relationship between such Persons and any other Person, *provided, however*, that with respect to Intel, Silicon Philippines, Inc., a corporation organized and existing under Philippines law (“SPI”), shall be deemed to be a Subsidiary of Intel for purposes of the Transaction Documents and for convenience only, and such inclusion of SPI within this definition shall not imply that such entity is a subsidiary or affiliate of Intel for any purpose independent of the Transaction Documents.

“Taxes” means (i) all foreign, federal, state, local and other net income, gross income, gross receipts, sales, use, ad valorem, value added, intangible, unitary, capital gain, transfer, franchise, profits, license, lease, service, service use, withholding, backup withholding, payroll, employment, estimated, excise, severance, stamp, occupation, premium, property, prohibited transactions, windfall or excess profits, value added tax, goods and services tax, social service tax, import tax, export tax, or other taxes of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, (ii) any Liability for payment of amounts described in clause (i) whether as a result of transferee Liability, of being a member of an affiliated, consolidated, combined or unitary group for any period, or otherwise through operation of law, and (iii) any Liability for the payment of amounts described in clause (i) or (ii) as a result of any tax sharing, tax indemnity or tax allocation agreement or any other express or implied agreement to indemnify any other Person for Taxes; and the term “Tax” means any one of the foregoing Taxes.

“Termination Date” means December 31, 2007, subject to extension as provided in Article VI of this Agreement.

“Termination Fee” shall have the meaning set forth in Section 6.2(b) of this Agreement.

“TFR Indemnification Agreement” means the TFR Indemnification Agreement to be entered into by Newco, the applicable Newco Subsidiaries and ST on the Closing Date, in a form reasonably acceptable to Intel, FP and ST.

“Third Party” means, with respect to any Shareholder, any other Person other than any Permitted Transferee of such Shareholder and, with respect to Newco, any other Person other than its Subsidiaries.

“Third Party Appraisal Firm” shall have the meaning set forth in Section 4.13 of this Agreement.

“Trade Secrets” means confidential know how, inventions, discoveries, concepts, ideas, methods, processes, designs, formulae, technical data, source code, drawings, specifications (including logic specifications), data bases, data sheets, customer lists, Customer Data and other confidential information that constitute trade secrets under applicable law, in each case excluding any rights in respect of any of the foregoing that comprise Copyrights, mask work rights or Patents.

“Trademarks” means trademarks and registrations and applications therefor.

“Transaction Documents” means the Master Agreement, the Intel Asset Transfer Agreement, the ST Asset Contribution Agreement, the Share Purchase Agreement, the Intel Ancillary Agreements, the ST Ancillary Agreements, the Shareholders’ Agreement, the Confidentiality Agreement, and all of the documents contemplated by any such agreement or entered into by any of the Parties thereto or their Subsidiaries in connections with the transactions contemplated by such agreements.

FINAL ATTACHMENT
TO MASTER AGREEMENTST ASSET CONTRIBUTION AGREEMENT ¹

THIS ST ASSET CONTRIBUTION AGREEMENT (the “ST Asset Contribution Agreement” and, as referred to herein, this “Agreement”), dated as of _____, 200__, is by and between STMICROELECTRONICS N.V., a company with limited liability organized under the laws of The Netherlands, with its corporate seat in Amsterdam, The Netherlands (“ST”), and [NEWCO], a company with limited liability organized under the laws of The Netherlands (“Newco”). ST and Newco are sometimes referred to herein as the “Parties” and each individually as a “Party.”

A. ST desires to transfer, and to cause certain of its Affiliates to transfer (ST and such Affiliates, collectively, the “ST Transferors”) to Newco and its Affiliates, and Newco desires to acquire, and to cause its Affiliates to acquire, from ST and such ST Affiliates, the ST Transferred Assets in consideration for the issuance by Newco of the ST Newco Shares, the payment by Newco of the ST Cash Consideration, and the assumption by Newco or its Affiliates of the ST Transferred Liabilities, all on the terms and conditions set forth in this Agreement.

B. ST, Intel, FP and FP Holdco entered into that certain Master Agreement, dated May 22, 2007, that provides, among other things, for the simultaneous consummation of the transactions contemplated by this Agreement, the Intel Asset Transfer Agreement and the Share Purchase Agreement, subject to the terms and conditions set forth in such agreements and the Master Agreement.

C. The Parties intend that, for United States federal income tax purposes, the transfer of the ST Transferred Assets and issuance of the ST Consideration, as contemplated by this Agreement, be treated as described on Schedule 2.6 to the ST ACA Disclosure Letter.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the Parties hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. Capitalized terms used in this Agreement shall have the respective meanings ascribed to such terms in Appendix A to this Agreement.

1.2 Defined Terms Generally. The definitions set forth or referred to in Appendix A shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed

¹ ST Transferors and Newco Affiliates to be added as Parties.

by the phrase “without limitation”. All references herein to Articles, Sections and Exhibits and Schedules shall be deemed to be references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Unless the context shall otherwise require, any reference to any contract, instrument, statute, rule or regulation is a reference to it as amended and supplemented from time to time (and, in the case of a statute, rule or regulation, to any successor provision). Any reference in this Agreement to a “day” or a number of “days” (without the explicit qualification of “Business”) shall be interpreted as a reference to a calendar day or number of calendar days.

**ARTICLE II
TRANSFER OF ASSETS**

2.1 ST Transferred Assets. Upon the terms and subject to the conditions of this Agreement, at the Closing, Newco (or, to the extent indicated on Schedule 2.6 of the ST ACA Disclosure Letter, an Affiliate of Newco) shall acquire from the ST Transferors, and ST shall transfer, assign and convey to Newco (or, to the extent indicated on Schedule 2.6 of the ST ACA Disclosure Letter, a Subsidiary of Newco), or cause to be transferred, assigned and conveyed by the other ST Transferors to Newco (or an Affiliate of Newco, in each case, as set forth on Schedule 2.6 of the ST ACA Disclosure Letter), free and clear of all Liens other than Permitted Liens, all right, title and interest of the ST Transferors in, to and under the following assets, as the same shall exist at the Effective Time, after giving effect to any changes therein pursuant to Sections 4.10 and 4.12 of the Master Agreement (subject to the ultimate paragraph hereof with respect to assets transferred, assigned and conveyed to a ST Transferred Entity prior to the Closing) (collectively, the “ST Transferred Assets”):

- (a) the ST Equipment;
- (b) the ST Transferred Purchase Orders;
- (c) the ST Transferred Sales Orders, including any rights that ST or any Subsidiary of ST may have in any Post-Closing Accounts Receivable of Newco and its Subsidiaries or the ST Business (including those of the ST Transferred Entities), and all Third Party A/R Owed to ST Transferred Entities (as finally determined in accordance with Section 2.8(e));
- (d) subject to Section 2.5, the Owned ST Real Property, the Leased ST Real Property, and the ST Leases, in each case as and to the extent contemplated by the ST Facility Transfer Term Sheets;
- (e) subject to Section 2.5, the ST Transferred Contracts;
- (f) the ST Prepayments;
- (g) the ST Transferred Patents;
- (h) the ST Transferred Trade Secrets;

- (i) the ST Transferred Copyrights;
- (j) the ST Transferred Trademarks;
- (k) the ST Transferred Permits;
- (l) the ST Books and Records;
- (m) the ST Transferred Interests and the Hynix Interests;
- (n) the ST Transferred Inventory;
- (o) the ST Transferred Claims;
- (p) the ST Transferred Entity Books and Records;
- (q) the ST Transferred Systems;
- (r) the licenses and other rights transferred by ST to Newco pursuant to the ST Intellectual Property Agreement;
- (s) the Cash and Cash Equivalents and bank accounts of the ST Transferred Entities; and
- (t) any assets or properties listed in any new schedule to the ST ACA Disclosure Letter delivered to Newco pursuant to Section 4.12 of the Master Agreement;

provided that in no event shall the ST Transferred Assets include any ST Excluded Asset.

The ST Transferred Intellectual Property shall be subject to any (i) licenses retained by ST or its Affiliates or granted to ST or its Affiliates pursuant to any ST Ancillary Agreement, (ii) licenses and Contracts with use restrictions existing on the date hereof granted to or by ST or its Subsidiaries and (iii) licenses and Contracts with use restrictions entered into by ST or its Subsidiaries in the ordinary course of business not in violation of this Agreement prior to the Closing Date. The ST Transferred Intellectual Property may be further obligated (either prior to the date of the Master Agreement or in the ordinary course of business between such date and the Closing Date) to be non-exclusively licensed as a result of ST's or its Affiliate's participation in various Special Interest Groups (SIGs), Standard Definition Organizations (SDOs), and similar organizations which may impose obligations to non-exclusively license ST Transferred Intellectual Property to third parties. To the extent that ST is required to ensure that successors with respect to the ST Transferred Patents assume such obligations to license, Newco hereby assumes such obligations.

Notwithstanding the foregoing, with respect to any ST Transferred Asset owned by a ST Transferred Entity at the Effective Time, in lieu of transferring such ST Transferred Asset, ST shall transfer, assign and convey, or cause another ST Transferor to transfer, assign and convey,

free and clear of all Liens other than Permitted Liens, all of the outstanding equity interests of such ST Transferred Entity, which interests shall be included in the ST Transferred Interests.

2.2 ST Excluded Assets. Newco and ST expressly understand and agree that all assets of ST and its Subsidiaries other than the ST Transferred Assets (collectively, the “ST Excluded Assets”), shall be excluded from the ST Transferred Assets, including, but not limited to:

- (a) all assets, tangible or intangible, real or personal, that are not specifically identified under Section 2.1, including all of ST’s Intellectual Property other than the ST Transferred Intellectual Property;
- (b) all Contracts that are not ST Transferred Contracts;
- (c) all Prepayments of ST associated with Contracts that are not ST Transferred Contracts or other obligations not assumed by Newco;
- (d) all Pre-Closing Accounts Receivable of ST and its Subsidiaries, other than Third Party A/R Owed to ST Transferred Entities (as finally determined in accordance with Section 2.8(e));
- (e) all Cash and Cash Equivalents of ST and its Subsidiaries, other than that of the ST Transferred Entities;
- (f) all bank accounts of ST and its Subsidiaries, other than bank accounts of the ST Transferred Entities;
- (g) all ST Employee Plans;
- (h) all ST Excluded Claims;
- (i) all rights to or claims for refunds or credits of Taxes (including penalties) paid by ST or any of its Subsidiaries, or any member of any consolidated, affiliated, combined or unitary group of which ST is or has been a member, other than refunds of Taxes with respect to a Post-Closing Tax Period paid by the ST Transferred Entities or Newco or any of its Subsidiaries;
- (j) all rights, properties, and assets which have been used in the ST Business and which shall have been transferred (including transfers by way of sale), licensed or otherwise disposed of in the ordinary course of business (other than to ST or any Subsidiary of ST) prior to the Effective Time and not in violation of the terms of this Agreement or Section 4.10 of the Master Agreement;
- (k) except as expressly provided in Section 2.1(q), all enterprise software, database management systems and networks of ST or its Subsidiaries, including all sales management, engineering, materials, business planning, manufacturing, logistics, finance and accounting systems utilized by the ST Business;

- (l) the minute books, stock ledgers, accounting records, Tax Returns and others records relating to Taxes, in each case of ST or any of its Subsidiaries (other than the ST Transferred Entities), other than the ST Books and Records;
- (m) internal reports relating to the business activities of ST and its Subsidiaries that are not ST Transferred Assets;
- (n) insurance policies and rights, claims or causes of action thereunder, including Claims which ST or any of its Affiliates may have under any insurance contracts or policies insuring the ST Transferred Assets;
- (o) all of the assets specifically identified on Schedule 2.2(o) of the ST ACA Disclosure Letter; and
- (p) any asset of the ST Transferred Entities that is not a ST Transferred Asset.

On the Closing Date, immediately prior to the Closing, each ST Transferred Entity holding ST Excluded Assets shall transfer, assign and convey all of its right, title and interest in and to such ST Excluded Assets, including any and all intercompany Accounts Receivable of such ST Transferred Entity, to ST or a Subsidiary of ST designated by ST, such that no ST Transferred Entity shall hold any ST Excluded Asset as of the Closing Date.

2.3 ST Transferred Liabilities. Upon the terms and subject to the conditions of this Agreement and the ST Ancillary Agreements, effective at the Effective Time, Newco (or, to the extent indicated on Schedule 2.6 of the ST ACA Disclosure Letter, a Subsidiary of Newco) shall assume, and shall fully pay, perform, fulfill and discharge when due, the following Liabilities of ST or its Subsidiaries, it being understood that certain of the Liabilities set forth below may be a Liability of a ST Transferred Entity, the interests in which are transferred to Newco (or a Subsidiary of Newco as indicated on Schedule 2.6 to the ST ACA Disclosure Letter) (collectively, the "ST Transferred Liabilities"):

- (a) all Liabilities under or arising out of the ST Transferred Contracts that are required to be paid or performed on and after the Effective Time;
- (b) all Liabilities that are expressly assumed under this Agreement;
- (c) all Liabilities to the extent accruing, arising out of, or relating to the operation and ownership of the ST Business and the ST Transferred Assets by Newco and its Subsidiaries on and after the Effective Time;
- (d) all Liabilities (including any ST Employment Agreements) that are assumed by operation of Applicable Law related to the ST Transferred Employees;
- (e) any Taxes (x) of a ST Transferred Entity, or arising from the ST Transferred Assets or ST Business, in either case allocable to a Post-Closing Tax Period, except to the extent otherwise allocated to ST pursuant to Section 5.8 or as described in

clauses (i) and (ii) of Section 6.2(g) and (y) otherwise allocated to Newco, pursuant to Section 5.8:

- (f) the ST Post-Closing Product Obligations;
- (g) all ST Post-Closing Environmental Liabilities; and
- (h) all Third Party A/P Payable by ST Transferred Entities (as finally determined in accordance with Section 2.8(e))

provided that in no event shall the ST Transferred Liabilities include any ST Excluded Liability.

Notwithstanding the foregoing, with respect to any ST Transferred Liability owed by a ST Transferred Entity at the Effective Time, in lieu of the assumption by Newco of such ST Transferred Liability from such ST Transferred Entity, such ST Transferred Liability shall be retained at the Effective Time by such ST Transferred Entity, and Newco shall, or shall cause such ST Transferred Entity, or successor thereto, to pay or otherwise satisfy and discharge such ST Transferred Liability on a timely basis after the Effective Time.

2.4 ST Excluded Liabilities. Except for those Liabilities expressly assumed by Newco pursuant to Section 2.3 and Section 5.8, Newco shall not assume and shall not be liable for, and ST shall retain and remain, as between ST and Newco, solely liable for and obligated to discharge, all of the debts, expenses, contracts, agreements, commitments, obligations and other Liabilities of any nature of ST or any of its Subsidiaries (collectively, the “ST Excluded Liabilities”), including the following:

- (a) any Liability for breaches by ST or its Subsidiaries prior to the Effective Time of any Contract or any Liability for payments or amounts due under any Contract prior to the Effective Time;
- (b) any Liability for Taxes attributable to or imposed upon ST or any of its Subsidiaries, or attributable to or imposed upon the ST Business, the ST Transferred Entities or the ST Transferred Assets for any Pre-Closing Tax Period other than any Liability for Taxes allocated to Newco pursuant to Section 5.8 and any Liability for Taxes otherwise allocated to ST pursuant to Section 5.8;
- (c) all Pre-Closing Accounts Payable of ST and its Subsidiaries, other than Third Party A/P Payable by ST Transferred Entities (as finally determined in accordance with Section 2.8(e));
- (d) any and all Liabilities under ST Employee Plans and ST Employee Agreements, including any Liabilities arising in connection with any change-in-control or similar compensatory payment arrangement which is triggered in whole or in part by the transactions contemplated by this Agreement and the other Transaction Documents, including any retention bonus, stay bonus or similar payment (other than the ST

Transferred Employee Payment Liabilities, the ST Funded Employee Plan Amounts, or those Liabilities assumed by Newco pursuant to Section 5.11(c));

(e) any Liabilities or obligations with respect to the ST Business Employees including the ST Transferred Employees that arise prior to the Effective Time (or, with respect to each ST Transferred Employee, such other date on which the ST Transferred Employee ceases to be employed by ST, if later) (other than the ST Transferred Employee Payment Liabilities, the ST Funded Employee Plan Amounts, or those Liabilities assumed by Newco pursuant to Section 5.11(c));

(f) any Liabilities or obligations with respect to any ST Business Employees who do not become ST Transferred Employees and any Liabilities of the ST Transferred Entities with respect to any employee who does not become a ST Transferred Employee;

(g) any Liability for or in respect of any Indebtedness (including, without limitation, any guarantee or other obligation of any kind that ST may have with respect to any Indebtedness of the Hynix JV), other than the Contemplated Financing;

(h) any Liability to the extent arising out of the ST Excluded Assets;

(i) the ST Pre-Closing Product Obligations;

(j) any Liability of the ST Transferred Entities that is not a ST Transferred Liability;

(k) any ST Pre-Closing Environmental Liabilities;

(l) any Liability of ST or any of its Subsidiaries that is the subject of any existing Proceedings as of the Closing Date, including the Proceedings set forth in Schedule 3.7 and the claims against ST or its Subsidiaries set forth in Schedule 3.11 to the ST ACA Disclosure Letter, in each case, to the extent arising or accruing prior to the Effective Time, but in any event not including any Liability to the extent arising or accruing after the Effective Time; and

(m) the TFR Liability.

On the Closing Date, immediately prior to the Closing, ST, or a Subsidiary of ST designated by ST and reasonably acceptable to Newco shall assume, and shall thereafter pay, perform, fulfill and discharge when due any ST Excluded Liability of each ST Transferred Entity, including any and all Indebtedness of, and intercompany Accounts Payable to, ST and its Subsidiaries, pursuant to an assumption of liability agreement in a form to be mutually agreed between ST and Newco ("ST Assumption of Excluded Liabilities").

2.5 Assignment of Contracts and Rights.

(a) Anything in this Agreement or any other Transaction Document to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any

ST Transferred Contract, ST Transferred Permit, or other ST Transferred Asset, or any claim, right or benefit arising thereunder or resulting therefrom if an attempted assignment thereof, without the consent of a party thereto or the receipt of any Governmental Approvals or the satisfaction of any other requirement applicable to such assignment, would constitute a breach or other contravention thereof or in any way result in the loss of any material benefit under, or any material modification to, the rights of Newco, ST or any of ST's Subsidiaries thereunder. ST and Newco will use commercially reasonable efforts (but without any payment of money by ST) to obtain the consent of the other parties to any such ST Transferred Contract, ST Transferred Permit or other ST Transferred Asset or any claim, right or benefit arising thereunder for the assignment thereof to Newco as Newco may reasonably request; *provided, however*, that except as provided in Section 2.5 of the ST Intellectual Property Agreement with respect to the sublicensing of certain Third Party Claims to Newco, ST shall have no obligation to transfer or assign any license of any Intellectual Property other than the ST Transferred Intellectual Property or any licenses granted by ST in connection with the sale, distribution and license of the ST Products in the ordinary course of business that are not ST Transferred Contracts. Subject to the obligations of ST set forth in Section 5.6, Section 4.3 of the Master Agreement, Section 2.6 of the ST Intellectual Property Agreement, the ST Transition Services Agreement and the ST Supply Agreements and ST Consortium Agreements, Newco agrees that ST shall not have any liability to Newco arising out of or relating to the failure to obtain any such consent or to satisfy any other such requirement that may be required in connection with the transactions contemplated by this Agreement or the ST Ancillary Agreements or because of any circumstances resulting from any such failure; *provided, however*, that nothing in this Section 2.5(a) is intended to affect ST's representation in Section 3.8(b) regarding ST Contractual Consents.

(b) If any such consent is not obtained, or any such other requirement is not satisfied, prior to the Closing and as a result thereof Newco shall be prevented by such third party from receiving the rights and benefits with respect to such ST Transferred Contract, ST Transferred Permit or other ST Transferred Asset intended to be transferred hereunder, or if any attempted assignment would adversely affect the rights of ST or any of its Subsidiaries thereunder so that Newco would not in fact receive all such rights or ST or any of its Subsidiaries would forfeit or otherwise lose the benefit of rights that ST or any such Subsidiary is entitled to retain, ST and Newco shall cooperate to discuss, determine and implement in good faith a mutually agreeable reasonable arrangement to the extent practicable, under which (i) Newco would obtain the economic claims, rights and benefits under such asset and assume the economic burdens and obligations with respect thereto in accordance with this Agreement, including potentially by subcontracting, sublicensing or subleasing to Newco (but not more extensive than the existing rights of ST and its Subsidiaries with respect to the ST Business), or (ii) ST would enforce for the benefit of Newco, with Newco assuming ST's obligations, any and all rights of ST and its Subsidiaries against a third party thereto; *provided*, that Newco shall reimburse ST for all reasonable out-of-pocket expenses that are imposed on ST and any of its Subsidiaries in bearing such economic burdens and obligations that otherwise

would have been borne by Newco if the applicable asset had been transferred to Newco at the Effective Time. Newco agrees that neither ST nor any of its Subsidiaries shall have any liability to Newco arising out of or relating to the failure to obtain any such consent, and no condition set forth in the Master Agreement, other than the conditions set forth in Section 5.1(f) and Section 5.2(f) shall be deemed not satisfied, as a result of (x) the failure to obtain any such consent or any circumstances resulting therefrom or (y) any suit, action or proceeding commenced or threatened by or on behalf of any Person arising out of or relating to the failure to obtain any such consent or any circumstances resulting therefrom; *provided, however*, that nothing in this Section 2.5(b) is intended to affect ST's representation in Section 3.8(b) regarding ST Contractual Consents.

(c) No other rights are granted hereunder, by implication, estoppel, statute or otherwise, except as expressly provided in this Agreement or in any other Transaction Document.

2.6 Consideration. The consideration payable at the Closing by Newco and its Affiliates to ST and the other ST Transferors for the ST Transferred Assets shall consist of:

- (a) [48.58% of the Shares] Ordinary Shares of Newco (the "ST Newco Shares");
- (b) cash in the amount of \$468,000,000; and

(c) the assumption by Newco and certain of its Subsidiaries of the ST Transferred Liabilities being assumed by Newco (together with the ST Newco Shares, and the ST Cash Consideration, the "ST Consideration").

Such consideration shall be allocated among ST and the other ST Transferors as described in Schedule 2.6 of the ST ACA Disclosure Letter (as such allocation shall be determined pursuant to Section 4.13 of the Master Agreement and attached hereto at the Closing), and shall be treated as having been paid by Newco on behalf of certain of its Subsidiaries also as provided in Schedule 2.6 of the ST ACA Disclosure Letter, which Schedule 2.6 shall be prepared in a manner consistent with the Third Party Appraisal. Each of the Parties hereto agrees to report the transactions contemplated hereby for U.S. federal, state and foreign Tax purposes in accordance with such allocation of the ST Consideration and as set forth on such schedule. ST shall prepare Schedule 2.6 of the ST ACA Disclosure Letter subject to Newco's approval, which approval shall not be unreasonably withheld. Such schedule shall be adjusted for any changes to the ST Cash Consideration, in a manner consistent with the Third Party Appraisal and otherwise as ST determines in its reasonable discretion.

2.7 Inventory Adjustment to Consideration. The ST Cash Consideration shall be subject to adjustment after the Closing Date in accordance with the following procedure:

(a) Promptly after the Closing Date, ST will prepare and present to Newco a statement in reasonable detail of the ST Inventory Value and the ST Inventory Depreciation Amount in each case as of the end of ST's first fiscal quarter of 2007 and as of the Effective Time (the "Preliminary ST Inventory Statement"). The Preliminary ST Inventory Statement shall be delivered to Newco no later than 90 days after the Closing Date.

(b) Newco and its accountants shall have the right to review the work papers of ST and its accountants utilized in preparing the Preliminary ST Inventory Statement and shall have full access to the books, records, properties and personnel of ST for purposes of verifying the accuracy and fairness of the presentation of the ST Inventory Value in the Preliminary ST Inventory Statement. The Preliminary ST Inventory Statement shall be binding on Newco, unless Newco presents to ST written notice of disagreement with the Preliminary ST Inventory Statement ("ST Notice of Disagreement") within 150 days after the Closing Date specifying in reasonable detail the nature and extent of the disagreement.

(c) During the 30-day period following the delivery of an ST Notice of Disagreement, ST and Newco shall seek in good faith to resolve in writing any differences which they may have with respect to any amount specified in the ST Notice of Disagreement. If Newco and ST are unable to resolve any such disagreement within 30 days after ST receives the Newco Notice of Disagreement, the disagreement shall be referred for final determination to Deloitte & Touche USA LLP or if Deloitte & Touche USA LLP is unable or unwilling to make such final determination, to such other independent accounting firm as the parties shall mutually designate. The accounting firm so designated to make the final determination is hereinafter referred to as the "Independent Accountants."

(d) The ST Inventory Depreciation Amount and the ST Inventory Value in each case as of the end of ST's first fiscal quarter of 2007 and as of the Effective Time shall be deemed to have been finally determined upon the first to occur of (i) acceptance of the Preliminary ST Inventory Statement, (ii) Newco's failure to object thereto within 150 days after the Closing Date, (iii) resolution by mutual agreement of the parties after timely delivery of the Newco Notice of Disagreement or (iv) notification by the Independent Accountants of their final determination thereof.

(e) If the ST Inventory Value as of the Effective Time, as finally determined, plus the ST Inventory Depreciation Amount as of the Effective Time, as finally determined, is less than the Minimum Committed ST Inventory Value, the ST Cash Consideration shall be deemed reduced by an amount equal to such difference times a fraction the numerator of which is the ST Inventory Value and the denominator of which is the sum of the ST Inventory Value plus the ST Inventory Depreciation Amount in each case, as of the Effective Time. ST shall cause the amount of any such reduction in the ST Cash Consideration to be refunded to Newco by the ST Transferor responsible for such reduction, as determined by ST, within 10 days after such final determination. If the ST Inventory Value as of the Effective Time, as finally determined, plus the ST Inventory

Depreciation Amount as of the Effective Time, as finally determined, is equal to or greater than the Minimum Committed ST Inventory Value, there shall be no adjustment in the ST Cash Consideration.

(f) The fees and disbursements of the accountants of Newco shall be paid by Newco. The fees and disbursements of ST's accountants shall be paid by ST. The fees and disbursements of the Independent Accountants shall be paid based on a ratable allocation made as a part of its determination, based on the proportion by which the amount in dispute was determined in favor of Newco or ST.

2.8 ST Transferred Entities Purchase Price Adjustment. The ST Cash Consideration shall be subject to adjustment after the Closing Date in accordance with the following procedure:

(a) Any Third Party A/R Owed to ST Transferred Entities remaining uncollected at the close of business on the 100th day after the Closing Date shall be transferred by Newco to ST or its designated Subsidiary and shall thereafter be deemed ST Excluded Assets. Any Third Party A/P Payable by ST Transferred Entities remaining unpaid at the close of business on the 100th day after the Closing Date shall be assumed by ST or its designated Subsidiary, and shall thereafter be deemed ST Excluded Liabilities.

(b) Promptly after the Closing Date, ST shall prepare a statement (the "ST Preliminary Closing Statement") setting forth the Net Available Cash of the ST Transferred Entities, the Third Party A/R Owed to ST Transferred Entities, the Third Party A/P Payable by ST Transferred Entities and the ST Transferred Employee Payment Liabilities, in each case as of the Effective Time (each, an "ST Closing Amount" and collectively, the "ST Closing Amounts"), and containing reasonably detailed supporting information, documents and calculations. ST shall use commercially reasonable efforts to cause such preparation and review to be completed and the ST Preliminary Closing Statement to be delivered to Newco within 120 days after the Closing Date. The ST Preliminary Closing Statement shall be prepared by ST from the books and records of ST consistent with past practice and the ST Financial Information and in accordance with GAAP.

(c) Newco and its accountants shall have the right to review the work papers of ST and its accountants utilized in preparing the ST Preliminary Closing Statement and shall have full access to the books, records, properties and personnel of ST and its Subsidiaries for purposes of verifying the accuracy and fairness of the presentation of the information in the ST Preliminary Closing Statement. The ST Preliminary Closing Statement shall be binding on Newco, unless Newco delivers to ST written notice of disagreement with any ST Closing Amount set forth therein ("Notice of Disagreement") within 150 days after the Closing Date specifying in reasonable detail the nature and extent of the disagreement, in which case the ST Preliminary Closing Statement shall be binding on Newco only in respect of the ST Closing Amounts set forth therein which are not the subject of a Notice of Disagreement.

(d) During the 30-day period following the delivery of a Notice of Disagreement, ST and Newco shall seek in good faith to resolve in writing any differences which they may have with respect to any ST Closing Amount specified in the Notice of Disagreement. If Newco and ST are unable to resolve any such disagreement within 30 days after ST receives a Notice of Disagreement, the disagreement shall be referred for final determination to Deloitte & Touche USA LLP or if Deloitte & Touche USA LLP is unable or unwilling to make such final determination, to such other independent accounting firm as the parties shall mutually designate. The accounting firm so designated to make the final determination is hereinafter referred to in this Section 2.8 as the “ST Cash Independent Accountants.”

(e) Each of the ST Closing Amounts shall be deemed to have been finally determined upon the first to occur of (i) Newco’s failure to deliver to ST a Notice of Disagreement with respect to such ST Closing Amount within 150 days after the Closing Date, (ii) resolution by mutual agreement of the parties after timely delivery of a Notice of Disagreement or (iii) notification by the ST Cash Independent Accountants of their final determination thereof. Within ten days after the date on which all of the ST Closing Amounts (as they may be revised pursuant to this Section 2.8) shall have become final and binding (the “Final Payment Date”):

(i) if (x) the Third Party A/R Owed to ST Transferred Entities exceeds the Third Party A/P Payable by ST Transferred Entities, Newco shall pay ST the amount of such excess or (y) the Third Party A/P Payable by ST Transferred Entities exceeds Third Party A/R Owed to ST Transferred Entities, ST shall pay to Newco the amount of such excess;

(ii) if (x) Net Available Cash of the ST Transferred Entities is a positive number, Newco shall pay ST such amount or (y) Net Available Cash of the ST Transferred Entities is a negative number, ST shall pay Newco such amount; and

(iii) ST shall pay Newco an amount equal to the ST Transferred Employee Payment Liabilities not otherwise included in Net Available Cash of the ST Transferred Entities.

(f) For convenience purposes, the amounts required to be paid pursuant to Section 2.8(e) shall be netted against or added to each other, as the case may be, so that only one payment shall be made by ST to Newco or by Newco to ST, as the case may be, under Section 2.8(e). Any payment made by Newco to ST shall be made on behalf of Newco and its Subsidiaries and shall be for the benefit of ST and its Subsidiaries (other than the ST Transferred Entities). Any payment made by ST to Newco shall be made on behalf of ST and its Subsidiaries (other than the ST Transferred Entities) and shall be for the benefit of Newco and its Subsidiaries.

2.9 Capital Expenditures.

(a) Within 90 days after the Closing Date, ST shall deliver to Newco a schedule setting forth in reasonable detail the amount of all capital expenditures made by ST in accordance with the ST Business Capital Expenditures Plan between April 1, 2007 and the Closing Date ("Actual ST Capital Expenditures"). For purposes hereof, "Planned ST Capital Expenditures" means (i) the planned amount of capital expenditures set forth in the ST Business Capital Expenditures Plan for each fiscal quarter completed during the period from April 1, 2007 through the end of the last full fiscal quarter ending prior to the Closing Date plus (ii) a prorated amount equal to the planned amount of capital expenditures set forth in the ST Business Capital Expenditures Plan for the fiscal quarter in which the Closing Date occurs multiplied by a fraction the numerator of which is the number of days elapsed in such fiscal quarter through the Closing Date and the denominator of which is the total number of days in such fiscal quarter. In the event that the Closing shall not have occurred on or before the expiration of the then current ST Business Capital Expenditures Plan, the Parties will agree in good faith on the modification of such ST Business Capital Expenditures Plan to add additional planned amounts of capital expenditures for the following fiscal quarter or quarters. Newco shall have full access to the ST Books and Records, for purposes of verifying the accuracy and fairness of the schedule of Actual ST Capital Expenditures delivered by ST to Newco hereunder.

(b) The schedule of Actual ST Capital Expenditures shall be binding on Newco, unless Newco presents to ST written notice of disagreement with the schedule of Actual ST Capital Expenditures ("ST Cap Ex Notice of Disagreement") within 150 days after the Closing Date specifying in reasonable detail the nature and extent of the disagreement.

(c) During the 30-day period following the delivery of a ST Cap Ex Notice of Disagreement, ST and Newco shall seek in good faith to resolve in writing any differences which they may have with respect to any amount specified in the ST Cap Ex Notice of Disagreement. If Newco and ST are unable to resolve any such disagreement within 30 days after ST receives the ST Cap Ex Notice of Disagreement, the disagreement shall be referred for final determination to Deloitte & Touche USA LLP or if Deloitte & Touche USA LLP is unable or unwilling to make such final determination, to such other independent accounting firm as the parties shall mutually designate. The accounting firm so designated to make the final determination is hereinafter referred to as the "Cap Ex Independent Accountants."

(d) Actual ST Capital Expenditures as of the Effective Time shall be deemed to have been finally determined upon the first to occur of (i) acceptance of the schedule of Actual ST Capital Expenditures, (ii) Newco's failure to object thereto within 150 days after the Closing Date, (iii) resolution by mutual agreement of the parties after timely delivery of the ST Cap Ex Notice of Disagreement or (iv) notification by the Cap Ex Independent Accountants of their final determination thereof.

(e) In the event the Actual ST Capital Expenditures are less than the Planned ST Capital Expenditures for the period from April 1, 2007 through the Closing Date, ST

shall pay to Newco within 10 days after the final determination the amount of the difference.

(f) The fees and disbursements of the accountants of Newco shall be paid by Newco. The fees and disbursements of ST's accountants shall be paid by ST. The fees and disbursements of the Cap Ex Independent Accountants shall be paid based on a ratable allocation made as a part of its determination, based on the proportion by which the amount in dispute was determined in favor of Newco or ST.

2.10 Deliveries by Newco. Newco shall, on or before the Closing, execute and deliver or cause to be delivered to the civil law notary ("civil law notary"), who shall execute and deliver the notarial deed of issue in respect of the ST Newco Shares (with a copy to ST):

(a) a certificate issued by a registered accountant as referred to in Section 2:204b Dutch Civil Code relating to the value of the ST Transferred Assets to be contributed to Newco against the issuance of the ST Newco Shares; 2

(b) a true and complete copy of the resolutions duly and validly adopted by the Managing Director and the shareholders of Newco evidencing their authorization of the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby including the issuance of the ST Newco Shares;

(c) a duly executed power of attorney by Newco with respect to the execution of the notarial deed of issue of shares in respect of the ST Newco Shares; and

(d) a certificate of the Managing Director certifying the names and signatures of the Persons authorized to sign this Agreement and the other documents to be delivered hereunder.

2.11 Deliveries by ST. Prior to the Closing, ST shall deliver to the civil law notary executing the deed of issue in respect of the ST Newco Shares, a duly executed power of attorney by ST with respect to the execution of the notarial deed of issue in respect of the ST Newco Shares, which power of attorney shall be legalized and affixed with an apostille and shall be accompanied by a legal opinion certifying that the signatory or signatories of the power has or have the authority to represent ST with respect to the matters to which the power pertains. 3

2 This provision assumes issuance of shares in consideration of assets contributed only to ST, and not ST Affiliates. If any Newco shares are issued to Affiliates, we will need similar certificates with respect to assets contributed by each Affiliate.

3 If Newco shares will be issued to any Affiliates of ST, each such Affiliate will also need to deliver a POA.

2.12 Closing. At the Closing:

(a) The ST Transferors shall deliver to Newco and its Affiliates the ST Bills of Sale and, ST, through its officers, agents and employees, will, except as set forth on Schedule 2.12(a), put Newco and its Affiliates, as applicable, in possession of all tangible ST Transferred Assets at the facilities where they are located as of the Effective Time (other than such ST Transferred Assets that are already owned by ST Transferred Entities);

(b) ST and Newco and their respective Affiliates, as applicable, each shall execute and deliver each of the ST Ancillary Agreements to which it is a party and shall make any deliveries required thereunder;

(c) on behalf of itself and its Affiliates, Newco shall pay to ST for ST's account and/or for the account of the applicable ST Transferors the ST Cash Consideration by wire transfer of immediately available funds to a bank account designated in writing by ST prior to the Closing;

(d) Newco shall instruct the civil law notary to execute the notarial deed of issue in respect of the ST Newco Shares and, upon the execution of such deed (i) register or cause to be registered the issue of the ST Newco Shares in the share register of Newco and (ii) deliver a copy of the deed of issue in respect of the ST Newco Shares and the registration of such issuance in the share register of Newco to ST or one of its Affiliates;

(e) Newco and ST shall execute and deliver a delivery protocol relating to the manner for delivery of any intangible property that is a ST Transferred Asset;

(f) ST shall deliver, or cause to be delivered, all certificates or instruments representing the ST Transferred Interests duly endorsed and accompanied by necessary documentation for transfer;

(g) ST shall furnish Newco with the following documents regarding the ST Transferred Entities:

(i) the charter documents of each ST Transferred Entity and all amendments thereto, duly certified by the proper officials of the jurisdiction of organization of each such ST Transferred Entity, as in effect as of the Closing Date;

(ii) the charter documents of the Hynix JV and all amendments thereto, including the joint venture agreement of the Hynix JV, as in effect as of the Closing Date;

(iii) resignations, effective on the Closing Date, of the officers and directors of each ST Transferred Entity and the officers and directors of the Hynix JV who are ST designees or who are ST employees, officers, directors or affiliates, unless otherwise specified by Newco prior to the Closing Date; and

(iv) the complete and correct corporate minute books and reports filed with Governmental Authorities as required by Applicable Law (including registration of stock transfers) of the ST Transferred Entities.

2.13 Post Closing Registrations. Within eight days after the Closing, Newco shall (a) file with the Commercial Register the certificate issued by the registered accountant as referred to in Section 2.10(a) above and (b) register with the Commercial Register the increase in its capital.

**ARTICLE III
REPRESENTATIONS AND WARRANTIES OF ST**

Subject to the exceptions that are disclosed in the ST ACA Disclosure Letter, ST hereby makes the following representations and warranties to Newco. Such representations and warranties are made to Newco as if made and effective (a) on May 22, 2007 (except that with respect to any representation and warranty that specifies another date, such representation and warranty shall be made as of such specified date) and (b) as of the date hereof (except that with respect to any representation and warranty that specifies another date, such representation and warranty shall be made as of such specified date), as follows:

3.1 Existence and Good Standing. Each of the ST Transferors is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization (to the extent such concept is recognized in such jurisdiction) and has all requisite power and authority required to carry on its business as now conducted and to own and operate the ST Business as now owned and operated by it. Each of the ST Transferors is qualified to conduct business and is in good standing in each jurisdiction in which it conducts the ST Business (to the extent such concept is recognized in such jurisdiction) other than such jurisdictions where the failure to be so qualified would not reasonably be expected to have a ST Material Adverse Effect.

3.2 Authorization and Enforceability. Each of the ST Transferors has all requisite power and authority to execute and deliver each of the Transaction Documents to which it is or will be a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each ST Transferor of each of the Transaction Documents to which it is a party, and the performance by each ST Transferor of its obligations contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action. The Transaction Documents have been duly and validly executed and delivered by the ST Transferor which is a party thereto and, assuming the due execution and delivery of this Agreement and the other Transaction Documents to which it is a party by Newco (or a Subsidiary of Newco) and the other parties thereto, this Agreement constitutes, and each of the Transaction Documents to which a ST Transferor is a party constitutes, the legal, valid and binding agreement of such ST Transferor, enforceable against such ST Transferor in accordance with their respective terms, except to the extent (a) that their enforceability may be subject to any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity or (b) indemnification provisions contained in the Shareholders' Agreement may be limited by applicable securities laws.

3.3 Governmental Authorization. Other than the ST Approvals and the Intel Approvals the execution, delivery and performance by each ST Transferor of the Transaction Document(s) to which it is a party, and the consummation by it of the transactions contemplated thereby, require no Governmental Approval.

3.4 Non-Contravention.

(a) The execution, delivery and performance by the ST Transferors of the Transaction Documents to which it is a party, and the consummation of the transactions contemplated thereby, do not and will not: (i) contravene or conflict with the certificate of incorporation, bylaws, articles of association or other corporate organizational or governing documents of any ST Transferor or any ST Transferred Entity; (ii) assuming receipt of the ST Approvals, contravene or conflict with or constitute a material violation of any provision of any Applicable Law binding upon or applicable to any ST Transferor, the ST Transferred Assets or the ST Transferred Entities; or (iii) assuming receipt of the ST Approvals, the Newco Approvals and of the ST Contractual Consents, (A) constitute a default under, give rise to any right of termination, cancellation, modification, acceleration of, or a loss of any benefit under any ST Contract, including the ST Transferred Contracts or (B) result in the creation or imposition of any Lien (other than Permitted Liens) on any ST Transferred Asset, or (C) constitute a breach, default or violation of any settlement agreement, judgment, injunction or decree, except in the case of clause (ii) or (iii), for matters that would not reasonably be expected to have a ST Material Adverse Effect (*provided* that in determining whether a ST Material Adverse Effect would result, any adverse effect otherwise excluded by clause (c) of the definition of “ST Material Adverse Effect” shall be taken into account).

(b) The execution, delivery and performance by ST of this Agreement and the other Transaction Documents to which ST is a party, and the consummation of the transactions contemplated hereby and thereby, to the Knowledge of ST, do not and will not, as of the Closing Date: (a) contravene or conflict with the articles of association, joint venture agreement or other organizational or governing documents of the Hynix JV; or (b) constitute a default under, give rise to any right of termination, cancellation, modification, acceleration of, or a loss of any material benefit under the Hynix JV Junior Credit Agreement or any other contract or agreement between ST or any Subsidiary of ST and the Hynix JV.

3.5 Personal Property. The ST Transferors and ST Transferred Entities together have good and marketable title to, or a valid and subsisting leasehold interest in, all of the tangible personal property that is a ST Transferred Asset free and clear of any Lien, except for (a) Permitted Liens and (b) any restriction contemplated by this Agreement or any of the other Transaction Documents.

3.6 Real Property.

(a) Schedule 3.6(a) of the ST ACA Disclosure Letter lists (i) the street address of the Owned ST Real Property and (ii) the current owner of such Owned ST Real

Property. ST or one of its Subsidiaries has good and marketable fee title to the Owned ST Real Property, free and clear of all Liens, other than Permitted Liens.

(b) Schedule 3.6(b) of the ST ACA Disclosure Letter lists (i) the street address of the Leased ST Real Property and (ii) the identity of the lessor, the lessee and the current occupant (if different from the lessee) of each such parcel of Leased ST Real Property. ST or one of its Subsidiaries has a valid leasehold estate in all Leased ST Real Property, free and clear of all Liens, other than Permitted Liens. Each of the ST Leases (i) is valid and binding on the ST Transferor or ST Transferred Entity which is party thereto and, to the Knowledge of ST, on the counterparties thereto, and is in full force and effect and (ii) upon consummation of the transactions contemplated by this Agreement and the ST Ancillary Agreements, except to the extent that any ST Contractual Consents are not obtained, shall continue in full force and effect without penalty or other adverse consequence. No ST Transferor, nor any ST Transferred Entity, is in breach of, or default under, any ST Lease to which it is a party, except for such breaches or defaults that would not reasonably be expected to have a ST Material Adverse Effect. Except as would not reasonably be expected to have a ST Material Adverse Effect, to the Knowledge of ST, no other party to any ST Lease is in breach thereof or default thereunder and neither ST nor any of its Subsidiaries has received any notice of termination, cancellation, breach or default under any ST Lease.

3.7 Litigation. There is no Proceeding or to the Knowledge of ST, investigation pending or, to the Knowledge of ST, threatened in writing, by or against ST or any of its Subsidiaries relating to the ST Business or any ST Transferred Asset (a) seeking to prevent, enjoin, alter or delay the transactions contemplated by this Agreement or any other Transaction Document or to materially encumber any ST Transferred Asset, or (b) that would otherwise reasonably be expected to have a ST Material Adverse Effect. There is no Proceeding pending or, to the Knowledge of ST, threatened by or against any ST Transferred Entity, except as would not reasonably be expected to have a ST Material Adverse Effect.

3.8 ST Transferred Contracts and Consents.

(a) Except as would not reasonably be expected to have a ST Material Adverse Effect, each ST Transferred Contract (i) is valid and binding on the ST Transferor or the ST Transferred Entity which is party thereto and, to the Knowledge of ST, the counterparties thereto, and is in full force and effect and (ii) upon consummation of the transactions contemplated by this Agreement, except to the extent that any ST Contractual Consents are not obtained, shall continue in full force and effect without penalty or other adverse consequence. No ST Transferor, nor any ST Transferred Entity is in breach of, or default under, any ST Transferred Contract to which it is a party, except for such breaches or defaults that would not reasonably be expected to have a ST Material Adverse Effect. Except as would not reasonably be expected to have a ST Material Adverse Effect, to the Knowledge of ST, no other party to any ST Transferred Contract is in breach thereof or default thereunder and neither ST, nor any of its Subsidiaries, has received any notice of termination, cancellation, breach or default under any ST Transferred Contract.

(b) Schedule 3.8(b) of the ST ACA Disclosure Letter lists each material ST Transferred Contract that requires the consent of the other party or parties thereto to be obtained by ST or one of its Subsidiaries in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby to avoid the loss of any material benefit under, or any material modification to, such ST Transferred Contract (the “ST Contractual Consents”).

3.9 Compliance with Applicable Laws.

(a) ST and its Subsidiaries have complied with any Applicable Laws relating to the ST Business or the operation and use of the ST Transferred Assets (including, in the case of the ST Transferred Entities, Applicable Laws relating to their business operations and employees) and the ST Transferred Interests, except where the failure to comply would not reasonably be expected to have a ST Material Adverse Effect. To the Knowledge of ST, no ST Transferor is subject to any order, writ, injunction or decree of any Governmental Authority directly relating to the ST Transferred Assets. To the Knowledge of ST, no ST Transferred Entity is subject to any material order, writ, injunction or decree of any Governmental Authority.

(b) ST and its Subsidiaries are in possession of all Permits, except where the failure to have, or the suspension or cancellation of, any of the Permits would not reasonably be expected to have a ST Material Adverse Effect. ST and its Subsidiaries are in compliance with all Permits and no suspension or cancellation of any of the Permits is pending or, to the Knowledge of ST, threatened in writing, except, in each case, where the failure to so comply, or the suspension or cancellation of, any of the Permits would not reasonably be expected to have a ST Material Adverse Effect. Except as would not reasonably be expected to have a ST Material Adverse Effect, (i) none of the ST Transferred Permits will, assuming the related ST Approvals and Newco Approvals have been obtained prior to the Closing Date, be terminated or impaired or become terminable, in whole or in part, as a result of the transactions contemplated hereby and by the ST Ancillary Agreements and (ii) upon consummation of such transactions, Newco or its Subsidiaries will, assuming the related ST Approvals and Newco Approvals have been obtained prior to the Closing Date, have all of the right, title and interest in all of the ST Transferred Permits.

(c) Except as would not reasonably be expected to have a ST Material Adverse Effect, the ST Transferred Permits constitute all material Governmental Approvals necessary for the ownership, lease or use of the ST Transferred Assets and the operation of the ST Business after the Closing Date.

3.10 Tax Matters.

(a) ST has paid or caused to be paid all material Taxes relating to the ST Transferred Assets and ST Business allocable (as provided in Section 5.8(b) (iii)) to the Pre-Closing Tax Period that could become a liability of Newco or its Subsidiaries by reason of the transfer of the ST Transferred Assets to Newco or its Subsidiaries as

described herein or that would reasonably be expected to result in a Lien on any ST Transferred Assets, other than non-delinquent Taxes incurred in the ordinary course of business since the ST Financial Information Date in amounts consistent with prior periods (as adjusted for changes in Tax rates and ordinary course fluctuations in operating results). None of the ST Transferors has an actual or contingent liability for Taxes that will become a liability of Newco or its Subsidiaries by reason of the transactions described herein, other than such non-delinquent Taxes described in the immediately preceding sentence for which Newco or its Subsidiaries may become liable by reason of statutory successor liability (or similar liability) under Applicable Law.

(b) No Governmental Authority has claimed that the ST Transferred Assets are subject to Tax in a jurisdiction in which the required Tax Returns have not been filed by the ST Transferors.

(c) No material issues have been raised in writing in any audits, examinations or disputes pertaining to Taxes arising from the ST Transferred Assets that can reasonably be expected to be raised in similar examinations of Newco or its Subsidiaries following the Closing.

(d) With respect to each of the ST Transferred Entities:

(i) Each ST Transferred Entity has properly prepared and timely filed all Tax Returns required by law and has timely paid all Taxes due and payable (whether or not shown on any Tax Return). All such Tax Returns are true, correct and complete in all material respects. Each ST Transferred Entity has complied in all material respects with all Applicable Laws relating to Taxes. None of the ST Transferred Entities (A) is a party to or bound by any closing agreement, offer in compromise, gain recognition agreement or any other agreement with any Governmental Authority, except for those agreements identified on Schedule 3.10(e) of the ST ACA Disclosure Letter, or any Tax indemnity or Tax sharing agreement with any Person, and (B) has actual or contingent liabilities for Taxes, other than (x) Taxes accrued as a liability in the ST Financial Information, or (y) non-delinquent Taxes incurred in the ordinary course of business since the ST Financial Information Date in amounts consistent with prior periods (if applicable), as adjusted for changes in Tax rates and ordinary course fluctuations in operating results.

(ii) There are and have been no (A) proposed, threatened or actual assessments, audits, examinations or disputes as to Taxes relating to the ST Transferred Entities, (B) accounting method adjustments with respect to the ST Transferred Entities, or (C) waivers or extensions of the statute of limitations with respect to Taxes for which the ST Transferred Entities would reasonably be expected to be held liable following the date hereof. No issues have been raised in any audits, examinations or disputes pertaining to the ST Transferred Entities that can reasonably be expected to be raised in similar examinations following the Closing. To the Knowledge of ST, there is no basis for the assertion by a

taxing authority of a material Tax deficiency against the ST Transferred Entities. None of the ST Transferred Entities is liable for Taxes of any other Person.

(iii) Schedule 3.10(d)(iii) of the ST ACA Disclosure Letter sets forth, on an entity-by-entity basis, all jurisdictions in which each of the ST Transferred Entities is subject to Tax and the type(s) of Tax. No ST Transferred Entity has engaged (or been treated as engaged) in the conduct of a trade or business or had a permanent establishment (as defined in applicable tax treaty) in a jurisdiction with respect to which the required Tax Returns have not been filed.

(iv) Each ST Transferred Entity has complied with all information reporting and record keeping requirements under all Applicable Laws, including retention and maintenance of required records with respect thereto.

(v) None of the ST Transferred Entities is a party to any joint venture, partnership, other arrangement or which could be treated as a partnership for any applicable income Tax purposes.

(vi) There is no taxable income or other measure of Tax of any of the ST Transferred Entities that will be reportable in the Post-Closing Tax Period that is attributable to a transaction or event that occurred in a Pre-Closing Tax Period.

(vii) No position has been taken on any Tax Return with respect to the ST Business or the ST Transferred Assets that is contrary to any publicly announced position of a Governmental Authority, or that is substantially similar to any position that a Governmental Authority has successfully challenged in the course of an examination of a Tax Return of the ST Transferred Entities.

(e) Schedule 3.10(e) of the ST ACA Disclosure Letter sets forth in reasonable detail, as to each ST Transferred Entity, the ST Business and the ST Transferred Assets, each applicable agreement, ruling or other arrangement with respect to Taxes entered into with or received from any Governmental Authority, including the terms of any agreement governing the pricing of products sold to Affiliates of ST (each, an "ST Tax Agreement"). Each of ST, its Affiliates and the ST Transferred Entities is in compliance with each ST Tax Agreement in all material respects, and no Governmental Authority has claimed or is expected to claim that any material breach of a ST Tax Agreement has occurred. None of ST, its Affiliates or the ST Transferred Entities currently has outstanding any requests for Tax rulings pertaining to the ST Transferred Entities, the ST Business or the ST Transferred Assets that would reasonably be expected to affect the liability for Taxes of Newco or its Subsidiaries after the Closing Date.

(f) The representations and warranties contained in this Section 3.10 are the only representations and warranties being made with respect to compliance with or liability under Applicable Laws relating to the Tax matters contemplated by this Section 3.10.

3.11 Intellectual Property.

(a) All material ST Transferred Intellectual Property is free and clear of any Liens other than Permitted Liens. One of the ST Transferors owns or, to ST's Knowledge, is licensed to use, all works of authorship and all associated Copyrights that are embodied in the ST Products. One of the ST Transferors has good and marketable sole title to the ST Transferred Intellectual Property (other than with respect to any moral rights therein or relating thereto). With respect to the ST Transferred Intellectual Property, Schedule 3.11(a) identifies all material exclusive licenses granted by ST or its Subsidiaries. Except as provided in the ST Intellectual Property Agreement or other Transaction Documents, upon the Closing hereof, neither ST nor any of its Affiliates shall retain any material rights under the ST Transferred Intellectual Property.

(b) To the Knowledge of ST, neither (i) the current use of the ST Transferred Intellectual Property by ST or any of its Subsidiaries in its current operation of the ST Transferred Assets nor (ii) the current manufacture, marketing, distribution or sale of any of the ST Products by ST or its Subsidiaries in their current operation of the ST Transferred Assets infringes any Copyrights or Trade Secret rights of any third party. To the Knowledge of ST, ST has not received any written claims currently pending from any Person claiming that the ST Products infringe or misappropriate the Copyrights, Trade Secrets or Patents of such Person.

(c) ST has taken commercially reasonable steps to protect its rights in Trade Secrets of ST embodied in the ST Products including taking commercially reasonable steps to have all of its current and former employees, consultants and contractors employed in the ST Business execute and deliver to ST a proprietary information and invention assignment agreement. To the Knowledge of ST, it has not received written notice of any violation of or non-compliance with such agreements.

(d) To ST's Knowledge, neither ST nor any of its Subsidiaries is subject to any outstanding decree, order, or judgment that (i) restricts in any material manner the use, transfer or licensing of the ST Transferred Copyrights, the ST Transferred Patents, the ST Transferred Trade Secrets or the ST Products, or (ii) adjudges any of the ST Transferred Intellectual Property to be unenforceable or invalid.

(e) All ST Transferred Patents are currently in material compliance with formal legal requirements involving the payment of fees to Governmental Authorities (including the payment of filing, examination and maintenance fees). To the Knowledge of ST, there are no proceedings or actions pending before any court or tribunal (including the PTO or equivalent authority anywhere in the world) that involve the validity, scope or priority of ST Transferred Intellectual Property. None of the ST Transferred Copyrights are registered Copyrights.

(f) To ST's Knowledge, no software source code of material proprietary value to the ST Business is subject to obligations of public disclosure or distribution, under any "open source license" or otherwise.

3.12 Employee Matters.

(a) Pension Plans. At no time has ST or any other Person or entity under common control with ST within the meaning of Section 414(b), (c), (m) or (o) of the Internal Revenue Code of 1986 and the regulations issued thereunder, contributed to or been obligated to contribute to any Multiemployer Plan or any plan maintained pursuant to a collective bargaining agreement or any plan subject to Title IV of ERISA.

(b) Labor. No work stoppage or labor strike against ST or any of its Subsidiaries is pending or, to ST's Knowledge, threatened in writing or reasonably anticipated with respect to the ST Business Employees. ST has no Knowledge of any activities or proceedings of any labor union to organize any ST Business Employees who are not currently represented by a labor or trade union or employee representative body. There are no actions, suits, claims, labor disputes or grievances pending, or, to the Knowledge of ST, threatened in writing or reasonably anticipated relating to any labor, safety or discrimination matters involving any ST Business Employee, including charges of unfair labor practices or discrimination complaints, which, if adversely determined, would reasonably be expected to have a ST Material Adverse Effect. Neither ST nor any of its Subsidiaries is presently, nor has it been in the past, a party to, or bound by, any collective bargaining agreement, collective agreement or recognition arrangement with any labor or trade union, works council, European works council or other employee representative body or union contract with respect to ST Business Employees and no such agreement is being negotiated by ST with respect to the ST Business Employees. The consent, notice or opinion of any such employee representative body with respect to the ST Business Employees is not required to consummate any of the transactions contemplated by this Agreement or any of the other Transaction Documents.

(c) ST Business Employee List, Schedule 3.12(c) of the ST ACA Disclosure Letter (i) sets forth the ST Business Employees as of the date hereof and identifies the country (and state, for those in the United States) in which each such ST Business Employee is based and primarily performs his or her duties and (ii) identifies certain Newco Allocated Positions which shall be offered to certain employees of ST in accordance with Section 4.11(b) of the Master Agreement. Schedule 3.12(c) shall be updated solely to reflect the change in employment status of any ST Business Employee, the amendments permitted by Section 4.11(b) of the Master Agreement and such other changes as may reasonably be agreed upon by the Parties.

(d) Nature of Representations and Warranties. The representations and warranties contained in this Section 3.12 are the only representations and warranties being made with respect to compliance with or liability under Applicable Laws relating to the employment matters contemplated by this Section 3.12.

3.13 Financial Information.

(a) ST has delivered to Newco copies of the *estimated* unaudited consolidated statement of net revenue and direct expenses of the ST Business for the year ended

December 31, 2006 (the “ST Financial Information Date”) and the related *estimated* net book value of the fixed assets and inventories of the ST Business as of the ST Financial Information Date (collectively, the “ST Financial Information”). The ST Financial Information has been prepared internally by ST for management reporting purposes only and has not been audited by any independent certified public accountants or auditors.

(b) The ST Financial Information has been derived from the books and records of ST and have not been separately audited. The ST Financial Information does not contain all adjustments necessary to comply with GAAP. The ST Financial Information does not reflect the assets, liabilities, revenues and expenses that would have resulted if the ST Business had operated as an unaffiliated independent company; *provided, however*, that the ST Financial Information includes estimations for allocation of various revenues, costs and expenses on a reasonable basis.

3.14 Absence of Certain Changes. Since the ST Financial Information Date, other than with respect to the transactions contemplated by the Transaction Documents, the ST Business has been conducted in the ordinary course of business, and there has not been:

(a) (i) any sale, assignment or transfer of any of the material ST Transferred Assets or any license of any of the ST Transferred Intellectual Property, except, in each case, in the ordinary course of business and the transfer of ST Transferred Assets to ST Transferred Entities as contemplated hereby, or (ii) any creation, assumption or sufferance of (whether by action or omission) the existence of any Lien on any of the ST Transferred Assets, other than Permitted Liens;

(b) any waiver, amendment, termination or cancellation of any material ST Transferred Contract or any relinquishment of any material rights thereunder by ST or its Subsidiary which is party thereto, or, to the Knowledge of ST, any other party, other than, in each such case, actions taken with respect to any such ST Transferred Contract in the ordinary course of business that are not material to the ST Business;

(c) any material change by ST or any Subsidiary of ST in its accounting principles, methods or practices relating to the ST Business or in the manner it keeps its accounting books and records relating to the ST Business, except (i) any such change required by a change in GAAP or (ii) any change that results from the audit contemplated by Section 5.2(h) of the Master Agreement;

(d) any damage, destruction or other casualty loss that is material to the ST Transferred Assets taken as a whole;

(e) (i) any failure to make an amount of capital expenditures described in the ST Business Capital Expenditures Plan that is material, in the aggregate, to the ST Business or (ii) any incurrence of any additional ST Transferred Liabilities for capital expenditures that are material, in the aggregate, to the ST Business, except for those described in the ST Business Capital Expenditures Plan;

(f) any failure to maintain the ST Transferred Assets as a whole, in all material respects in at least as good condition as they were being maintained on the ST Financial Information Date, subject to normal wear and tear;

(g) any acquisition, directly or indirectly, of all or substantially all of the assets of any business or equity interests in any Person or business, whether by merger, consolidation or otherwise, that relates to the ST Business;

(h) any creation, incurrence, assumption or guarantee, or modification of the terms, of any Indebtedness with respect to the ST Business, other than the Contemplated Financing, except in the ordinary course of business;

(i) any ST Material Adverse Effect; or

(j) any agreement for ST or any of its Subsidiaries to take any of the actions specified in paragraphs (a) through (h) above.

3.15 Environmental Matters.

(a) Except as would not reasonably be expected to have a ST Material Adverse Effect: (i) ST and each of its Subsidiaries, in each case with respect to the ST Transferred Assets or the ST Business, and each ST Transferred Entity is in compliance with all applicable Environmental Laws; (ii) ST and each of its Subsidiaries, in each case with respect to the ST Transferred Assets or ST Business, and each ST Transferred Entity has obtained, and is in material compliance with, all Environmental Permits; (iii) neither ST nor any of its Subsidiaries, in each case with respect to the ST Transferred Assets or the ST Business nor any ST Transferred Entity is conducting or funding, or is required to conduct or fund, any Remedial Action pursuant to any Environmental Law; (iv) to ST's Knowledge, no property to which a ST Transferred Entity or, in connection with the ST Business, ST has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances is listed on any list of sites requiring investigation or cleanup promulgated by any relevant Governmental Authority; (v) there are no claims relating to any Environmental Law pending or, to the Knowledge of ST, threatened in writing against ST or any of its Subsidiaries, in each case with respect to the ST Transferred Assets or the ST Business, or any ST Transferred Entity; and (vi) to ST's Knowledge, there has been no environmental investigation, study, audit, test, review or other analysis conducted within the past five years that documents conditions giving rise to any material Environmental Liability, that relates to the ST Transferred Assets, the Leased ST Real Property, the ST Business, any ST Transferred Entity or any other property or facility now or previously owned or leased by ST in connection with the ST Business, and that has not been delivered to Newco within at least five days of the date hereof.

(b) The representations and warranties contained in this Section 3.15 are the only representations and warranties being made with respect to compliance with or liability under Environmental Laws, including natural resources, related to the ST

Business, the ST Transferred Assets or ST's or its Subsidiaries' ownership or operation thereof.

3.16 Product Warranties. A copy of ST's product warranties currently in effect with respect to the ST Products as set forth in the order acknowledgement forms for the ST Products (the "ST Standard Form Product Warranties") is set forth on Schedule 3.16 of the ST ACA Disclosure Letter. Neither ST nor any of its Subsidiaries has given any written product warranty with respect to the ST Products other than the ST Standard Form Product Warranties. The ST Products, taken as a whole, comply in all material respects with all such product warranties and all material specifications applicable to the ST Products. To the Knowledge of ST, there are no outstanding material claims with respect to product warranties relating to the ST Products. As of the Closing Date, the ST Products constitute all of the products produced or sold by ST or any of its Subsidiaries exclusively related to the ST Business.

3.17 ST Transferred Assets. The ST Transferred Assets and the assets made available to Newco or its Subsidiaries under, or to be used by ST and its Subsidiaries in the performance of, the ST Ancillary Agreements will, as of the Closing, constitute all of the material assets (other than any Intellectual Property) necessary for the conduct of the ST Business as it is conducted by ST and its Subsidiaries as of the Closing Date.

3.18 Customers. Schedule 3.18 of the ST ACA Disclosure Letter lists the names of the 10 largest customers to whom the ST Business has sold products during the year ended December 30, 2006 (based on dollar amount of revenue recognized in connection with the sale of such ST Products during such year). To ST's Knowledge, neither ST nor any of its Subsidiaries has received any written statement from any customer whose name appears on Schedule 3.18 of the ST ACA Disclosure Letter that such customer will not continue as a customer of the ST Business after the Closing.

3.19 Insurance. ST has delivered to Newco summaries of all material insurance policies and fidelity bonds relating to the ST Transferred Assets and the ST Business. There are no material Claims by ST or any of its Subsidiaries pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds or in respect of which such underwriters have reserved their rights.

3.20 Inventories. The *estimated*, unaudited book value of the ST Transferred Inventories set forth in the ST Financial Information were determined in a manner not materially inconsistent with GAAP. As of the end of ST's first fiscal quarter of 2007, the *estimated* unaudited ST Inventory Value is as set forth on Schedule 3.20 to the ST ACA Disclosure Letter. Such *estimated*, unaudited book value of the ST Transferred Inventories and the ST Inventory Value were prepared internally by ST for management reporting purposes only, have not been audited by any independent certified public accountants or auditors and are further qualified by the limitations set forth in Section 3.13(b). Since the ST Financial Information Date, the levels of ST Transferred Inventory have been maintained in the ordinary course of business. The ST Transferred Inventories are owned free and clear of all Liens other than Permitted Liens.

3.21 Advisory Fees. There is no investment banker, broker, finder or other intermediary or advisor that has been retained by or is authorized to act on behalf of ST, who will be entitled to any fee, commission or reimbursement of expenses from any Person other than ST upon consummation of the transactions contemplated by this Agreement.

3.22 Representations Regarding ST Transferred Entities and ST Transferred Interests.

(a) Organization. Each ST Transferred Entity and, to the Knowledge of ST, the Hynix JV is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization (to the extent such concept is recognized in such jurisdiction) and has all requisite power and authority required to carry on its business as now conducted and to own and operate the ST Business as now owned and operated by it. Each ST Transferred Entity and, to the Knowledge of ST, the Hynix JV is, or will be, as of the Closing Date, qualified to conduct business and in good standing (to the extent such concept is recognized in such jurisdiction) in each jurisdiction in which it conducts the ST Business other than such jurisdictions where the failure to be so qualified would not reasonably be expected to have a ST Material Adverse Effect. The ST Transferred Entities and, to the Knowledge of ST, the Hynix JV and their respective jurisdictions of organization are identified on Schedule 3.22(a).

(b) Capitalization.

(i) As of the Closing, the authorized share capital of the ST Transferred Entities shall be as set forth in Schedule 3.22(b) of the ST ACA Disclosure Letter, and of such authorized share capital, only the ST Transferred Interests shall be issued and outstanding. As of the Closing, no other shares of the ST Transferred Entities shall have been authorized or designated as a series or shall be issued and outstanding. As of the Closing, all of the ST Transferred Interests shall have been duly authorized, validly issued, fully paid and non-assessable, shall have been issued in material compliance with all Applicable Laws and shall have been issued in compliance with all applicable preemptive rights created by statute, the charter or other governing instruments of the ST Transferred Entities and any agreement to which such ST Transferred Entities are bound or by which their properties or assets are bound.

(ii) As of the Closing, there shall not be outstanding (A) any options, warrants or other rights to purchase from any ST Transferred Entity any capital stock or other securities of such ST Transferred Entity, (B) any securities, notes or other indebtedness convertible into or exchangeable for shares of such capital stock or securities, (C) any other commitments or rights of any kind for any ST Transferred Entity to issue additional shares of capital stock, options, warrants or other securities or (D) any equity equivalent or other ownership interests in any ST Transferred Entity or similar rights.

(iii) As of the Closing, ST and its Subsidiaries shall be the sole registered and beneficial owners of the ST

Transferred Interests and the ST Transferred Interests shall be free and clear of all Share Encumbrances. Upon delivery of certificates evidencing certificated ST Transferred Interests to Newco or a Subsidiary of Newco together with any executed share transfer deeds or instruments for the ST Transferred Interests necessary to transfer the ST Transferred Interests under Applicable Law, and payment by Newco of the amount due and payable to ST pursuant to Section 2.6, Newco or a Subsidiary of Newco will acquire good and marketable title to such ST Transferred Interests, free and clear of any Share Encumbrance.

(iv) As of the Closing, Newco and its Subsidiaries shall be the sole registered and beneficial owners of the Hynix Interests and the Hynix Interests shall be free and clear of all Share Encumbrances other than the Share Encumbrances under the charter documents of the Hynix JV and the agreements listed in 6(a) through 6(p) of Schedule 2.1(e) of the ST ACA Disclosure Letter. Upon delivery of certificates evidencing the Hynix Interests (to the extent Applicable Law permits the Hynix Interests to be certificated) to Newco or a Subsidiary of Newco together with any executed share transfer deeds or instruments for the Hynix Interests necessary to transfer the Hynix Interests under Applicable Law, and payment by Newco of the amount due and payable to ST pursuant to Section 2.6, Newco or a Subsidiary of Newco will acquire good and marketable title to such Hynix Interests, free and clear of any Share Encumbrances other than the Share Encumbrances under the charter documents of the Hynix JV and the agreements listed in 6(a) through 6(p) of Schedule 2.1(e) of the ST ACA Disclosure Letter.

(c) Ownership. Schedule 3.22(c) of the ST ACA Disclosure Letter sets forth the identity of each of the holders of equity interests in the ST Transferred Entities and their respective ownership interests in the ST Transferred Entities. The ST Transferred Entities do not have any Subsidiaries and do not, directly or indirectly, own any equity investment or other ownership interest in any Person. No ST Transferred Entity is a participant in any joint venture, partnership or similar arrangement.

(d) Indebtedness.

(i) No ST Transferred Entity has any outstanding Indebtedness.

(ii) There are no Contracts between or among ST or any of its Subsidiaries and the Hynix JV or any third party relating to the Indebtedness of the Hynix JV other than the Hynix JV Junior Credit Agreement. None of ST or its Subsidiaries nor, to the Knowledge of ST, the Hynix JV is in default under any provision of the ST Loan Documents in any material respect.

3.23 Investment Representations.

(a) Investigation; Economic Risk. ST acknowledges that it has had an opportunity to discuss the business, affairs and current prospects of Newco with Newco's

officers. ST further acknowledges having had access to information about Newco that it has requested. ST acknowledges that it is able to fend for itself in the transactions contemplated by this Agreement and has the ability to bear the economic risks of its investment in Newco pursuant to this Agreement. ST is an “accredited investor,” as such term is defined in Rule 501 of Regulation D promulgated under the Securities Act.

(b) Purchase for Own Account. The ST Newco Shares will be acquired for the account of ST or an Affiliate of ST, not as a nominee or agent, and not with a view to or in connection with the sale or distribution of any part thereof.

(c) Exempt from Registration; Restricted Securities. ST understands that the ST Newco Shares will not be registered under the Securities Act, on the basis that the sale provided for in this Agreement is exempt from registration under the Securities Act, and that the reliance of Newco on such exemption is predicated in part on ST’s representations set forth in this Agreement. ST understands that the ST Newco Shares being issued hereunder are restricted securities within the meaning of Rule 144 under the Securities Act; that the ST Newco Shares are not registered and must be held indefinitely unless they are subsequently registered or an exemption from such registration is available.

3.24 Disclaimer of Warranties. EXCEPT WITH RESPECT TO THE WARRANTIES AND REPRESENTATIONS SPECIFICALLY SET FORTH IN THIS ARTICLE III (WHICH MAY BE RELIED UPON BY NEWCO), ALL OF THE TRANSFERRED ASSETS ARE BEING SOLD “AS IS, WHERE IS,” AND NEITHER ST NOR ANY OF ITS SUBSIDIARIES MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, ORAL OR WRITTEN, WHETHER OF MERCHANTABILITY, SUITABILITY, NONINFRINGEMENT OR FITNESS FOR A PARTICULAR PURPOSE, OR QUALITY AS TO THE TRANSFERRED ASSETS OR ANY PART OR ITEM THEREOF, OR AS TO THE CONDITION, DESIGN, OBSOLESCENCE, WORKING ORDER OR WORKMANSHIP THEREOF, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR OTHERWISE.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF NEWCO

Newco hereby represents and warrants to ST, as of the date of this Agreement, as follows:

4.1 Existence and Good Standing. Newco has been duly organized and is validly existing as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under Dutch law and has all requisite power and authority required to carry on its business as now conducted and to own and operate its businesses as now owned and operated by it. Newco has heretofore delivered to ST complete and correct copies of its articles of association and governance rules as currently in effect. Each Subsidiary of Newco has been duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite power and authority required to carry on its business as now

conducted and to own and operate its business as now owned and operated by it. Newco has heretofore delivered to ST complete and correct copies of the articles of incorporation and bylaws or other organizational documents of each Subsidiary of Newco.

4.2 Authorization and Enforceability. Newco has all requisite corporate power and authority to execute and deliver this Agreement and each of the Transaction Documents to which it is or will be a party and to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Newco of this Agreement and each of the Transaction Documents to which it is a party and the performance by Newco of its obligations contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action. This Agreement has been, and when executed at the Closing the other Transaction Documents to which Newco is a party will have been, duly and validly executed and delivered by Newco, and assuming the due execution and delivery of this Agreement and the other Transaction Documents to which it is a party by ST and each of the other parties thereto, this Agreement constitutes, and as of the Closing each of the Transaction Documents to which Newco is a party will constitute, the legal, valid and binding agreement of Newco, enforceable against Newco in accordance with their respective terms, except to the extent (a) that their enforceability may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally or to general principles of equity or (b) indemnification provisions contained in the Shareholders' Agreement may be limited by applicable securities laws.

4.3 Non-Contravention. The execution, delivery and performance by each of Newco and its Subsidiaries of the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not contravene or conflict with the articles of association or governance rules of Newco or the organizational documents of any of its Subsidiaries.

4.4 Capitalization. Immediately following the Closing, the capitalization of Newco will consist of the following:

(a) Ordinary Shares. A total of _____ Ordinary Shares of Newco will be authorized, of which _____ shares will be issued and outstanding, of which _____ Ordinary Shares will be held by ST _____ and Ordinary Shares will be held by Intel. Newco will have sufficient authorized share capital with respect to its Ordinary Shares upon a conversion of the Preferred Shares in accordance with the terms and conditions of the Shareholders Agreement and sufficient authorized share capital with respect to its Ordinary Shares for issuance under the Equity Plan (of which no such shares shall be subject to outstanding options, and all of which shares shall be available for future issuance). The Outstanding Ordinary Shares will have been validly issued, will be fully paid upon transfer of the ST Transferred Assets and the Intel Transferred Assets to Newco, and will have been issued in accordance with the registration or qualification provisions of all applicable securities laws, or pursuant to valid exemptions therefrom.

(b) Preferred Shares. A total of _____ Preferred Shares will be authorized, of which _____ Preferred Shares will be issued and outstanding all of which will be held by FP. The Outstanding Preferred Shares will have been validly issued, will be fully paid upon receipt of the Purchase Price by Newco, and will have been issued in accordance with the registration or qualification provisions of all applicable securities laws, or pursuant to valid exemptions therefrom.

(c) Options, Warrants, Reserved Shares. Except for (i) the conversion privileges of the Preferred Shares; (ii) the rights to purchase new securities set forth in the Shareholders' Agreement and mandatory provisions of the laws of The Netherlands; and (iii) the Intel Option, there are no options, warrants, conversion privileges or other rights (or agreements for any such rights) outstanding to purchase or otherwise obtain from Newco any of Newco 's securities. There exists no Newco obligation (contingent or otherwise) to purchase, redeem or otherwise acquire any of its equity securities or any interest therein.

4.5 Valid Issuance of Shares.

(a) The ST Newco Shares, when issued, sold and delivered in accordance with the terms of this Agreement, will be duly and validly issued and fully paid, and will be free of restrictions on transfer other than restrictions on transfer under the Equity Transaction Documents, the laws of The Netherlands and applicable securities laws.

(b) The outstanding shares of Newco are duly and validly issued and fully paid upon receipt of the Purchase Price and the consummation of the ST Asset Contribution Agreement and the Intel Asset Transfer Agreement, and such shares of such capital stock, and all outstanding shares, options and other securities of Newco have been issued in full compliance with exemptions from the registration requirements of the Securities Act, and are exempt from registration or qualification under the registration, permit or qualification requirements of all applicable state securities laws and all other provisions of applicable federal and state securities laws and applicable laws of The Netherlands, including, without limitation, anti-fraud provisions.

4.6 Exempt Offering. Based in part upon ST's representations in Section 3.23, the offer and sale of the ST Newco Shares pursuant to this Agreement are exempt from the registration requirements of Section 5 of the Securities Act by virtue of Regulation D thereunder, from the qualification requirements of the California Corporate Securities Law of 1968, by virtue of Section 25102(f) thereof, and from the registration or qualification requirements of any other applicable foreign or state securities laws.

4.7 Lack of Registration Rights and Voting Agreements. Except as set forth in the Shareholders' Agreement, Newco has not granted or agreed to grant any registration rights to any Person. There is no agreement or restriction relating to the voting of any shares of Newco other than as set forth in the Shareholders' Agreement.

4.8 Reliance. In executing this Agreement and the ST Ancillary Agreements to which it is a party, Newco and its Subsidiaries are relying on the investigations by Intel and FP (or its Affiliates), and on the provisions set forth herein and therein and not on any other statements, presentations, representations, warranties or assurances of any kind made by ST, its representatives or any other Person. Newco acknowledges that (a) the representations and warranties of ST contained in Article III hereof constitute the sole and exclusive representations and warranties of ST to Newco in connection with this Agreement and the transactions contemplated hereby and (b) all other representations and warranties are specifically disclaimed and may not be relied upon or serve as a basis for a claim against ST. NEWCO ACKNOWLEDGES THAT ST DISCLAIMS ALL WARRANTIES OTHER THAN THOSE EXPRESSLY CONTAINED IN THIS AGREEMENT AS TO THE ST TRANSFERRED ASSETS, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR WARRANTY FOR FITNESS FOR A PARTICULAR PURPOSE. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED EXPRESSLY IN THIS AGREEMENT, NEWCO IS ACQUIRING THE ST TRANSFERRED ASSETS ON AN “AS IS, WHERE IS” BASIS.

**ARTICLE V
COVENANTS**

5.1 Access to Information.

(a) Newco shall permit ST to retain copies of ST Books and Records for its internal use or for audit, tax or regulatory purposes or for any use required by Applicable Law and shall maintain for six years after the Closing Date all of the ST Books and Records pertaining to the ST Transferred Entities, ST Transferred Assets and the ST Transferred Liabilities relating to periods prior to the Closing. Newco shall provide ST and its representatives, during normal business hours and upon reasonable notice from ST, with reasonable access to such ST Books and Records. If, at any time after the sixth anniversary of the Closing Date, Newco proposes to dispose of any of such books and records, Newco shall first offer to deliver the same to ST at the expense of ST.

(b) Each Party (the “Possessing Party”) will afford the other Party (the “Receiving Party”), its counsel and its accountants, during normal business hours, reasonable access to information in the Possessing Party’s possession or control relating to the ST Transferred Assets, the ST Transferred Liabilities, the ST Transferred Entities and the ST Business, and, to the extent reasonably requested, at the Receiving Party’s expense, will provide copies and extracts therefrom, all to the extent that such access may be reasonably required by the Receiving Party in connection with (i) the preparation of Tax Returns, (ii) compliance with the requirements of any Governmental Authority or (iii) to facilitate the resolution of claims made by a third party against or incurred by ST or Newco pertaining to the ST Transferred Assets, the ST Transferred Liabilities, the ST Transferred Entities or the ST Business; *provided, however*, that nothing in this Section 5.1(b) shall be deemed to require any Party to disclose any information that it is prohibited from disclosing under any non-disclosure agreement entered into prior to the

date of the Master Agreement or in the ordinary course of business after the date of the Master Agreement.

5.2 Compliance with Terms of Governmental Approvals and Consents. From and after the Closing Date, Newco shall comply at its own expense with all conditions and requirements imposed on Newco as set forth in (a) Newco Approvals that are Governmental Approvals, to the extent necessary such that all such Governmental Approvals will remain in full force and effect assuming, if applicable, continued compliance with the terms thereof by ST and (b) all Newco Approvals of Persons other than Governmental Authorities, to the extent necessary such that all such consents and approvals will remain effective and enforceable against the Persons giving such consents and approvals, assuming, if applicable, continued compliance with the terms thereof by ST.

5.3 Use of Marks. Notwithstanding any other provision, no interest in or right to use the name “STMICROELECTRONICS” or any derivation thereof or any other Trademarks, service marks or tradenames of ST, other than the ST Transferred Trademarks, (the “ST Retained Marks”) is being transferred or otherwise licensed to Newco pursuant to the transactions contemplated by this Agreement. Newco agrees not to use any materials bearing ST Retained Marks or sell, transfer or ship any products bearing ST Retained Marks (a) unless requested to do so by ST, (b) except to the extent displayed on the hardcopy (non-electronic) form of such materials delivered to Newco at the Closing, (c) except as required under ST Transferred Contracts with customers or (d) except on ST Transferred Inventory, product instructions, labeling, containers, data sheets, specifications and any similar materials directly related to the ST Transferred Inventory in existence as of the Closing Date until, in all cases, the earliest of (i) the sale or disposition of such Inventory or other materials, (ii) such time as Newco shall have qualified the use of its logo, Trademark or tradenames with each such customer and (iii) 180 days after the Closing Date or such other period as is permitted under the ST Transition Services Agreement or the ST Intellectual Property Agreement solely for the purposes set forth therein. Further, dies manufactured by or for Newco using mask sets included in the ST Transferred Assets may bear ST Retained Marks only to the extent that it is not commercially reasonable to manufacture dies using such mask sets that do not bear such ST Retained Marks. The foregoing rights are subject to ST’s standard Trademark usage guidelines, a copy of which has been provided to Newco, to any applicable provisions of the ST Transition Services Agreement, and to any applicable provisions of the ST Intellectual Property Agreement, and ST reserves the right to practice quality control with regard to its marks and any products or services marketed or sold thereunder. Newco shall comply with any reasonable instructions of which it is notified by ST relating to ST’s exercising of such quality control rights. Upon the expiration of the foregoing license, all materials bearing any ST Retained Mark in the possession or control of Newco or its agents shall be promptly destroyed. Prior to any distribution of any materials bearing ST Retained Marks, Newco shall use commercially reasonable efforts to redact or modify such materials in order to minimize or eliminate the use of the ST Retained Marks.

5.4 Cooperation in Third Party Litigation. Each Party shall provide such assistance and cooperation as the other Party or its counsel may reasonably request in connection with any claims, Proceedings or investigations relating to the ST Business or the ST Transferred Assets, ST Transferred Liabilities, ST Transferred Entities, provided that the Party making such request

shall reimburse each such other Party for its reasonable and documented out-of-pocket costs and expenses in providing such assistance; *provided*, that such assistance shall not unreasonably interfere with the business and operations of any such other Party.

5.5 Assignments

(a) ST will reasonably cooperate with Newco in transferring applications and registrations for the ST Transferred Copyrights, ST Transferred Trademarks and the ST Transferred Patents to the extent that ST has applied for or obtained registrations therefor; *provided, however*, that following the Closing, subject to Section 5.4, ST shall not have or incur any further obligations or expenses in connection therewith, and it shall be the sole responsibility of Newco to pursue, protect or perfect any such rights as it may see fit in its sole discretion.

(b) Following the Closing, in the event that (i) ST identifies ST Excluded Assets that have been erroneously identified for delivery or delivered to Newco, Newco shall use commercially reasonable efforts to return such ST Excluded Assets to ST at ST's expense or (ii) Newco identifies ST Transferred Assets that any ST Transferor has failed to deliver to Newco or a Subsidiary of Newco or a ST Transferred Entity, such ST Transferor shall use commercially reasonable efforts to deliver such ST Transferred Assets to Newco or such Subsidiary of Newco at ST's expense.

5.6 Reasonable Efforts. Each of Newco and ST will cooperate and use its commercially reasonable efforts to take, or cause to be taken, all appropriate actions (and to make, or cause to be made, all filings and notifications necessary, proper or advisable under Applicable Law) to consummate and make effective the transactions contemplated by this Agreement and the Transaction Documents, including its commercially reasonable efforts to obtain, as promptly as practicable, all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities and parties to contracts, as are necessary for the consummation of the transactions contemplated by this Agreement and the Transaction Documents to which it is a party.

5.7 Allocation of Non-Tax Operating Expenses. All utility charges, gas charges, electric charges, water charges, water rents and sewer rents, if any, shall be apportioned between Newco and ST as of the Closing Date, computed on the basis of the most recent meter charges or, in the case of annual charges, on the basis of the established fiscal year. All Prepayments (including lease expenses but excluding Taxes and ST Prepayments) paid by ST prior to the Closing Date and all other operating expenses paid by Newco with respect to the ST Business shall be apportioned between Newco and ST as of the Closing Date computed on the basis of the applicable time period to which expenses apply. Within 90 days after the Closing, each Party shall present a statement to the other Party setting forth the amount of reimbursement to which each is entitled under this Section 5.7, together with such supporting evidence as is reasonably necessary to calculate the proration amount. Such amount shall be paid by the Party owing it to the other within 10 days after delivery of such statement.

5.8 Tax Matters.

(a) Tax Returns. ST shall prepare or cause to be prepared all Tax Returns with respect to the ST Transferred Assets and the ST Business for the Pre-Closing Tax Period, other than the Tax Returns of the ST Transferred Entities for taxable periods that end following the Closing Date. Newco shall prepare or cause to be prepared all Tax Returns with respect to the ST Transferred Assets and the ST Business for the Post-Closing Tax Period and of the ST Transferred Entities for taxable periods ending after the Closing Date. All Tax Returns with respect to the ST Transferred Entities, ST Transferred Assets or ST Business prepared by Newco for taxable periods that include but do not end on the Closing Date (each such period, a “Straddle Period”) shall be prepared in a manner consistent with prior Tax Returns filed by the ST Transferred Entities, except as otherwise required by Applicable Law. To the extent ST would be liable for all or any portion of the Taxes shown on any Straddle Period Tax Return, such Tax Return shall be provided to ST no later than 30 days prior to the filing thereof, and any disputes concerning the manner in which such Tax Returns are prepared shall be resolved as provided in Section 5.8(h). Newco shall not amend or permit to be amended any Tax Returns with respect to a ST Transferred Entity to the extent such amendment could increase the liability of ST hereunder.

(b) Responsibility for Payment of Taxes. Except as otherwise provided in this Section 5.8:

(i) ST shall be liable for and shall indemnify, defend and hold Newco harmless from and against (A) all Taxes arising from the ST Transferred Assets or the ST Business with respect to the Pre-Closing Tax Period, including all Taxes of the ST Transferred Entities attributable to the Pre-Closing Tax Period to the extent not paid prior to the Closing, (B) all Taxes imposed on any ST Transferred Entity as a result of being or having been a member of an affiliated, consolidated, combined, unitary, fiscal unity or similar group of which ST or any of its Affiliates is or was a member, other than Taxes arising from the income, assets or operations of Newco and its Subsidiaries during the Post-Closing Tax Period, and (C) all Taxes imposed on any ST Transferred Entity as a result of being or having been party to any tax sharing, tax indemnity or tax allocation agreement or any other express or implied agreement to indemnify any other Person for Taxes that was entered into prior to the Closing, other than Taxes arising from the income, assets or operations of Newco and its Subsidiaries during the Post-Closing Tax Period; *provided, however*, that Taxes arising on the Closing Date by reason of actions taken by or at the request of Newco out of the ordinary course of business following the Closing and without the consent of ST shall be the responsibility of Newco.

(ii) Newco shall be liable for and shall indemnify, defend and hold ST harmless from and against all Taxes arising from the ST Transferred Assets or the ST Business with respect to the Post-Closing Tax Period, including all Taxes of the ST Transferred Entities attributable to the Post-Closing Tax Period, except to the extent that such Taxes are ST’s obligation under Section 5.8(b)(i) or are subject to indemnification from ST pursuant to

Section 6.2(a) (but subject to Section 6.2(g)) and except for any Taxes imposed on ST or its Affiliates by virtue of their ownership of equity in Newco.

(iii) Taxes with respect to any of the ST Transferred Entities for a Straddle Period shall be calculated by means of a closing of the books and records of such ST Transferred Entity as of the close of the Closing Date, as if such Straddle Period ended as of the close of the Closing Date; provided that exemptions, allowances or deductions that are calculated on an annual basis (including depreciation and amortization deductions computed as if the Closing Date was the last day of the taxable period) shall be allocated between the portion of the period ending on the Closing Date and the portion of the period after such day in proportion to the number of days in each such period; and, provided, further, that personal property, ad valorem and other similar Taxes that are not based on income, revenue, expenses or any combination thereof ("Property Taxes") for a Straddle Period shall be allocated between the Pre-Closing Tax Period and the Post-Closing Tax Period in proportion to the number of days in each such period (except as provided in the immediately succeeding sentence). Property Taxes with respect to the ST Transferred Assets other than those owned by the ST Transferred Entities shall be allocated similarly. ST shall be liable for the amount of such Taxes that is attributable to the Pre-Closing Tax Period (other than to the extent of any increase in Property Taxes attributable to the transactions described herein), and Newco shall be liable for the proportionate amount of such Taxes that is attributable to the Post-Closing Tax Period (including any increase in Property Taxes attributable to the transactions described herein).

(iv) Within a reasonable period after the Closing, and from time to time thereafter upon the receipt by a Party of a bill, assessment or other notice of Tax due, ST and Newco shall present a statement to the other setting forth the amount of reimbursement to which each is entitled under this Section 5.8(b), together with such supporting evidence as is reasonably necessary to calculate the amount owed. The amount owed shall be paid by the Party owing it to the other within 10 days after delivery of such statement or, if later, 3 days prior to the time such Taxes are required to be paid to the appropriate Governmental Authority. In the event that either ST or Newco makes a payment for which it is entitled to reimbursement under this Section 5.8(b), the other Party shall pay such reimbursement promptly, but in no event later than 30 days after the presentation of a statement setting forth the amount of reimbursement to which the presenting Party is entitled along with such supporting evidence as is reasonably necessary to calculate the amount of reimbursement. Any payment required under this Section 5.8(b) and not made when due shall bear interest at the rate of 10% per annum.

(c) Sales and Use Taxes. All Sales Taxes incurred by ST or its Affiliates in connection with the transfer of ST Transferred Assets to a ST Transferred Entity (whether such Sales Taxes arise upon such transfer or upon the transfer of the underlying ST Transferred Interests to Newco or its Subsidiaries) shall be borne by ST or its Affiliates (but not the ST Transferred Entities) to the extent such Sales Taxes exceed the

Sales Taxes that would have been incurred if the underlying ST Transferred Assets were transferred directly by the historical owner thereof to Newco or a Subsidiary of Newco (located in the same jurisdiction as such ST Transferred Entity) without the intervening transfer to such ST Transferred Entity. All other Sales Taxes incurred by the Parties or their Affiliates as a consequence of the transfer of the ST Transferred Assets (including the ST Transferred Interests) to Newco shall be determined as soon as practicable after the Closing based on the allocation described in Section 5.9 and shall be borne 50% by Newco and 50% by ST; *provided, however*, that in no event shall Newco's share of such Sales Taxes exceed \$5,000,000. Notwithstanding the foregoing, Newco or its Subsidiaries shall pay 100% of all Sales Taxes to the extent the payment thereof by Newco or such Subsidiaries gives rise to a right to claim a refund of or credit against Taxes otherwise payable by Newco or its Subsidiaries under Applicable Law (and such amount shall not count toward the \$5,000,000 cap in the preceding sentence). To the extent permitted by Applicable Law, Newco and ST shall cooperate and use commercially reasonable efforts to minimize such Sales Taxes. To the extent a taxing authority provides notice to ST or Newco of an audit of Sales Taxes for which the other Party has any responsibility hereunder, the Party receiving the notice shall promptly notify the other Party. The Parties shall cooperate as reasonably requested to defend any audit with respect to Sales Taxes described herein, and the Party responsible therefor shall pay when due any additional Sales Taxes ultimately assessed (together with any interest, penalties or additions to tax with respect thereto) in the ratios described above. ST shall control all Sales Tax audits where ST or its Affiliates bear 100% of the underlying Sales Tax, and ST and Newco shall jointly control all other Sales Tax audits (and share equally all related professional fees, interest, penalties and additions to tax) pertaining to the transfer of the ST Transferred Assets to Newco. With respect to Sales Taxes for which the Parties bear joint responsibility hereunder, neither Party shall settle any proposed adjustment to such Sales Taxes without the other Party's prior written approval, not to be unreasonably withheld or delayed.

(d) Cooperation. As to the Taxes for which ST is liable hereunder or that arise in a Straddle Period, the Parties hereto agree to furnish or cause to be furnished to one another, upon request, as promptly as practicable, such information and assistance relating to the ST Transferred Assets, the ST Business and the ST Transferred Entities as is reasonably necessary for the filing of all Tax Returns, the preparation for any audit by any taxing authority, and the prosecution or defense of any claim or Proceeding relating to any Tax Return. The Parties hereto shall cooperate with each other in the conduct of any audit or other Proceeding related to Taxes involving the ST Business.

(e) Allocation of ST Consideration among the ST Transferred Assets. The ST Consideration (including the ST Transferred Liabilities to the extent treated as "amount realized" for United States federal income tax purposes) shall be allocated among the ST Transferred Assets and the ST Transferred Interests in accordance with Schedule 5.8(e) of the ST ACA Disclosure Letter (as such allocation shall be determined prior to Closing and attached hereto immediately prior to the Closing). Such schedule shall be prepared in a manner consistent with the Third Party Appraisal. Each of the Parties hereto agrees

to report the transactions contemplated hereby for state, federal and foreign Tax purposes in accordance with such allocation of the ST Consideration. ST shall prepare Schedule 5.8(e) of the ST ACA Disclosure Letter subject to Newco's approval, which approval shall not be unreasonably withheld. Such schedule shall be adjusted for any changes to the ST Cash Consideration, in a manner consistent with the Third Party Appraisal and otherwise as ST determines in its reasonable discretion.

(f) Treatment of Indemnity Payments. The Parties shall treat all indemnification payments made under this Agreement as an adjustment to the ST Cash Consideration for applicable Tax purposes.

(g) Tax Dispute Resolution. If the Parties are unable to resolve any disputes regarding the content of Tax Returns for which ST has a right of review pursuant to Section 5.8(a), the issue or issues shall be referred for resolution to a partner at a "Big 4" accounting firm (or other nationally recognized accounting firm) reasonably acceptable to the Parties, who shall be requested to resolve open issues, on the basis of the position most likely to be sustained if challenged in a court having initial jurisdiction over the matter (which for federal income tax issues shall be deemed to be the United States Tax Court). The decision of such accounting firm shall be final and binding on the Parties, and the costs of such accounting firm shall be Newco costs. If such Tax Returns become due (taking into account extensions of time to file, which Newco shall seek as necessary to avoid the delinquent filing of its Tax Returns) they shall be filed as determined by Newco and shall be amended and re-filed as required by the outcome of the referral to the accounting firm as provided herein.

(h) For so long as Italian Newco or any successor has unclaimed M6 Tax Credits, the use of which has not expired under Applicable Law, Newco shall, at ST's expense, use commercially reasonable efforts to take such actions as are reasonably requested in writing by ST from time to time in order to enable Italian Newco or any successor thereto that is a Subsidiary of Newco to qualify for and receive the M6 Tax Credits; *provided, however*, that Newco shall not be required to take actions that Newco determines would result in the utilization of the M6 Tax Credits to the exclusion of other Tax credit or other attributes of Newco or its Subsidiaries or would otherwise adversely affect Newco from a Tax or financial standpoint. ST shall have the right to review any Tax Returns on which ST requests that such M6 Tax Credits be claimed prior to filing. If and when Newco or its Subsidiaries receives an actual benefit from the claiming of an M6 Tax Credit, either in the form of a cash refund of Taxes previously paid with respect to a Post-Closing Tax Period, a reduction or offset to other Taxes actually payable (determined on the basis of the actual Taxes paid or refunded with the benefit of such M6 Tax Credit versus such amounts without the benefit of such M6 Tax Credits (but taking into account other benefits available to Newco and its Subsidiaries)) (an "M6 Tax Credit Benefit"), Newco shall promptly pay to ST (or any ST Affiliates designated by ST) the amount of such M6 Tax Credit Benefit less the amount of Taxes (including withholding Taxes or deductions, if any) and other costs, expenses or liabilities incurred by Newco and its Subsidiaries as a result of the receipt or right to receive such refund or credit or the payment or obligation to make payment under this Section 5.8(h). If for any reason

Newco or its Subsidiaries is required to refund or otherwise return to a Governmental Authority the amount of any M6 Tax Credit Benefit previously paid to ST or its designees, or if the utilization of the M6 Tax Credits subsequently results in the inability to utilize other Tax benefits of Newco and its Subsidiaries, ST shall promptly repay such amounts to Newco, and such amounts shall again become available for payment to ST if and when they are realized by Newco or its Subsidiaries as provided in this section, subject again to this sentence. ST will indemnify, defend and hold Newco and its Subsidiaries harmless for any Taxes and related out-of-pocket costs (including professional fees) incurred as a result of any M6 Tax Credits claimed by Newco being disallowed for any reason. The intent of this Section 5.8(h) is to provide ST with the benefit of the M6 Tax Credits only to the extent they actually result in a cash benefit to Newco or its Subsidiaries (taking into account the other Tax credits or other attributes of Newco and its Subsidiaries), and for ST to refund such amount previously paid to ST pursuant to this Section 5.8(h) if such cash benefit is reduced for any reason (including by reason of the availability of other Tax attributes that would have provided the same cash benefit) and otherwise place Newco and its Subsidiaries in a position that is no worse than if they never claimed such M6 Tax Credits or paid such amounts to ST, and this Section 5.8(h) shall be interpreted accordingly.

5.9 Accounts Receivable. Following the Closing, (a) if ST or any of its Subsidiaries receives any payment, refund or other amount that is a ST Transferred Asset or is otherwise properly due and owing to Newco in accordance with the terms of this Agreement, ST promptly shall remit, or shall cause to be remitted, such amount to Newco and (b) if Newco or any of its Subsidiaries receives any payment, refund or other amount that is a ST Excluded Asset or is otherwise properly due and owing to ST or any of its Subsidiaries in accordance with the terms of this Agreement, Newco promptly shall remit, or shall cause to be remitted, such amount to ST. Without limiting the foregoing, Newco shall forward to ST, immediately upon receipt thereof, any payments of Pre-Closing Accounts Receivable of ST or any of its Subsidiaries (other than Third Party A/R Owed to ST Transferred Entities), and ST shall forward to Newco, immediately upon receipt thereof, any payments of Post-Closing Accounts Receivable of Newco or any of its Subsidiaries unless otherwise set forth in the ST Transition Services Agreement. Following the Closing, the Parties shall cooperate in promptly advising customers to direct to the appropriate Party any future payments by such customers. In determining whether a payment received by either Party is a payment of an Account Receivable of ST or Newco, the receiving Party may rely on any invoice or contract number referred to on the payment or in correspondence accompanying such payment. To the extent any payment, refund or other amount received by ST or Newco from a customer or other account debtor does not specify which outstanding invoice or receivable it is in payment of, such payment shall be applied to the earliest invoice outstanding with respect to indebtedness of such customer or other account debtor, except for those invoices which are subject to a dispute to the extent of such dispute. Following the Closing, Newco will provide such cooperation as ST shall reasonably request in connection with ST's collection of outstanding Pre-Closing Accounts Receivable of ST and its Subsidiaries (other than Third Party A/R Owed to ST Transferred Entities).

5.10 Accounts Payable. To the extent that Newco receives any invoices for Pre-Closing Accounts Payable of ST or any of its Subsidiaries (other than Third Party A/P Payable by ST Transferred Entities) or statements evidencing amounts owed by ST or any of its Subsidiaries to another Person, Newco will promptly deliver such documents to ST. To the extent that ST or any of its Subsidiaries receives any invoices for Accounts Payable of Newco or statements evidencing amounts owed by Newco or any of its Subsidiaries to another Person, ST will promptly deliver such documents to Newco unless otherwise set forth in the ST Transition Services Agreement.

5.11 Employees.

(a) To the greatest extent permitted by Applicable Law, Newco shall provide service credit for all periods of service by the ST Transferred Employees under Newco's employee policies and plans except to the extent such service credit would result in the duplication of benefit accrual for the same period of service. Newco shall be responsible for all Liabilities, salaries, benefits and similar employer obligations that arise after Closing under Newco's compensation and benefit plans and policies for all ST Transferred Employees or pursuant to Section 2.3(d). In particular, Newco shall be responsible for liabilities with respect to the termination of any ST Transferred Employees by Newco after the Closing, including health care continuation coverage with respect to plans established or maintained by Newco after the Closing to the extent that the ST Transferred Employees participate therein, and damages or settlements arising out of any claims of wrongful, constructive or illegal termination or dismissal by Newco following the Closing, and for complying with the requirements of all Applicable Laws with respect to any such termination by Newco after the Closing. Subject to Section 2.3(d), ST shall be solely responsible for any liabilities or obligations with respect to ST Transferred Employees under the ST Employee Plans or the ST Employee Agreements that arise following the Closing.

(b) Non- U.S. ST Business Employees. With respect to ST Business Employees located outside the United States, each of Newco and ST agrees to comply with all covenants, agreements and obligations set forth in Schedule 5.11(b) of the ST ACA Disclosure Letter.

(c) Funded Employee Plans. To the extent that Newco is required under Applicable Law to assume Liabilities with respect to a ST Funded Employee Plan relating to service of ST Transferred Employees prior to the Closing Date, and unless such obligations are not otherwise satisfied at or prior to the Closing Date among ST, Newco and the relevant ST Transferred Employees, ST shall, or shall cause the applicable ST Subsidiary to, pay to Newco an amount in cash or cash equivalents equal to such Liabilities as of the Closing Date as determined in accordance with this Section 5.11(c) (the "ST Funded Employee Plan Amount"). ST shall, or shall cause the applicable ST Subsidiary to, cause the ST Funded Employee Plan Amount to be transferred to Newco as soon as practicable following the Closing Date, but in no event more than 15 days following the determination of the amount due hereunder. The ST Funded Employee Plan Amount shall be determined in accordance with Applicable Law

and the relevant provisions of the ST Funded Employee Plan. To the extent required by Applicable Law or by the ST Funded Employee Plan, ST shall, or shall cause the applicable ST Subsidiary to, require the actuary of each ST Funded Employee Plan (each, an "ST Actuary") to determine, prior to the Closing Date, the ST Funded Employee Plan Amount for the relevant ST Funded Employee Plan in accordance with FAS 158 on a projected benefit obligation basis based on actuarial assumptions no less favorable than those used in the most recent actuarial report prepared for the relevant ST Funded Employee Plan. The actuarial calculations and assumptions of the ST Actuary may be reviewed for accuracy by an actuary designated by Newco (the "Newco Actuary"). If the ST Actuary and the Newco Actuary cannot reach an agreement as to the proper determination for the ST Funded Employee Plan Amount with respect to a ST Funded Employee Plan, ST and Newco shall refer such matter to an independent third-party actuary (which actuary shall be mutually agreeable to ST and Newco) (the "Third Actuary") for resolution. Promptly, but in no event later than 45 days after such referral, the Third Actuary shall review the ST Actuary's calculation of the relevant ST Funded Employee Plan Amount and the Newco Actuary's objection and calculations with respect thereto, and shall provide each of ST and Newco a written statement of its decision as to the issues in dispute and the determination of the ST Funded Employee Plan Amount. Such determination shall be final and binding for all purposes. The fees and expenses of the ST Actuary and the Newco Actuary shall be borne by ST. The fees and expenses of the Third Actuary shall be borne equally by ST and Newco.

(d) Consultation Obligations. ST and Newco shall where and to the extent required by Applicable Law or by an applicable collective bargaining, collective agreement, recognition arrangement or other similar agreement or arrangement inform and consult with employees, trade unions, works councils or other employee representative bodies regarding the transactions contemplated by this Agreement, including the offers of employment made pursuant to the Master Agreement.

(e) Non-Solicitation of Employees.

(i) Subject to Applicable Law, for two years following the Closing, without the prior written consent of Newco, ST shall not, nor shall it permit any of its Subsidiaries to, directly or indirectly, recruit or solicit any employee of Newco or any of its Subsidiaries (collectively, for purposes of this Agreement, the "Newco Restricted Employees") to leave his or her employment with Newco or such Subsidiary.

(ii) Except as (A) may be otherwise provided herein, (B) otherwise agreed by ST and Newco, or (C) prohibited by Applicable Law, for two years following the Closing Date, Newco shall not, nor shall it permit any of its Subsidiaries to, directly or indirectly, recruit or solicit (x) any employee of ST or any of its Subsidiaries other than those ST Business Employees who become employed by Newco in accordance with the terms of the Master Agreement or (y) any ST Business Employee who declines an offer of employment from or objects

to his or her transfer to Newco(collectively, for purposes of this Agreement, the “ST ACA Restricted Employees”).

(iii) Neither the placement of employment advertisements or other general solicitation for employees not specifically targeted to any Newco Restricted Employee or ST ACA Restricted Employee, as the case may be, by any means, including through the use of hiring agencies or through employees of each Party who are unaware of the prohibitions against the solicitation of the Newco Restricted Employees or ST ACA Restricted Employees, as the case may be, shall be a recruitment or solicitation prohibited by this Section 5.11(e) provided that any such hiring agencies and employees are not instructed by persons who knew about the prohibition on the solicitation of such Restricted Employees to solicit for hire such Restricted Employees. If a Party (or any Subsidiary thereof) inadvertently violates the prohibition against the solicitation of Restricted Employees, such Party shall (or it shall cause its applicable Subsidiary to), as soon as it is aware it has committed a violation of this section, notify the other Party who formerly employed such Restricted Employee and either withdraw any offer to the solicited individual or ensure that such person, if hired, is restricted from working on, consulting on, or having any knowledge with respect to matters which are designated by written notice by the Party that formerly employed such employee in its reasonable discretion as competitively sensitive matters, in which event such inadvertent action shall not be deemed to be a breach of this Section 5.11(e) so long as there is no repetitive pattern of such actions.

(f) Newco Employee Recruitment. For a period of six months following the Closing Date, Newco agrees to notify ST of any employment opportunities at Newco within a reasonable period of time before the placement of employment advertisements or other general solicitation, including the use of hiring agencies, with respect to such employment opportunities.

(g) Reimbursement for TFR Liability. Pursuant to and in accordance with the TFR Indemnification Agreement, ST shall indemnify and hold Newco and its Subsidiaries harmless from any and all TFR Indemnity Obligations. The TFR Indemnification Agreement shall identify the Italian ST Transferred Employees as well as the amount of the TFR Liability, as of the latest available date on or prior to the Closing Date, that is or may become payable to or in respect of any Italian ST Transferred Employees, it being understood that, notwithstanding the abovementioned reference to the TFR Liability as of such latest available date, ST will remain liable for indemnifying Newco and its Subsidiaries for the entire amount of the TFR Indemnity Obligations until such time as specified in the TFR Indemnification Agreement. As a security for the fulfillment of the TFR Indemnity Obligations, at Closing ST shall deliver to Newco and its Subsidiaries a first demand bank guarantee issued by a primary financial institution acceptable to Newco (“Bank Guarantee”). In the event that the Bank Guarantee should be issued for a duration which does not cover the entire potential duration of the TFR Indemnity Obligations, ST agrees to deliver to Newco and its Subsidiaries, from time to time, a renewed first demand bank guarantee, drafted

substantially in the form of the Bank Guarantee then in force, at least 30 days prior to the expiration of the Bank Guarantee then in force, failing which Newco and its Subsidiaries will be entitled, during such 30-day period, to draw on the Bank Guarantee then in force for all of the outstanding amount (whether or not then due and payable) of the TFR Indemnity Obligations. The TFR Indemnification Agreement and the Bank Guarantee shall be drafted substantially in the forms attached to Schedule 5.11(g) of the ST ACA Disclosure Schedule. Notwithstanding anything herein to the contrary, ST shall be required to provide Newco and its Subsidiaries with a legal opinion certifying that this Section 5.11(g) as well as the TFR Indemnification Agreement comply with and can be enforced pursuant to Italian Applicable Law. In the event that (i) such legal opinion is not provided within 10 days prior to the Closing Date or (ii) Newco receives a contrary legal opinion, ST shall be required to pay to Newco an amount in cash or cash equivalents equal to the TFR Liability at the Closing and the indemnification provisions in this Section 5.11(g) shall remain in full force and effect until the first anniversary of the Closing Date.

5.12 Protection of Privacy. The Customer Data of ST has been collected by ST over the Internet under the conditions set forth in the ST Privacy Policy attached to Schedule 5.12 of the ST ACA Disclosure Letter (the “ST Privacy Policy”) and is transferred to Newco subject to the obligations set forth in the ST Privacy Policy. Newco covenants and agrees that it will not use such Customer Data in any manner that conflicts with the terms of the ST Privacy Policy.

5.13 Export Compliance. From and after the Closing Date, Newco shall comply at its own expense with all conditions and requirements imposed on Newco required to comply with all applicable U.S. Export Administration Regulations and such other similar regulations, including any applicable export regulations of foreign jurisdictions, that are imposed on the ST Transferred Assets. Newco agrees that it will not export, either directly or indirectly, any ST Product or associated technology or systems incorporating such ST Product without first obtaining any required license or other approval from the appropriate host Governmental Authority with appropriate authority.

5.14 Satisfaction of ST Pre-Closing Product Obligations. After the Closing, Newco agrees to satisfy any and all ST Pre-Closing Product Obligations. Unless otherwise agreed by the Parties in the Transaction Documents, Newco shall, on a monthly basis, following the month in which the transactions occur, or any other periodic basis as agreed by the Parties, deliver to ST a written statement of costs reasonably incurred by Newco in satisfying any such ST Pre-Closing Product Obligations, which statement shall set forth all such ST Pre-Closing Product Obligations satisfied by Newco during such period. Promptly following receipt of such statement, ST shall reimburse Newco for all such costs.

5.15 Additional ST Financial Statements. For 12 months following the Closing Date (or if later, the date of completion of the audit of the ST annual financial statements for the year in which the Closing Date occurs), ST shall, in good faith, use commercially reasonable efforts to assist Newco with Newco’s preparation of such financial statements, for such periods prior to the Closing Date as may be required for Newco to undertake a registered public offering of debt

securities or Ordinary Shares, as the case may be, it being understood that in connection with any such registered offering Newco shall use commercially reasonable efforts to obtain waivers from certain financial statement requirements, provided that any failure by Newco to obtain any such waiver shall not relieve ST from its obligations under this Section 5.15. Notwithstanding the foregoing, nothing herein shall obligate ST to provide any audited financial statement or information to Newco or to submit to an audit by Newco's auditors of any financial statement or information or books and records of ST.

5.16 Settlement of Claims. ST shall not settle, or make any binding offer to settle, any material Claim or Proceeding relating to the ST Business unless such settlement would not encumber any assets of Newco, impose any obligation or other Liability on Newco, impose any restriction that would apply to Newco or the conduct of Newco's business, or include any acknowledgment of validity, enforceability, infringement, or Claim interpretation with regard to any of the Intellectual Property relating to such Claim or Proceeding.

5.17 Back-end Equipment.

(a) From and after the Closing Date, ST shall, and shall cause its Subsidiaries to, retain physical possession of the following Newco Equipment at the following ST facilities until the earlier of (i) the date upon which such Newco Equipment is removed therefrom pursuant to a Newco Removal Notice (as defined below) and (ii) the following Removal Dates:

(i) The Toa Payoh Equipment shall be removed from the ST facility located in Toa Payoh, Singapore, 60 days after completion of assembly and test services using the Toa Payoh Equipment under the ST Back-End Supply Agreement and the receipt by Newco from ST of written notice of such completion;

(ii) The Shenzhen Equipment shall be removed from the ST facility located in Shenzhen, China, 60 days after completion of assembly and test services using the Shenzhen Equipment under the ST Back-End Supply Agreement and the receipt by Newco from ST of written notice of such completion;

(iii) The ST1 Equipment shall be removed from the ST facility located in Muar, Malaysia, 60 days after completion of assembly and test services using the ST1 Equipment under the ST Back-End Supply Agreement and the receipt by Newco from ST of written notice of such completion; and

(iv) The Bouskoura Equipment shall be removed from the ST facility located in Bouskoura, Morocco, 60 days after completion of assembly and test services using the Bouskoura Equipment under the ST Back-End Supply Agreement and the receipt by Newco from ST of written notice of such completion;

provided, however, that in the event that any Governmental Approval is required for the removal of any of such Newco Equipment, Newco and ST shall use their reasonable commercial efforts to obtain such Governmental Approval as soon as practicable after the Closing Date, and in the event that such Governmental Approvals are not obtained within 45 days prior to the Removal Date set forth above, the Removal Date shall be extended to that date which is 45 days after all such Governmental Approvals have been obtained.

(b) Newco shall use commercially reasonable efforts to make all arrangements necessary to ensure that the Newco Equipment is removed from the premises of ST and its Subsidiaries as soon as reasonably practicable following the completion of the applicable assembly and test services set forth in Section 5.17(a) and the receipt of notice thereof from ST and in any event prior to the Removal Date applicable thereto.

(c) From and after the Closing Date until 15 days prior to each applicable Removal Date, Newco may notify ST in writing of Newco's intention to remove the Toa Payoh Equipment, the Shenzhen Equipment, the ST1 Equipment or the Bouskoura Equipment, as the case may be, from the premises of ST or its Subsidiaries. Each such notice (a "Newco Removal Notice") shall describe in reasonable detail the arrangements for the removal and transportation of the applicable Newco Equipment, including (i) the dates on which Newco proposes to begin and complete the removal of such Newco Equipment, (ii) the identity of any third party contractors that Newco proposes to engage in connection therewith and (iii) a reasonable estimate of the third party costs expected to be incurred by Newco in connection therewith.

(d) All reasonable and documented third party costs of removing Newco Equipment from the premises of ST or its Subsidiaries and transporting Newco Equipment to the premises of Newco or its Subsidiaries shall be borne by ST. Newco shall remove the applicable Newco Equipment in its entirety from the premises of ST and its Subsidiaries prior to the Removal Date applicable thereto. The removal of such Newco Equipment shall be effected during regular business hours in a manner reasonably intended to minimize disruption and without causing damage to the affected ST facility. ST shall have the right to approve in advance (which approval shall not be unreasonably withheld or delayed) any third party contractors that Newco proposes to engage to complete such removal or transportation. In the event that any Newco Equipment is not removed from the premises of ST or its Subsidiaries prior to the Removal Date applicable thereto, ST may treat such Newco Equipment as abandoned property and may have such Newco Equipment removed from the applicable ST facility or may sell such Newco Equipment and remit the proceeds of such sale (net of all direct and indirect costs of sale and expenses incurred by ST and its Subsidiaries) to Newco.

5.18 Master Agreement Covenants. Newco agrees to be bound by and shall be a third party beneficiary of the following Sections of the Master Agreement: Section 4.5 (Press Releases), Section 4.8 (Tax Matters), Section 4.9 (Operations of the Intel Business Prior to the Closing), Section 4.10 (Operations of the ST Business Prior to the Closing), Section 4.12 (Additions to and Modifications of the Schedules), Section 4.14 (Notices of Certain Intel

Events), Section 4.15 (Notices of Certain ST Events), Section 4.17 (Newco Tax Election), Section 4.19 (Cooperation with Financing), Section 4.21 (Hynix JV Matters), Section 4.22 (Facility Transfer Term Sheets), Section 4.25 (ST Litigation), Section 4.26 (Intel Litigation) and Section 4.28 (Further Assurances) of the Master Agreement as though it were a party thereto.

5.19 Further Assurances. Each Party agrees to execute and deliver, or cause to be executed and delivered, such other documents, certificates, agreements and other writings and to take, or cause to be taken, such other commercially reasonable actions as may be necessary or desirable in order to consummate or implement expeditiously the transactions contemplated by this Agreement.

5.20 Release of Liens. On the Closing Date, the ST Transferors shall deliver the ST Transferred Assets to Newco and its Subsidiaries free and clear of Liens, other than Permitted Liens, except as otherwise provided herein.

ARTICLE VI INDEMNIFICATION

6.1 General Survival. The representations and warranties of the Parties contained in this Agreement and the covenants set forth in Section 4.10 of the Master Agreement shall survive the Closing for a period of 12 months after the Closing Date; *provided, however* that (a) representations and warranties set forth in Section 3.10 (Tax Matters) shall survive until the expiration of the statute of limitations for the collection of the Tax that is the subject of such representation or warranty, (b) representations and warranties set forth in each of Section 3.2 (Authorization and Enforceability), Section 3.12(a) (Pension Plans), and Section 3.22(a) and (b) (Organization and Capitalization of the ST Transferred Entities) shall survive until the expiration of the applicable statute of limitations, (c) representations and warranties set forth in Section 3.15 (Environmental Matters) shall survive until the date that is 10 years following the Closing Date, and (d) any claim arising out of the fraudulent misrepresentation of ST contained in this Agreement or any other Transaction Document shall survive until the expiration of the applicable statute of limitations. In addition, any indemnity with respect to any ST Pre-Closing Environmental Liability described in Section 2.4(k) hereof shall survive until the date that is 10 years following the Closing Date and shall thereupon expire. Upon such expiration, unless written notice of a claim for indemnification based on such representation, warranty, covenant or indemnity specifying in reasonable detail the facts on which the claim is based shall have been delivered to the Indemnitor prior to the expiration of such representation, warranty, covenant, or indemnity, such representation, warranty, covenant or indemnity shall be deemed to be of no further force or effect, as if never made, and no action may be brought based on the same, whether for indemnification, breach of contract, tort or under any other legal theory. All covenants and agreements of the Parties otherwise set forth in this Agreement with respect to ST Excluded Liabilities or actions of the Parties following the Closing shall survive indefinitely to the extent necessary to give effect to their terms.

6.2 Indemnification.

(a) Indemnification Provisions for Newco. Subject to the provisions of Section 6.1, from and after the Closing Date, the Newco Indemnitees shall be indemnified and held harmless by ST from and against and in respect of any and all Losses (as defined below) incurred by any Newco Indemnitee resulting from:

- (i) any inaccuracy or breach of any of ST's representations or warranties contained in this Agreement or in the certificates furnished to Newco pursuant to Sections 5.1(a) and 5.3(a) of the Master Agreement (disregarding the qualifications as to ST Material Adverse Effect expressly set forth in such certificates in accordance with Sections 5.1(a) and 5.3(a));
- (ii) any breach of any covenant or agreement made or to be performed by ST pursuant to this Agreement or any of the Sections of the Master Agreement set forth in Section 5.18 of this Agreement;
- (iii) any failure of ST to satisfy any ST Excluded Liabilities; and
- (iv) any Taxes or expenses required to be paid by ST under this Agreement.

(b) Indemnification Provisions for ST. Subject to the provisions of Section 6.1, from and after the Closing Date, the ST Indemnitees shall be indemnified and held harmless by Newco from and against and in respect of any and all Losses (as defined below) incurred by any ST Indemnitee, resulting from:

- (i) any inaccuracy or breach of any of Newco's representations or warranties contained in this Agreement other than any such inaccuracy or breach that results from any action that (A) Newco is required to take hereunder or (B) ST has approved under the Master Agreement;
- (ii) any breach of any covenant or agreement made or to be performed by Newco pursuant to this Agreement;
- (iii) any failure of Newco to satisfy any ST Transferred Liabilities, other than the ST Excluded Liabilities; and
- (iv) any Taxes or expenses required to be paid by Newco under this Agreement.

(c) For purposes of this Agreement, the term "Indemnitee" shall mean either a Newco Indemnitee or a ST Indemnitee, as the case may be, and the term "Indemnitor" shall mean either Newco or ST, as the case may be.

(d) Notwithstanding the above, Losses shall not include expenses incurred in connection with investigations unless a claim is made by a third party against the Indemnitee.

(e) No Newco Indemnitee shall be entitled to indemnification for any Losses covered by Section 6.2(a)(i) until the aggregate amount of all such Losses of the Newco Indemnitees shall exceed \$15,000,000 (the “ST ACA Basket”), at which time all such Losses incurred in excess of the ST ACA Basket shall be subject to indemnification by the relevant Indemnitor hereunder. The ST ACA Basket shall not apply to Losses covered by Section 3.2 (Authorization and Enforceability), Section 3.10 (Tax Matters), Section 3.12(a) (Pension Plans), Section 3.15 (Environmental Matters), Section 3.22(a) and (b) (Organization and Capitalization of the Transferred Entities) or Sections 6.2(a)(ii)-(iv). No ST Indemnitee shall be entitled to indemnification for any Losses covered by Section 6.2(b)(i) until the aggregate amount of all such losses of the ST Indemnitees shall exceed \$15,000,000 (“Newco ACA Basket”), at which time all such losses incurred in excess of the Newco ACA Basket shall be subject to indemnification by the relevant Indemnitor hereunder. The Newco ACA Basket shall not apply to Losses covered by Sections 6.2(b)(ii)-(iv).

(f) The amount of any Losses otherwise recoverable under this Section 6.2 shall be reduced by (i) any amounts which the Indemnitees actually receive under insurance policies, net of all reasonable and documented costs and expenses of recovery, the Parties hereby acknowledging and agreeing that as soon as practicable after becoming aware of such Losses and in any event prior to payment of any amount of Losses otherwise recoverable under this Section 6.2, the Indemnitee must first seek reimbursement for any and all Losses from any applicable insurance coverage (and that any compensation provided under this Agreement is not to be deemed insurance for any purpose), and (ii) any reduction in Tax otherwise actually payable by the Indemnitees (or their Subsidiaries) (net of related Tax and out of pocket costs incurred in connection with such reduction) with respect to the taxable year of such Persons in which the payment of such indemnity is due or a prior taxable year, including refunds of Taxes (net of such Tax and other out-of-pocket costs) previously paid by such Persons with respect to such taxable years to the extent the claim for refund may be filed in such years.

(g) Notwithstanding anything to the contrary in Section 6.2(a), Losses for which Newco may claim indemnification under this Agreement shall not include Taxes arising in Post-Closing Tax Periods, determined in the manner provided in Section 5.8(b), except for (i) interest, penalties and additions to Tax accrued with respect to Taxes arising in a Pre-Closing Tax Period, (ii) Losses arising from a breach of the representation set forth in Section 3.10(d), (vi), and (iii) Losses for Taxes that are allocated to ST pursuant to Section 5.8.

(h) For any additions or modifications to the schedules to the ST ACA Disclosure Letter made by ST under Section 4.12(d) of the Master Agreement (i) to correct inaccuracies of the Specified ST Representations (including those representations and warranties which are expressed with respect to a date prior to the date of the Master Agreement) for facts, events or circumstances occurring prior to or existing on and as of the date of the Master Agreement, and, in the case of a representation or warranty made to the Knowledge of ST, of which ST had Knowledge on such date), (ii) to reflect any facts, events or circumstances which resulted from a breach of Section 4.10 of the Master

Agreement, or (iii) to update, correct or otherwise modify any of the representations and warranties set forth in Section 3.2 (Authorization and Enforceability), Section 3.4 (Non-contravention), Section 3.7 (Litigation), Section 3.9 (Compliance with Applicable Laws), Section 3.10 (Tax Matters), Section 3.11 (Intellectual Property), Section 3.13 (Financial Information), Section 3.14 (Absence of Certain Changes), Section 3.17 (ST Transferred Assets), Section 3.20 (Inventories), Section 3.21 (Advisory Fees), Section 3.22 (Transferred Entities and Transferred Interests), and Section 3.23 (Investment Representations), for any reason, then, in each case, Newco shall be entitled to indemnification therefor pursuant to, and subject to the limitations set forth in this Article VI, to the same extent as if such additions and modifications had not been made.

6.3 Manner of Indemnification.

(a) Each indemnification claim shall be made only in accordance with this Article VI.

(b) If an Indemnitee wishes to make a claim for Losses under Article VI of this Agreement, Indemnitee shall deliver a Notice of Claim to the applicable Indemnitor promptly after becoming aware of the facts giving rise to such claim. The Notice of Claim shall (i) specify in reasonable detail the nature of the claim being made, and (ii) state the aggregate dollar amount of such claim.

(c) Following receipt by an Indemnitor of a Notice of Claim, the Parties shall promptly meet to agree on the rights of the respective Parties with respect to each of such claims. If the Parties should so agree, a memorandum setting forth such agreement shall be prepared and signed by both Parties and amounts agreed upon shall be promptly paid. Any unresolved dispute between the Parties shall be resolved in accordance with Section 7.10 and Section 7.11 and the other applicable provisions of this Agreement.

6.4 Third-Party Claims. If Newco becomes aware of a claim of a third party (including for all purposes of this Section 6.4, any Governmental Authority) that Newco believes, in good faith, may result in a claim by it or any other Newco Indemnitee against ST, Newco shall notify ST of such claim as promptly as practicable; *provided*, that any failure to so notify ST shall not relieve ST of its obligations hereunder, except to the extent such failure shall have materially adversely prejudiced ST. ST shall have the right, but not the duty, to assume and conduct the defense of such claim at its expense; *provided, however*, that ST may not assume control of the defense of a suit or proceeding involving criminal liability. ST shall conduct such defense in a commercially reasonable manner, and shall be authorized to settle any such claim without the consent of Newco, *provided, however*, that: (a) ST shall not be authorized to encumber any assets of Newco or agree to any restriction that would apply to Newco or the conduct of Newco's business; (b) ST shall have paid or caused to be paid any amounts arising out of such settlement; (c) a condition to any such settlement shall be a complete release of Newco and any other Newco Indemnitee against whom such claim has been made with respect to such third party claim; and (d) ST shall not be authorized to settle any claim that would reasonably be expected to have a material effect on a Tax liability of Newco that is not subject to indemnification by ST hereunder without Newco's consent, which consent shall not be

unreasonably withheld or delayed. With respect to any claim for which ST assumes the defense of Newco, Newco shall be entitled to participate in (but not control) the defense of such third party claim, with its own counsel and at its own expense, and Newco shall take such action as ST shall reasonably request to assist ST in the defense of any such third party claim, provided that ST shall reimburse Newco for any reasonable out-of-pocket expenses incurred in taking any such requested action. If ST does not assume the defense of any third party claim in accordance with the provisions hereof, Newco may defend such third party claim in a commercially reasonable manner and may settle such third party claim after giving written notice of the terms thereof to ST, and such legal expenses shall be indemnifiable Losses hereunder to the extent that Newco is determined to be entitled to indemnification hereunder for such third party claim.

6.5 Exclusive Remedy and Waiver and Release of Certain Claims.

(a) Notwithstanding any other provision of this Agreement to the contrary, the provisions of this Article VI shall be the sole and exclusive remedy for monetary damages of the Indemnitees from and after the Closing Date for any Losses arising under this Agreement or relating to the transactions contemplated by this Agreement, including claims of breach of any representation or warranty in this Agreement or any covenant set forth in Section 4.10 of the Master Agreement; *provided, however*, that the foregoing clause of this sentence shall not be deemed a waiver by any Party of any right to specific performance or injunctive relief but shall be deemed a waiver of any rights of rescission. Notwithstanding any other provision of this Agreement, (i) the maximum aggregate liability of ST to Newco Indemnitees pursuant to this Article VI or otherwise under this Agreement, Applicable law or otherwise (other than Uncapped ST Losses) shall be limited to \$92,400,000 (the “ST ACA Cap”); and (ii) the maximum aggregate liability of Newco to the ST Indemnitees for Losses pursuant to this Article VI or otherwise under this Agreement (other than with respect to Losses pursuant to a breach of Section 4.2 (Authorization and Enforceability) and Section 4.6 (Capitalization) and Losses pursuant to Section 6.2(b)(iii)), Applicable Law or otherwise shall be limited to the ST ACA Cap. Nothing in this Agreement limits or otherwise affects in any way the rights and remedies of either Party with respect to causes of action arising under the ST Intellectual Property Agreement, the ST Facility Transfer Agreements and the ST Transition Services Agreement, or any rights and remedies of ST or Newco vis-à-vis any Person other than ST or Newco or their respective Affiliates with respect to any infringement or misappropriation of any Intellectual Property of ST or Newco, as the case may be (including any right of ST or Newco to seek equitable or injunctive relief in connection therewith), all of which rights and remedies are expressly reserved. Notwithstanding the foregoing, the existence of this Section 6.5 and the rights and restrictions set forth in this Article VI do not limit any other potential remedies of the Indemnitees with respect to fraud by any Party.

(b) Except with respect to the specific remedies identified in Section 6.5(a) above, the Parties hereby waive and release any and all claims, causes of action, and rights as against one another for the transactions contemplated by this Agreement, including the assets and liabilities that are allocated herein, based upon statute or common law. This waiver and release specifically includes, without in any way limiting the

scope of the foregoing waiver and release, any claims the Parties may have against one another based upon the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. or any other Applicable Law under which the Parties or their Affiliates would otherwise have any cause of action against one another.

6.6 Subrogation. If the Indemnitor makes any payment under this Article VI in respect of any Losses, the Indemnitor shall be subrogated, to the extent of such payment, to the rights of the Indemnitee against any insurer or third party with respect to such Losses; *provided, however*, that the Indemnitor shall not have any rights of subrogation with respect to the other Party hereto or any of its Affiliates or any of its or its Affiliates' officers, directors, agents or employees.

6.7 Damages. Notwithstanding anything to the contrary elsewhere in this Agreement or any other Transaction Document, no Party (or its Affiliates) shall, in any event, be liable to the other Party (or its Affiliates) for any consequential damages, including, but not limited to, loss of revenue or income, cost of capital, or loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement. Each Party agrees that it will not seek punitive damages as to any matter under, relating to or arising out of the transactions contemplated by this Agreement or the other Transaction Documents.

6.8 Environmental Indemnification Procedures.

(a) ST and Newco agree that the Indemnitor shall have the sole right to disclose, report, further investigate, negotiate, perform and settle any ST Facility Environmental Liability or conduct any Remedial Action in connection therewith for which such Indemnitor may have liability hereunder, and the Indemnitee will provide the Indemnitor access and any other rights, as necessary, to the Owned ST Real Property, the Leased ST Real Property, or any other real property under the Indemnitee's control for purposes of investigating and performing any such Remedial Action. Such terms of access shall provide for reasonable protections to the Indemnitee's operations to minimize disruption and protect its employees. Nonetheless, if at any time following the Closing Date, the Indemnitor has not taken action to disclose, report, further investigate, negotiate, perform and settle any ST Facility Environmental Liability or conduct any Remedial Action in connection therewith for which such Indemnitor may have liability hereunder, to the reasonable satisfaction of the Indemnitee, then the Indemnitee will have the right, after first providing written notice to the Indemnitor and a reasonable period for the Indemnitor to respond (at a minimum 30 days) and subject to the rights of the Indemnitor set forth in Section 6.8(c) below, to disclose, report, further investigate, negotiate, perform and settle any ST Facility Environmental Liability or conduct any Remedial Action in connection therewith, *provided* that the Indemnitor's duty to indemnify under Section 6.1 of the Agreement for ST Facility Environmental Liabilities shall not apply to the extent that the Indemnitee's actions fail to comply with paragraph (b), below. Without limiting the generality of the foregoing, in connection with any action taken pursuant to the third sentence of this Section 6.8(a), the Indemnitee will, subject to the rights of the Indemnitor pursuant to the terms of Section 6.8(c) below, have

the right to: report the results of any testing to the appropriate Governmental Authorities if required by an applicable Environmental Law; enter the property into a voluntary remediation or similar program; take whatever steps are necessary to obtain a NFA Letter from the appropriate Governmental Authorities or, in the event such Governmental Authorities do not provide a NFA Letter in comparable situations or in the event they refuse to do so, comply with any obligations of any Applicable Law, including any Environmental Law, in effect at the time; and respond to any claim by any third party with respect to any ST Facility Environmental Liability, *provided* that the Indemnitor's duty to indemnify under Section 6.1 of the Agreement for ST Facility Environmental Liabilities shall not apply to the extent that the Indemnitee's actions fail to comply with paragraph (b), below.

(b) The Parties agree that any Remedial Action undertaken by ST or Newco to obtain any NFA Letter (to the extent permitted by the Governmental Authority issuing such NFA Letter) or comply with any Applicable Law, including any Environmental Law, in effect at the time: shall employ a reasonably cost-effective method under the circumstances, based on the use of the property for industrial (as opposed to residential or commercial) purposes, shall not exceed the least stringent requirement imposed by any clearly applicable Environmental Laws in effect at the time, including as applicable, within the context of obtaining a NFA Letter or complying with Applicable Law, shall make reasonable use of institutional and engineering controls reasonably acceptable to both Newco and ST, such as deed restrictions, signs, fencing, buffers, and controls, to the extent permitted by Governmental Authorities, *provided* that such institutional and engineering controls shall not (i) unreasonably restrict or limit the industrial activities currently being performed and those which ST or Newco expects to perform on any Owned ST Real Property or any Leased ST Real Property or associated services shared in any fashion between ST and Newco, or (ii) fail to address a material risk of off-site migration of any Hazardous Substances, and shall take advantage of applicable risk assessment principles, where practicable, set forth in applicable Environmental Laws in effect at the time.

(c) After the Closing, on any Remedial Action that either Party undertakes pursuant to the third sentence of Section 6.8(a), the acting Party shall:

(i) cooperate with the other Party as much as possible, including, but not limited to, keeping the other Party reasonably informed related to the progress of such matters (including, providing the other Party with copies of material plans, reports and external correspondence), permitting the other Party to be present at the property during, and providing ST reasonable advance notice prior to, the execution of any significant Remedial Actions (including testing), and ensuring that the other Party is provided reasonable advance notice of any scheduled voice or in-person conferences with regulators or other third parties;

(ii) ensure that such conferences are held on dates, and at places and times, mutually convenient to the other Party, that the other Party is provided all relevant information relating to such conferences, as and when generated or

received by the acting Party (but in all events reasonably far in advance of any conference to permit the other Party's informed participation therein), and that ST and its agents are afforded a reasonable opportunity to participate therein. The Parties shall use reasonable efforts, including by making their respective agents available on a mutually convenient basis, to work together on the strategy and conduct of such conferences; and

(iii) ensure that the other Party is given the opportunity to obtain duplicate soil, groundwater and other samples if such samples are taken in connection with any Remedial Action (including testing).

**ARTICLE VII
MISCELLANEOUS**

7.1 Notices. All notices and other communications pursuant to this Agreement shall be in writing and shall be deemed given if delivered personally, telecopied, sent by nationally-recognized overnight courier or mailed by U.S. registered or certified mail (return receipt requested), postage prepaid, to the Parties at the addresses set forth below or to such other address as the Party to whom notice is to be given may have furnished to the other Party in writing in accordance herewith. Any such notice or communication shall be deemed to have been delivered and received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of telecopier, on the date sent if confirmation of receipt is received and such notice is also promptly mailed by registered or certified mail (return receipt requested), (c) in the case of a nationally-recognized overnight courier in circumstances under which such courier guarantees next Business Day delivery, on the next Business Day after the date when sent and (d) in the case of mailing, on the fifth Business Day following that on which the piece of mail containing such communication is posted to the address provided herein or to such other address as the Person to whom notice is given may have previously furnished to the others in writing in the manner set forth above. Any Party hereto may give any notice, request, demand, claim or other communication hereunder using any other means (including ordinary mail or electronic mail), but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the individual for whom it is intended. Notices to Parties pursuant to this Agreement shall be given:

if to ST, to:

ST Microelectronics N.V.
Chemin du Champ-des-Filles, 39
1228 Plan-les-Ouates
Geneva, Switzerland
Attention: Pierre Ollivier, Group Vice President and General Counsel
Telephone: 41 22 929 58 76
Fax: 41 22 929 59 06

with a copy to (which shall not constitute notice to ST):

ST Microelectronics N.V.
1310 Electronics Drive
Mail Station
Carrollton, TX 75006
Attention: Steven K. Rose, Vice President, Secretary and General Counsel
Telephone: (972) 466-6412
Fax: (972) 466-7044

with a copy to (which shall not constitute notice to ST)

Shearman & Sterling LLP
525 Market Street
San Francisco, CA 94105
Attention: John D. Wilson
Telephone: (415) 616-1100
Facsimile: (415) 616-1199

if to Newco, to:

[Newco]

Attention:
Telephone: (____) ____ ____
Fax: (____) ____ ____

with copies to (which shall not constitute notice to Newco):

Intel Corporation
2200 Mission College Boulevard
Santa Clara, CA 95054
Attention: Treasurer
Telephone: (408) 765-8080
Fax: (408) 765-6038

Intel Corporation
2200 Mission College Boulevard
Santa Clara, CA 95054
Attention: General Counsel
Telephone: (408) 765-8080
Fax: (408) 653-8050

and a copy to (which shall not constitute notice to Intel or Newco):

Gibson, Dunn & Crutcher LLP
1881 Page Mill Rd.
Palo Alto, CA 94304
Attention: Russell C. Hansen
Telephone: (650) 849-5300
Fax: (650) 849-5333

with copies to (which shall not constitute notice to Newco)

Francisco Partners
2882 Sand Hill Road
Suite 289
Menlo Park, CA 94025
Attention: David ibnAle
Telephone: (650) 233-2900
Fax: (650) 233-2999

Francisco Partners
40 Berkeley Square
London W1J 5AL
United Kingdom
Attention: Phokion Potamianos
Telephone: 44 0 207 907 8600
Fax: 44 0 207 907 8650

with a copy to (which shall not constitute notice to Newco or FP)

Davis Polk & Wardwell
1600 El Camino Real
Menlo Park, CA 94025
Attention: William M. Kelly
Martin A. Wellington
Telephone: (650) 752-2000
Facsimile: (650) 752-2112

7.2 Amendments; Waivers.

(a) Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by all Parties, or in the case of a waiver, by the Party against whom the waiver is to be effective.

(b) No waiver by a Party of any default, misrepresentation or breach of a warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to

any prior or subsequent default, misrepresentation or breach of a warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent occurrence. No failure or delay by a Party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided under Applicable Law.

7.3 Expenses. Except as set forth in Section 5.8(c) hereof and Section 7.3 of the Master Agreement, all costs and expenses incurred in connection with this Agreement and the other Transaction Documents and in closing and carrying out the transactions contemplated hereby and thereby shall be paid by the Party incurring such cost or expense.

7.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs, personal representatives and permitted assigns. No Party hereto may transfer or assign either this Agreement or any of its rights, interests or obligations hereunder, whether directly or indirectly, by operation of law, merger or otherwise, without the prior written approval of each other Party; *provided, however*, that Newco may assign, delegate or transfer in whole or in part its rights and interests under this Agreement and the Transaction Documents to any of its lenders for collateral assignment purposes. No such transfer or assignment shall relieve the transferring or assigning Party of its obligations hereunder if such transferee or assignee does not perform such obligations.

7.5 Governing Law. This Agreement shall be construed in accordance with and this Agreement and any disputes or controversies related hereto shall be governed by the internal laws of the State of New York without giving effect to the conflicts of laws principles thereof that would apply the laws of any other jurisdiction.

7.6 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts and the signatures delivered by telecopy, each of which shall be an original, with the same effect as if the signatures were upon the same instrument and delivered in person. This Agreement shall become effective when each Party hereto shall have received a counterpart hereof signed by the other Parties.

7.7 Entire Agreement. This Agreement (including the schedules and exhibits referred to herein, which are hereby incorporated by reference), the other Transaction Documents and the Confidentiality Agreement constitute the entire agreement between the Parties with respect to the subject matter hereof and thereof and supersede all prior agreements, understandings and negotiations, both written and oral, express or implied, between and among the Parties with respect to the subject matter of this Agreement. No representation, warranty, promise, inducement or statement of intention has been made by either Party that is not embodied in this Agreement or such other documents, and neither Party shall be bound by, or be liable for, any alleged representation, warranty, promise, inducement or statement of intention not embodied herein or therein.

7.8 Captions. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

7.9 Severability. If any provision of this Agreement, or the application thereof to any Person, place or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable or void, the remainder of this Agreement and such provisions as applied to other Persons, places and circumstances shall remain in full force and effect only if, after excluding the portion deemed to be unenforceable, the remaining terms shall provide for the consummation of the transactions contemplated hereby in substantially the same manner as originally set forth at the later of the date this Agreement was executed or last amended.

7.10 Dispute Resolution.

(a) With the exception of disputes involving intellectual property ownership and infringement issues, and disputes governed by Section 2.7, Section 2.8, Section 2.9 or Section 5.8(g) hereof, any dispute arising under this Agreement shall be finally resolved by arbitration. The Parties waive their right to any form of appeal to a court on any questions of law arising out of the arbitration award. Any dispute or claim between the Parties which is beyond the scope of this Section shall be submitted to the exclusive jurisdiction of the courts of the State of New York and the Federal courts of the United States of America located in the State of New York. The Parties hereby consent to and grant any such court jurisdiction over such Parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 7.1 or in such other manner as may be permitted by Applicable Law, shall be valid and sufficient service thereof.

(b) Mediation. Prior to arbitration, however, the Party making the original claim shall provide the other Party with a written description of the dispute or claim and the senior executives of the Parties shall meet in an attempt to resolve such dispute or claim. If the disagreements cannot be resolved by the senior management after 90 days from the date any Party made a written demand for resolution, a binding arbitration shall be held.

(c) Arbitration Rules. The rules of the arbitration shall be agreed upon by the Parties prior to the arbitration and shall be based upon the nature of the disagreement. To the extent that the Parties cannot agree on the rules of the arbitration after 30 days from the date any party makes a written demand for resolution, then, subject to Section 7.10(d), the Rules of Arbitration of the ICC in effect as of the Closing Date shall apply.

(d) Mandatory Rules. As a minimum set of rules in the arbitration the Parties agree as follows:

(i) The arbitration shall be held by one arbitrator appointed by mutual agreement of the Parties. If the Parties cannot agree on a single arbitrator within 15 days from the date written demand for arbitration has been received by the other Party, each Party shall identify one independent individual. The individuals

appointed by the Parties shall then meet to appoint a single arbitrator. If an arbitrator still cannot be agreed upon within an additional 15 day period, he or she shall be appointed by the ICC.

(ii) The place of arbitration shall be New York, New York. Hearings and meetings shall be held in New York or at such other place as the Parties may agree.

(iii) The English language shall be used in the proceedings. Documents and written testimonies may be submitted in any language provided that the Party submitting such documents and testimonies shall provide, at its own expense, a translation of the same in the English language.

(iv) The arbitrator shall specify the basis for the award, the basis for the damages award and a breakdown of the damages awarded, and the basis of any other remedy authorized under this section. The award shall be considered as a final and binding resolution of the dispute or claim.

(v) The Parties agree to maintain the confidentiality of the arbitral proceedings, the existence of the same and the status of the hearings. In addition, the Parties undertake to maintain the confidentiality of any document exchanged in, produced in, or created by the Parties for the arbitration proceedings as well as the confidentiality of the award. Notwithstanding the foregoing, if the disclosure of the arbitral proceedings, or of any of the documents exchanged in, produced in or created for the arbitration proceedings or if the disclosure of the award is required by applicable law, rule or regulation or is compelled by a court or governmental agency, authority or body: (A) the Parties shall use the legitimate and legal means available to minimize the scope of their disclosure to third parties; and (B) the Party compelled to make the disclosure shall inform the other Party and the arbitrator at least 20 Business Days in advance of the disclosure (or if 20 Business Days' notice is not practicable because the Party is required to make the disclosure less than 20 Business Days after becoming aware of the event or occurrence giving rise to such disclosure requirement, then notice to the other Party and the arbitrator shall be provided as soon as practicable after such event or occurrence).

(vi) The duty of the Parties to arbitrate any dispute or claim within the scope of this Section shall survive the expiration or termination of this Agreement for any reason. The Parties specifically agree that any action must be brought, if at all, within two years from discovery of the cause of action.

(vii) The discretion of the arbitrator to fashion remedies shall be no broader than the legal and equitable remedies available to a court (unless the parties expressly agree otherwise prior to the start of arbitration). In no event, however, shall the arbitrator award a remedy which enjoins a Party or its customers to stop manufacturing, using, marketing, selling, offering for sale, or

importing such Party's products. In addition, notwithstanding anything herein to the contrary, in no event, shall the arbitrator award a remedy which enjoins a Party to license to the other Party any of its intellectual property rights of whatever nature. The arbitrator will have no authority to award damages in excess of compensatory damages and each Party expressly waives and foregoes any right to punitive, exemplary or similar damages, except as such damages may be required by statute. In no event shall the amount of damages awarded to the prevailing Party exceed or otherwise be inconsistent with any of the applicable limitations on damages set forth in this Agreement, including Sections 6.2 and 6.5.

(viii) The arbitrator may not order any conservatory or interim relief measures of any kind. In any event, however, either Party may apply for conservatory or interim relief measures to the courts of the State of New York or the Federal courts of the United States of America located in the State of New York which shall have exclusive jurisdiction to grant such injunctive relief.

(ix) The Parties shall agree upon what, if any, disclosure to the other parties to the arbitration shall be permitted. If the Parties can not agree on the form of disclosure within 30 days after the appointment of the arbitrator, then the Parties agree that in addition to the Rules of Arbitration of the ICC, the arbitrators shall apply the IBA Rules of Evidence. In case of conflict between Rules of Arbitration of the ICC and the IBA Rules of evidence, the Rules of Arbitration of the ICC shall prevail. Notwithstanding anything herein to the contrary, in no event shall anything verbally or in writing used strictly for settlement purposes between the Parties be permitted by the arbitration to be used as evidence for either Party's case.

(x) The Parties shall equally bear the costs of the arbitration. Each Party shall bear the fees and expenses of its appointed experts and shall bear its own legal expenses. For the purpose of this clause, the term "costs of arbitration" includes only: (A) the fees and expenses of the arbitrator; (B) in the case of an arbitration governed by the ICC Rules, the ICC administrative expenses fixed by the Court of Arbitration of the ICC; and (C) the fees and expenses of any experts appointed by the arbitrator.

7.11 Waiver of Jury Trial. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (a) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF

LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (b) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (c) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (d) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.11.

7.12 Third Party Beneficiaries. Notwithstanding any other provision in this Agreement to the contrary, neither Intel nor FP shall be deemed to be a third party beneficiary under this Agreement for any purpose. No provision of this Agreement shall create any third party beneficiary rights in any other Person, including any employee or former employee of ST or Intel or any of their respective Affiliates (including any beneficiary or dependent thereof).

7.13 Specific Performance. The Parties hereby acknowledge and agree that the failure of any Party to perform its agreements and covenants hereunder, including its failure to take all actions as are necessary on its part to the consummation of the transactions contemplated herein, may cause irreparable injury to the other Party, for which damages, even if available, may not be an adequate remedy. Accordingly, each Party hereby consents to the issuance of injunctive relief by any court of competent jurisdiction to compel performance of such Party's obligations and to the granting by any court of the remedy of specific performance of its obligations hereunder.

7.14 No Presumption Against Drafting Party. ST and Newco acknowledge that ST and each of the other shareholders of Newco have been represented by counsel in connection with the negotiation and execution of this Agreement and the other Transaction Documents. Accordingly, any rule of law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the drafting party has no application and is expressly waived.

[Remainder of page intentionally left blank]

**FINAL ATTACHMENT
TO MASTER AGREEMENT**

IN WITNESS WHEREOF, the Parties hereto have caused this ST Asset Contribution Agreement to be duly executed and delivered as of the date set forth above.

STMICROELECTRONICS N.V.

By: _____

Name: _____

Title: _____

Date: _____

[NEWCO]

By: _____

Name: _____

Title: _____

Date: _____

ST ASSET CONTRIBUTION AGREEMENT

DEFINITIONS

“Accounts Payable” means all accounts payable owing by a Person for raw materials or supplies received by or services rendered to such Party or any of its Subsidiaries.

“Accounts Receivable” means all accounts receivable, notes receivable and other current rights to payment of a Person, together with any unpaid interest or fees accrued thereon or other amounts due with respect thereto, and any claim, remedy or other right related to any of the foregoing.

“Actual ST Capital Expenditures” shall have the meaning set forth in Section 2.9 of the ST Asset Contribution Agreement.

“Affiliate”, with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” or “under common control with”), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

“Applicable Law” means, with respect to any Person, any federal, state, local or foreign statute, law, ordinance, rule, administrative interpretation, regulation, order, writ, injunction, directive, judgment, decree or other requirement of any Governmental Authority applicable to such Person or any of its Affiliates or any of their respective properties, assets, officers, directors, employees, consultants or agents.

“Articles of Association” means the Articles of Association of Newco, in substantially the form attached to Schedule 2.4 of both of the Master Agreement Disclosure Letters, as amended from time to time.

“Bank Guarantee” shall have the meaning set forth in Section 5.11(g) of the ST Asset Contribution Agreement.

“Bouskoura Equipment” means the machinery, laboratory and other equipment, tools and other tangible personal property set forth under the heading “Bouskoura” in Schedule 2.1(a) to the ST ACA Disclosure Letter.

“Business Day” means each day other than a Saturday, Sunday or other day on which commercial banks in New York, New York or Geneva, Switzerland are authorized or required by law to close.

“Cash and Cash Equivalents” means all cash on hand and cash equivalents of a Person (whether or not related to the applicable Business), including currency and coins, negotiable

checks, bank accounts, marketable securities, commercial paper, certificates of deposit, treasury bills, surety bonds and money market funds.

“Claims” means all rights to causes of action, claims, demands, rights and privileges against third parties, whether liquidated or unliquidated, fixed or contingent, choate or inchoate.

“Closing” shall have the meaning set forth in Section 2.5 of the Master Agreement.

“Closing Date” means the date of the Closing, as further described in Section 2.5 of the Master Agreement.

“Confidentiality Agreement” means that certain Confidentiality Agreement among Intel, ST and FP dated as of May 22, 2007.

“Contemplated Financing” means either of: (i) the debt financing pursuant to the Commitment Letter; or (ii) substitute debt financing on substantially equivalent economic terms that is adequate to provide working capital requirements and funds for other general corporate purposes of Newco and its Subsidiaries following the Closing.

“Contract” means each contract, agreement, option, lease, license, cross-license, sale and purchase order, commitment and other instrument of any kind, whether written or oral.

“Copyrights” means copyrights and mask work rights (whether or not registered) and registrations and applications therefor, worldwide.

“Customer Data” means the data related to customers of a Party’s Business which is included in such Party’s Transferred Assets.

“Effective Time” means, unless otherwise agreed by the Parties, 12:01 a.m. GMT on the Closing Date.

“Environmental Laws” means any Applicable Laws of any Governmental Authority in effect as of the Closing Date, unless otherwise noted, relating to pollution, protection or remediation of the environment, the use, storage, treatment, generation, manufacture, distribution, transportation, processing, handling, Release, disposal of or exposure to Hazardous Substances or, as such relate to Hazardous Substances, public and occupational health and safety.

“Environmental Liability” means any Liability or Loss, including the cost of any Remedial Action, arising in connection with (i) the use, generation, storage, treatment, manufacture, distribution, transportation, processing, handling, disposal or Release of any Hazardous Substances, (ii) the violation of or liability under any Environmental Laws or any Governmental Approval relating to any Hazardous Substances or (iii) any third party claim, litigation or proceeding relating to any Hazardous Substance or Environmental Laws.

“Environmental Permits” means all permits, licenses or other authorizations of any Governmental Authority required pursuant to applicable Environmental Law.

“Equity Plan” means an equity compensation plan for Newco, with terms reasonably satisfactory to Newco, Intel, ST, and FP, pursuant to which no more than 6% of the outstanding share capital of Newco at the Closing Date shall be reserved for issuance.

“Equity Transaction Documents” means the Share Purchase Agreement, the Shareholders’ Agreement, the Articles of Association and the Internal Rules.

“Final Payment Date” has the meaning set forth in Section 2.8 of the ST Asset Contribution Agreement.

“FP” means Redwood Blocker S.a.r.l., a limited liability company organized under the laws of The Grand-Duchy of Luxembourg.

“GAAP” means generally accepted accounting principles in the United States of America, applied on a consistent basis, as in effect as of the date hereof.

“Governmental Approval” means an authorization, consent, approval, permit or license issued by, or a registration or filing with, or notice to, or waiver from, any Governmental Authority.

“Governmental Authority” means any United States or non-United States federal, territorial, state or local governmental authority, quasi-governmental authority, instrumentality, court, government or self-regulatory organization, commission, tribunal or organization or any regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing.

“Hazardous Substance” shall mean any hazardous substance within the meaning of Section 101(14) of the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601(14), and any chemical, substance, material, agent or waste defined or regulated as toxic, hazardous, extremely hazardous or radioactive, or as a pollutant or contaminant, under any applicable Environmental Law, including petroleum, petroleum derivatives, petroleum by-products or other hydrocarbons, asbestos or asbestos-containing material and polychlorinated biphenyls.

“Hynix Interests” means all of the outstanding equity, voting or profit interests in the Hynix JV owned directly or indirectly by ST.

“Hynix JV” means Hynix-ST Semiconductor Ltd., a wholly foreign-owned entity established under the laws of the People’s Republic of China.

“Hynix JV Junior Credit Agreement” means the US\$250,000,000 Facility Agreement, dated August 24, 2006, among the Hynix JV, as borrower, and DBS Bank Ltd. as arranger and original lender, agent and security agent.

“IBA Rules of Evidence” means the IBA Rules on the Taking of Evidence in International Commercial Arbitration.

“Indebtedness” means any (i) indebtedness for borrowed money, (ii) indebtedness evidenced by any bond, debenture, note, mortgage, indenture or other debt instrument or debt security, or (iii) guarantees with respect to any indebtedness or obligation of a type described in clauses (i) through (ii) above of any other Person.

“Indemnitee” shall (i) for purposes of the Intel Asset Transfer Agreement, have the meaning set forth in Section 6.2(c) of the Intel Asset Transfer Agreement, and (ii) for purposes of the ST Asset Contribution Agreement, have the meaning set forth in Section 6.2(c) of the ST Asset Contribution Agreement.

“Indemnitor” shall (i) for purposes of the Intel Asset Transfer Agreement, have the meaning set forth in Section 6.2(c) of the Intel Asset Transfer Agreement, and (ii) for purposes of the ST Asset Contribution Agreement, have the meaning set forth in Section 6.2(c) of the ST Asset Contribution Agreement.

“Independent Accountants” shall have the meaning set forth in Section 2.7(c) of the ST Asset Contribution Agreement.

“Intel Approvals” means the required consents, waivers and approvals of Intel set forth on Schedule 3.3 of the Intel ATA Disclosure Letter and Schedule 3.1(c) of the Intel Master Agreement Disclosure Letter.

“Intel Asset Transfer Agreement” means that certain Asset Transfer Agreement to be entered into by Intel and Newco as of the Closing Date, in substantially the form attached to Schedule 2.1 to the Intel Master Agreement Disclosure Letter.

“Intel Option” means that certain Option to Purchase Ordinary Shares to be entered into between Newco and Intel or one or more of Intel’s Affiliate(s), in substantially the form attached to Schedule 4.16(d) of the Intel Master Agreement Disclosure Letter.

“Intel Transferred Assets” shall have the meaning set forth in Section 2.1 of the Intel Asset Transfer Agreement.

“Intellectual Property” means intellectual property rights arising from or in respect of the following, whether protected, created or arising under the laws of the United States or any other jurisdiction: Copyrights, Trade Secrets, Patents and Trademarks.

“Internal Rules” means the internal rules (“reglement”) of Newco, in substantially the form attached to Schedule 2.4 to both of the Master Agreement Disclosure Letters, as amended from time to time.

“Italian Newco” means the entity that will be formed in Italy prior to the Closing Date in connection with the demerger of assets and liabilities of the ST Business from STMicroelectronics S.r.l. and which will operate certain Italian assets of the ST Business following the Closing.

“**Knowledge**” means, with respect to any Person, the actual knowledge of such Person. Notwithstanding the foregoing, with respect to any Person that is a corporation, limited liability company, partnership or other business entity, actual knowledge shall be deemed to mean the actual knowledge of all directors and officers of any such Person; *provided, however*, that (i) with respect to Intel, “Knowledge” shall be deemed to be solely the actual knowledge of the individuals identified in Section A of Schedule 1.1(b) of the Intel ATA Disclosure Letter, after obtaining from the individuals identified in Section B of Schedule 1.1(b) of the Intel ATA Disclosure Letter a certification as to their actual knowledge of each matter with respect to which Intel makes any representation or warranty as to its Knowledge under any Transaction Document, (ii) with respect to ST, “Knowledge” shall be deemed to be solely the actual knowledge of the individuals identified on Schedule 1.1(b) of the ST ACA Disclosure Letter, after obtaining from the individuals identified on Schedule 1.1(b) of the ST ACA Disclosure Letter a certification as to their actual knowledge of each matter with respect to which ST makes any representation or warranty as to its Knowledge under any Transaction Document, and (iii) with respect to FP, “Knowledge” shall be deemed to be solely the actual knowledge of David ibnAle, Phokion Potamianos, and Keith Toh.

“**Leased ST Real Property**” means the ST Real Property listed in Schedule 3.6(b) of the ST ACA Disclosure Letter.

“**Liability**” means, with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, asserted or unasserted, accrued or unaccrued, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, absolute, contingent, executory, determined, determinable or otherwise and whether or not the same is required to be accrued on the financial statements of such Person.

“**Lien**” means, with respect to any asset, any lien, mortgage, pledge, hypothecation, right of others, claim, security interest, encumbrance, lease, sublease, license, interest, option, charge or other restriction or limitation of any nature whatsoever in respect of such asset, including any Share Encumbrance; *provided, however*, that any license of Intellectual Property shall not be considered a Lien on such Intellectual Property.

“**Losses**” means any and all deficiencies, judgments, settlements, demands, claims, suits, actions or causes of action, assessments, liabilities, losses, damages (excluding indirect, incidental or consequential damages), interest, fines, penalties, costs and expenses (including reasonable legal, accounting and other costs and expenses) incurred in connection with investigating, defending, settling or satisfying any and all demands, claims, actions, causes of action, suits, proceedings, assessments, judgments or appeals, and in seeking indemnification therefor.

“**M6 Tax Credit Benefit**” has the meaning set forth in Section 5.8(h) of the ST Asset Contribution Agreement.

“**M6 Tax Credits**” shall mean the tax credits under Italian law directly attributable to investments made with respect to the M6 facility prior to the Closing Date.

“Managing Director” means any member of Newco’s Management Board.

“Master Agreement” means that certain Master Agreement by and among Intel, ST, FP, and FP Holdco dated May 22, 2007.

“Minimum Committed ST Inventory Value” means 91% of the ST Inventory Value as of the end of ST’s first fiscal quarter of 2007.

“Multiemployer Plan” means any employee pension benefit plan within the meaning of Section 3(2) of ERISA that is a “multiemployer plan,” as defined in Section 3(37) of ERISA.

“Net Available Cash of the ST Transferred Entities” means (a) the Cash and Cash Equivalents (including checks received but not yet deposited or cleared, but only if they clear promptly after deposit by Newco) of the ST Transferred Entities minus (b) (i) checks written by the ST Transferred Entities but not yet cashed, (ii) the ST Transferred Employee Payment Liabilities of the ST Transferred Entities and (iii) the regular payroll liability of the ST Transferred Entities in the case of each clause above, as of the Effective Time. Net Available Cash of the ST Transferred Entities may be a positive or negative number.

“Newco ACA Basket” shall have the meaning set forth in Section 6.2(e) of the ST Asset Contribution Agreement.

“Newco Actuary” shall have the meaning set forth in Section 5.11(c) of the Intel Asset Transfer Agreement.

“Newco Allocated Positions” means those positions with Newco for which a Intel Business Employee or a ST Business Employee is not allocated on Schedule 3.12(c) to the Intel ATA Disclosure Letter or Schedule 3.12(c) to the ST ACA Disclosure Letter.

“Newco Approvals” means any Governmental Approval which Intel, ST and FP reasonably agree Newco must obtain in order to consummate the transactions contemplated by the Transaction Documents.

“Newco Equipment” means the Toa Payoh Equipment, the Shenzhen Equipment, the ST1 Equipment and the Bouskoura Equipment.

“Newco Indemnitees” means Newco and its Affiliates, officers, directors, shareholders, representatives and agents.

“Newco Restricted Employees” shall have the meaning set forth in Section 5.11(e)(i) of the ST Asset Contribution Agreement.

“Newco Transition Services Agreement” means the Newco Transition Services Agreement identified on Schedule 2.4 of the ST Master Agreement Disclosure Letter to be entered into by and between ST and Newco on the Closing Date, in substantially the form attached to such schedule.

“NFA Letter” shall mean a letter from an appropriate Governmental Authority stating that no further action is required to address any Intel Facility Environmental Liability or ST Facility Environmental Liability, as applicable.

“Notice of Claim” means a written notice by an Indemnitee to an Indemnitor of a claim for Losses.

“Ordinary Shares” means ordinary shares of Newco, par value [] eurocent per share.

“Outstanding” means, as of any date of determination, all Shares that have been issued on or prior to such date, other than Shares held, repurchased or otherwise reacquired by Newco on or prior to such date.

“Owned ST Real Property” means the Intel Real Property listed in Schedule 3.6(a) of the ST ACA Disclosure Letter.

“Patents” means patents and applications worldwide, including continuation, divisional, continuation in part, reexamination, or reissue patent applications and patents issuing thereon.

“Party” means for purposes of each Transaction Document, each party identified in the preamble of each such Transaction Document as a “Party.”

“Permitted Liens” means (i) Liens for Taxes or governmental assessments, charges or claims the payment of which is not yet due or which are both (A) being contested in good faith, and (B) described in reasonable detail on a Schedule to the applicable Transaction Document (ii) statutory Liens of landlords and statutory Liens of carriers, warehousemen, mechanics or materialmen incurred in the ordinary course of business which are either for sums not yet due or are immaterial in amount, (iii) zoning, entitlement, and other land use laws, and (iv) easements and other imperfections of title or encumbrances, in each case, that do not materially detract from the value of the relevant Transferred Asset or materially interfere with any present or intended use of such Transferred Asset.

“Permits” means all permits, licenses, franchises, approvals, certificates, consents, waivers, concessions, exemptions, orders, registrations, notices or other authorizations of any Governmental Authority necessary for a Party or its Subsidiaries to own, lease and operate such Party’s Transferred Assets and to carry on such Party’s Business as currently conducted.

“Person” means an individual, corporation, partnership, association, limited liability company, trust, estate or other similar business entity or organization, including a Governmental Authority and any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

“Planned ST Capital Expenditures” shall have the meaning set forth in Section 2.9 of the ST Asset Contribution Agreement.

“Post-Closing Accounts Receivable” means all Accounts Receivable accruing including pursuant to any Intel Transferred Sales Order or ST Transferred Sales Order, as the case may be,

fulfilled (including pursuant to the Intel Transition Services Agreement or the ST Transition Services Agreement) on or after the Closing Date by Newco or any of its Subsidiaries or arising on and after the Closing Date.

“Post-Closing Tax Period” means any Tax period (or portion thereof) beginning after the Closing Date.

“Pre-Closing Accounts Payable” means all Accounts Payable accruing or arising prior to the Closing Date.

“Pre-Closing Accounts Receivable” means all Accounts Receivable accruing or arising prior to the Closing Date.

“Pre-Closing Tax Period” means any Tax period (or portion thereof) ending on or before the Closing Date.

“Preferred Shares” means convertible preferred shares of Newco, par value [] eurocent per share.

“Preliminary ST Closing Statement” has the meaning set forth in Section 2.8 of the ST Asset Contribution Agreement.

“Preliminary ST Inventory Statement” has the meaning provided in Section 2.7(a) of the ST Asset Contribution Agreement.

“Prepayments” means all prepaid items and deposits paid by a Party or any of its Subsidiaries to the extent relating to such Party’s Business, and any claim, remedy or other right related to any of the foregoing.

“Proceeding” means any action, suit, claim, charge, hearing, arbitration, audit, or proceeding (public or private).

“Property Taxes” shall have the meaning set forth in Section 5.8(b)(iii) of the Intel Asset Transfer Agreement.

“PTO” means the United States Patent and Trademark Office.

“Purchase Price” shall have the meaning set forth in Section 2.2 of the Share Purchase Agreement.

“Receiving Party” shall (i) for purposes of the Intel Asset Transfer Agreement, have the meaning set forth in Section 5.1(b) of the Intel Asset Transfer Agreement, (ii) for purposes of the ST Asset Contribution Agreement, have the meaning set forth in Section 5.1(b) of the ST Asset Contribution Agreement and (iii) for purposes of the Intel Intellectual Property Agreement and the ST Intellectual Property Agreement, with respect to Confidential Information of a Party, mean another Party that is not a Licensing Affiliate of such Party and that receives (or receives

access to) such Confidential Information pursuant to or in connection with the Intel Intellectual Property Agreement or the ST Intellectual Agreement.

“Remedial Action” means investigation, evaluation, risk assessment, monitoring, response, removal, clean-up, remediation, corrective action or other terms of similar import and any related closure, post-closure, operations and maintenance or engineering control activities.

“Restricted Employee” means any ST Restricted Employee, any Newco Restricted Employee or any Intel Restricted Employee.

“Sales Taxes” means any excise, value added, registration, stamp, recording, documentary, conveyancing, transfer, sales, use and any other similar Taxes arising out of the transfer of the applicable Transferred Assets.

“Share Encumbrances” means Liens, claims, options, rights of other parties, voting trusts, proxies, shareholder or similar agreements, encumbrances or other restrictions (other than restrictions imposed by applicable securities laws).

“Share Purchase Agreement” means the Share Purchase Agreement to be entered into by FP and Newco as of the Closing Date, in substantially the form attached to Schedule 2.3 to the Intel Master Agreement Disclosure Letter and to Schedule 2.3 to the ST Master Agreement Disclosure Schedule.

“Shareholders’ Agreement” means the Shareholders’ Agreement by and among Intel (as used in this definition, “Intel” has the meaning ascribed to such term in the Shareholders’ Agreement), ST (as used in this definition, “ST” has the meaning ascribed to such term in the Shareholders’ Agreement), FP (as used in this definition, “FP” has the meaning ascribed to such term in the Shareholders’ Agreement), FP Holdco and Newco to be entered into on the Closing Date, substantially in the form attached to Schedule 2.4 to both of the Master Agreement Disclosure Letters.

“Shenzhen Equipment” means the machinery, laboratory and other equipment, tools and other tangible personal property set forth under the heading “Shenzhen” in Schedule 2.1 to the ST ACA Disclosure Letter.

“ST” means STMicroelectronics N.V., a limited liability company organized under the laws of The Netherlands, with corporate seat in Amsterdam, The Netherlands.

“ST ACA Basket” shall have the meaning set forth in Section 6.2(e) of the ST Asset Contribution Agreement.

“ST ACA Disclosure Letter” means the disclosure letter, as agreed to between the Parties as of the date of the Master Agreement (with such amendments as may be subsequently made pursuant to the terms of such agreement), containing the Schedules required by the provisions of such agreement.

“ST ACA Restricted Employees” shall have the meaning set forth in Section 5.11(e)(ii) of the ST Asset Contribution Agreement.

“ST Actuary” shall have the meaning set forth in Section 5.11(c) of the ST Asset Contribution Agreement.

“ST Ancillary Agreements” means the ST Assignment and Assumption Agreement, ST Bills of Sale, ST Intellectual Property Agreement, ST Transition Services Agreements, ST Facility Transfer Agreements, ST Joint Development Agreement, ST Back-End Supply Agreement, ST M5 Consortium Agreement, ST R2 Consortium Agreement, TFR Indemnification Agreement, Bank Guarantee, ST Assumption of Excluded Liabilities, ST Copyright Assignment, ST Patent Assignment, ST Trademark Assignment and the Newco Transition Services Agreement.

“ST Approvals” means the required consents, waivers and approvals of ST set forth on Schedule 3.3 of the ST ACA Disclosure Letter and Schedule 3.2(c) of the ST Master Agreement Disclosure Letter.

“ST Assignment and Assumption Agreement” means, collectively, the Assignment and Assumption Agreements to be entered into by Newco or its Affiliates, on one hand, and ST or its Affiliates, on the other hand, as of the Closing Date in substantially the form attached as Exhibit A to the ST Asset Contribution Agreement.

“ST Assumption of Excluded Liabilities” shall have the meaning set forth in Section 2.4 of the ST Asset Contribution Agreement.

“ST Back-End Supply Agreement” means the ST Back-End Supply Agreement identified on Schedule 2.4 of the ST Master Agreement Disclosure Letter to be entered into by and between ST and Newco on the Closing Date, in substantially the form attached to such schedule.

“ST Bill of Sale” means any bill of sale or other similar document reasonably requested by any Party and reasonably necessary to transfer any ST Transferred Asset in accordance with applicable law to be executed by one or more ST Transferors in favor of Newco or a Subsidiary of Newco as of the Closing Date, each in substantially the form attached as Exhibit B to the ST Asset Contribution Agreement.

“ST Books and Records” means all of the books of account, general and financial records, invoices, shipping records, customer records, supplier lists, correspondence and other documents, records and files of ST and its Subsidiaries whether in hard copy or computer format which relate exclusively to the ST Business and are necessary for the conduct of such ST Business after the Closing (excluding all personnel records or any employee information for ST Business Employees who are not ST Transferred Employees employed by an ST Transferred Entity as of the Closing Date).

“ST Business” means the sale, manufacture, design and or development of NOR Flash Memory Products, NAND Flash Memory Products, Phase Change Memory Products and Stacked Memory Products.

“ST Business Capital Expenditures Plan” means the plan set forth on Schedule 3.14(e) of the ST ACA Disclosure Letter setting forth (i) the actual capital expenditures of ST with respect to the ST Business for its first fiscal quarter of 2007; and (ii) the budgeted capital expenditures of ST with respect to the ST Business for the second, third and fourth fiscal quarters of 2007.

“ST Business Employees” means the employees who are identified on Schedule 3.12(c) of the ST ACA Disclosure Letter.

“ST Cash Independent Accountants” has the meaning set forth in Section 2.8 of the ST Asset Contribution Agreement.

“ST Consideration” shall have the meaning set forth in Section 2.6(c) of the ST Asset Contribution Agreement.

“ST Contractual Consents” shall have the meaning set forth in Section 3.8(b) of the ST Asset Contribution Agreement.

“ST Copyright Assignment” means any agreement for the assignment of ST Transferred Copyrights by an ST Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“ST Employee Agreement” means each management, employment, severance, consulting, relocation, repatriation, expatriation or other agreement or Contract between ST or any of its Subsidiaries and any ST Business Employee directly relating to such ST Business Employee’s terms or conditions of employment.

“ST Employee Plan” means any plan, program, policy, practice, agreement or other arrangement providing for compensation, severance, termination pay, vacation pay, paid time off, pension benefits, retirement benefits, deferred compensation, variable compensation, bonuses, performance awards, stock or stock-related awards, fringe benefits (including health, dental, vision, life, disability, sabbatical, accidental death and dismemberment benefits), or other employee benefits or remuneration of any kind, whether written, unwritten or otherwise, funded or unfunded, including each “employee benefit plan,” within the meaning of Section 3(3) of ERISA, excluding any ST Employee Agreement, which is or has been maintained or contributed to by ST or its Affiliates for the benefit of any ST Business Employee.

“ST Employee Agreement” means each management, employment, severance, consulting, relocation, repatriation, expatriation or other agreement or Contract between ST or any of its Subsidiaries and any ST Business Employee directly relating to such ST Business Employee’s terms or conditions of employment.

“ST Equipment” means the machinery, laboratory and other equipment, tools and other tangible personal property set forth on Schedule 2.1(a) of the ST ACA Disclosure Letter.

“ST Excluded Assets” shall have the meaning set forth in Section 2.2 of the ST Asset Contribution Agreement.

“ST Excluded Claims” means all Claims to the extent that such claims relate to: (i) any ST Excluded Assets; or (ii) events or breaches occurring on or prior to the Closing Date that relate to the ST Transferred Assets, provided that Claims for infringements of any ST Transferred Patents, ST Transferred Copyrights or ST Transferred Trade Secrets occurring on or prior to the Closing Date shall not be ST Excluded Claims.

“ST Excluded Liabilities” shall have the meaning set forth in Section 2.4 of the ST Asset Contribution Agreement.

“ST Facility Environmental Liability” shall mean all ST Pre-Closing Environmental Liabilities relating to the condition of the soil, soil gas, surface water (including sediments) or groundwater, with respect to the existence of any Hazardous Substances therein, at, on, or under the Owned ST Real Property or the Leased ST Real Property.

“ST Facility Transfer Term Sheets” means the term sheets attached to Schedule 4.22(a) to the ST Master Agreement Disclosure Letter reflecting the terms and conditions upon which the agreements and other related documents effecting the transfer by ST and its Subsidiaries of the ST Transferred Facilities to Newco and its Subsidiaries shall be substantially based.

“ST Financial Information” shall have the meaning set forth in Section 3.13(a) of the ST Asset Contribution Agreement.

“ST Financial Information Date” shall have the meaning set forth in Section 3.13(a) of the ST Asset Contribution Agreement.

“ST Funded Employee Plan” means any ST Employee Plan that is funded other than through book reserves or insurance and that is not subject to the laws of the United States; *provided, however*, ST Funded Employee Plan shall not include any TFR Liability.

“ST Funded Employee Plan Amount” shall have the meaning set forth in Section 5.11(c) of the ST Asset Contribution Agreement.

“ST Indemnitees” means ST and its Affiliates, officers, directors, stockholders, representatives and agents.

“ST Intellectual Property Agreement” means the Intellectual Property Agreement to be entered into by and between ST and Newco on the Closing Date, in substantially the form attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter.

“ST Inventory Depreciation Amount” shall mean, as of any date of determination, the amount of depreciation that would have been reflected in the ST Inventory Value if the assets used to create the inventory of the ST Business were not deemed to be “held for sale” under GAAP during the period from the date of the Master Agreement through the Closing Date.

“ST Inventory Value” means, as of any date of determination, the gross book value of the ST Transferred Inventory as of such date (less reserves) as determined as of such date (1) from the books and records of ST maintained in the ordinary course of business and (2) in accordance with GAAP, applied in a manner consistent with the ST Financial Information (as it may be adjusted by ST in its sole discretion to reflect any changes consistent with the audited financial statements of the ST Business to be delivered under this Agreement at and for the year ended December 31, 2006). ST Inventory Value shall be determined without giving effect to the transactions contemplated by this Agreement. For purposes of this definition, the amount of reserves deducted under clause (x) above shall be determined as of such date (1) from the books and records of ST maintained in the ordinary course of business and (2) in accordance with GAAP, applied in a manner consistent with the ST Financial Information (as adjusted above). The ST Inventory Value at the end of the first fiscal quarter of ST and the ST Inventory Value at the Closing Date shall be determined on a consistent basis in all respects. Notwithstanding the foregoing, no amount shall be included in the ST Inventory Value with respect to:

- (i) inventories of any ST Product which, as of such date, is obsolete; or
- (ii) any units in inventory of any ST Product which as of such date (A) are not first quality, (B) are not free from defects or (C) do not meet all applicable customer specifications.

“ST Joint Development Agreement” means the Joint Development Agreement by and between ST and Newco entered into on the Closing Date, based substantially on the term sheet attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter, and reasonably acceptable to ST, FP and ST.

“ST Leases” means all leases or other occupancy agreements pursuant to which ST or its Subsidiaries lease or occupy the Leased ST Real Property.

“ST Loan Documents” means the Hynix JV Junior Credit Agreement, the 12-inch Asset Security Agreement dated October 9, 2006 among Hynix-ST Semiconductor Ltd., as Mortgager, Industrial and Commercial Bank of China Limited, Wuxi Branch, as Senior Security Agent, and DBS Bank Ltd., as Junior Security Agent, and the Asset Mortgage Agreement between Hynix-ST Semiconductor Ltd. and DBS Bank Ltd. dated October 9, 2006 (which together give effect to and supersede the Subordinated Secured Promissory Note and Loan Agreement, dated June 13, 2005, among Hynix-ST Semiconductor Ltd. and ST and the Security Agreement, dated June 13, 2005, among Hynix-ST Semiconductor Ltd. and ST).

“ST Material Adverse Effect” means any event, change or circumstance that, individually or in the aggregate with all other such events, changes or circumstances, (a) results in a material adverse effect on, or material adverse change in, the ST Transferred Assets, taken as a whole, or (b) any event, change or circumstance that is materially adverse to the ability of ST to perform its obligations under any Transaction Document to which it is or will be a party or to consummate the transactions contemplated thereby, other than, in the case of clause (a) above, such changes, effects or circumstances reasonably attributable to: (i) economic, capital market or political conditions generally in the United States or foreign economies in any locations where the ST

Business has material operations or sales, provided the changes, effects or circumstances do not have a materially disproportionate effect (relative to other industry participants) on the ST Business, (ii) conditions generally affecting the industry in which the ST Business operates, provided that the changes, effects or circumstances do not have a materially disproportionate effect (relative to other industry participants) on the ST Business; (iii) the announcement or pendency of the transactions contemplated by the Transaction Documents; (iv) outbreak of hostilities or war, acts of terrorism or acts of God; or (v) compliance with ST's obligations or the satisfaction of the conditions to the closing of the transactions contemplated by the Transaction Documents.

“ST M5 Consortium Agreement” means the ST M5 Consortium Agreement to be entered into by and between Italian Newco and STMicroelectronics S.r.l. on or prior to the Closing Date, in substantially the form attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter.

“ST Newco Shares” shall have the meaning set forth in Section 2.6(a) of the ST Asset Contribution Agreement.

“ST Notice of Disagreement” has the meaning set forth in Section 2.7(b) of the ST Asset Contribution Agreement.

“ST Patent Assignment” means any agreement for the assignment of ST Transferred Patents by an ST Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“ST Preliminary Closing Statement” has the meaning set forth in Section 2.8 of the ST Asset Contribution Agreement.

“ST Post-Closing Environmental Liability” shall mean any Environmental Liability, including a worsening of existing conditions, to the extent arising out of or relating to (i) Newco's acts occurring after the Closing Date, (ii) Newco's inaction occurring one year or later after the Closing Date, or (iii) Newco's inaction occurring within one year after the Closing Date if Newco knew about the existing condition and its inaction worsened the existing condition; and in connection with a Newco Business or the ST Business, the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets or the ST Transferred Entities or the ownership or operation of a Newco Business or the ST Business, the Owned ST Real Property, the Leased ST Real Property or the ST Transferred Assets, the ST Transferred Entities by, or the disposal or treatment of Hazardous Substances generated by, Newco or an Affiliate of Newco (including an ST Transferred Entity) after the Closing Date.

“ST Post-Closing Product Obligations” means (i) all obligations arising in respect of product support or maintenance obligations related to ST Products sold or licensed on or after the ST ACA Closing and required to be performed after the ST ACA Closing, which obligations arise under any ST Transferred Contract, and any Liabilities which may arise in connection with the performance of, or failure to perform, those obligations and (ii) Liabilities relating to any product liability, warranty, refund or similar claims or returns, adjustments, allowances, repairs

made with respect to ST Products sold after the Closing Date, including those sold by ST on behalf of Newco after the ST ACA Closing pursuant to the ST Transition Services Agreements.

“ST Pre-Closing Environmental Liability” shall mean any Environmental Liability which (i) relates to the ownership or operation of the ST Business (as now or previously conducted), the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets, the ST Transferred Entities, the ST Shared Facilities or any other real property or facility owned, leased, operated or used in connection with the ST Business (as now or previously conducted) or for the disposal or treatment of Hazardous Substances generated in connection with the ST Business, the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets, or the ST Transferred Entities, (ii) arises out of or relates to acts occurring or conditions existing on or prior to the Closing Date, but only to the extent that the Environmental Liability arising out of or relating to acts occurring or conditions existing on or prior to the Closing Date can be identified from (A) the ST Environmental Reports so long as such reports are issued not later than one (1) year subsequent to the Closing or (B) documents or data generated prior to the Closing and in the possession of ST prior to the Closing, and (iii) is identified in the foregoing documents and/or data with sufficient specificity so as to clearly identify the scope of the Environmental Liability that is attributable to the ST Business, the Owned ST Real Property, the Leased ST Real Property, the ST Transferred Assets, or the ST Transferred Entities. Notwithstanding the foregoing, ST Pre-Closing Environmental Liability shall not include any ST Post-Closing Environmental Liability.

“ST Pre-Closing Product Obligations” means (i) all obligations arising in respect of product support or maintenance obligations related to ST Products sold or licensed prior to the Closing and required to be performed after Closing, which obligations arise under any ST Transferred Contract, and any Liabilities which may arise in connection with the performance of, or failure to perform, those obligations and (ii) Liabilities relating to any product liability, warranty, refund or similar claims or returns, adjustments, allowances, repairs, or commercial accommodations or arrangements in respect of Epidemic Failures made with respect to ST Products sold on or before the Closing Date.

“ST Prepayments” means all Prepayments of ST or any of its Subsidiaries (i) associated with the ST Transferred Contracts and (ii) set forth on Schedule 2.1(f) to the ST ACA Disclosure Letter.

“ST Privacy Policy” shall have the meaning set forth in Section 5.12 of the ST Asset Contribution Agreement.

“ST Products” means NOR Flash Memory Products, NAND Flash Memory Products, and Stacked Memory Products, including those listed on Schedule 1.1(c) of the ST ACA Disclosure Letter.

“ST Retained Marks” shall have the meaning set forth in Section 5.3 of the ST Asset Contribution Agreement.

“ST R2 Consortium Agreement” means the ST R2 Consortium Agreement to be entered into by and between Italian Newco and STMicroelectronics S.r.l. on or prior to the Closing Date, in substantially the form attached to Schedule 2.4 of the ST Master Agreement Disclosure Letter.

“ST Standard Form Product Warranties” shall have the meaning set forth in Section 3.16 of the ST Asset Contribution Agreement.

“ST Supply Agreement” means the Supply Agreement identified on Schedule 2.1 of both of the Master Agreement Disclosure Letters to be entered into by and between ST and Newco on the Closing Date, in substantially the forms attached to such schedule.

“ST Tax Agreement” shall have the meaning set forth in Section 3.10(e) of the ST Asset Contribution Agreement.

“ST Trademark Assignment” means any agreement for the assignment of ST Transferred Trademarks by an ST Transferor to Newco or a Subsidiary of Newco, dated as of the Closing Date, in the form agreed among Intel, ST and FP.

“ST Transferors” shall have the meaning set forth in the Recitals of the ST Asset Contribution Agreement.

“ST Transferred Assets” shall have the meaning set forth in Section 2.1 of the ST Asset Contribution Agreement.

“ST Transferred Claims” means all Claims to the extent such Claims relate to the ST Transferred Assets or the ST Transferred Liabilities, other than the ST Excluded Claims. For avoidance of doubt, ST Transferred Claims shall include claims for infringement of any ST Transferred Patent, ST Transferred Copyright or ST Transferred Trade Secret occurring on or prior to the Closing Date.

“ST Transferred Contracts” means all unexpired contracts set forth on Schedule 2.1(e) of the ST ACA Disclosure Letter, together with the ST Transferred Purchase Orders, the ST Transferred Sales Orders and the ST Leases.

“ST Transferred Copyrights” means the Copyrights identified on Schedule 2.1(i) of the ST ACA Disclosure Letter.

“ST Transferred Employee Payment Liabilities” means any and all payment obligations of ST and its Affiliates (i) relating to the service of ST Transferred Employees prior to the Effective Time, (ii) that are assumed by Newco by operation of Applicable Law at the Effective Time, (iii) that are unfunded or for which accruals are made on the employing company’s balance sheet, and (iv) that are not otherwise paid out or satisfied to the ST Transferred Employees prior to or at the Effective Time, including retirement benefits, termination indemnities, unemployment, accrued vacation and paid-time off benefits, Christmas bonuses, thirteenth-month bonuses, vacation premium bonuses and any other non-incentive cash bonuses (other than salary), jubilee and long-service payments; *provided, however*, that ST Transferred Employee Payment Liabilities shall not include (w) any contingent Liabilities on the part of

Newco that arise solely as a result of providing service recognition under Section 5.11(a) of the ST Asset Contribution Agreement, (x) any TFR Liability, (y) any unearned incentive bonuses or variable pay and (z) the regular payroll of the ST Transferred Entities as of the close of business on the day prior to the Closing Date.

“ST Transferred Employees” means the ST Business Employees and ST Designated Employees who accept an offer of employment from Newco and who begin their employment with Newco at the Closing (or, to the extent permitted by Applicable Law with respect to inactive employees on short-term, medical or other leave of absence, at the time such employee returns to active status) or such other date as the parties may reasonably agree.

“ST Transferred Entities” means the entities set forth on Schedule 1.1(a) of the ST ACA Disclosure Letter.

“ST Transferred Entity Books and Records” means the minute books, stock records, Tax Returns and other records related to Taxes, if any, in each case of each of the ST Transferred Entities.

“ST Transferred Intellectual Property” means, collectively, the ST Transferred Copyrights, ST Transferred Patents, ST Transferred Trademarks and ST Transferred Trade Secrets.

“ST Transferred Interests” means 100% of the outstanding equity, voting and profit interests in the ST Transferred Entities.

“ST Transferred Inventory” means all raw materials, work-in-process, finished goods, supplies, packaging materials and other inventories owned by ST or its Subsidiaries relating exclusively to the ST Business, whether in the possession of ST, a Subsidiary of ST or a third party (including consigned inventory and inventory held by subcontractors).

“ST Transferred Liabilities” shall have the meaning set forth in Section 2.3 of the ST Asset Contribution Agreement.

“ST Transferred Patents” means those Patents identified on Schedule 2.1(h) of the ST ACA Disclosure Letter.

“ST Transferred Permits” means those Permits identified on Schedule 2.1(l) of the ST ACA Disclosure Letter.

“ST Transferred Purchase Orders” means each purchase order or portion thereof issued by ST or a Subsidiary of ST to the extent relating to the ST Business.

“ST Transferred Sales Orders” means all pending and unfulfilled sales orders or portions thereof for ST Products.

“ST Transferred Systems” means factory support systems (for example, shop floor control applications governing work stream models, SPC charts, APC configuration), data,

manufacturing station controllers linked to process equipment tools, and transferable elements of systems and software, in each case exclusively related to the ST Business, provided under the ST Transition Services Agreement which may be released to Newco in connection with the termination of such agreements.

“ST Transferred Trade Secrets” means any Trade Secrets owned by ST or any of its Subsidiaries as of the Closing Date (including any such Trade Secrets that consist of technical documentation of the nature of the files and other documentation identified on Schedule 2.1(h) to the ST ACA Disclosure Letter) that are used exclusively in the ST Business and not materially embodied or used in or with any other current product or service of ST or any of its Subsidiaries.

“ST Transferred Trademarks” means those Trademarks identified on Schedule 2.1(k) of the ST ACA Disclosure Letter.

“ST Transition Services Agreement” means the ST Transition Services Agreement identified on Schedule 2.4 of the ST Master Agreement Disclosure Letter to be entered into by and between ST and Newco on the Closing Date, in substantially the form attached to such schedule.

“ST1 Equipment” means the machinery, laboratory and other equipment, tools and other tangible personal property set forth under the heading “Muar Johor (ST1)” in Schedule 2.1(a) to the ST ACA Disclosure Letter.

“Straddle Period” shall have the meaning set forth in Section 5.8(a) of the ST Asset Contribution Agreement.

“Subsidiary” means, with respect to any Person, (i) any corporation, limited liability company or other similar entity as to which more than 50% of the outstanding capital stock or other securities having voting rights or power is owned or controlled, directly or indirectly, by such Person and/or by one or more of such Person’s direct or indirect subsidiaries and (ii) any Person with a partnership, joint venture or other similar relationship between such Persons and any other Person, *provided, however*, that with respect to Intel, Silicon Philippines, Inc., a corporation organized and existing under Philippines law (“SPI”), shall be deemed to be a Subsidiary of Intel for purposes of the Transaction Documents and for convenience only, and such inclusion of SPI within this definition shall not imply that such entity is a subsidiary or affiliate of Intel for any purpose independent of the Transaction Documents.

“Tax Returns” means all returns, declarations, reports, statements, information statements, forms or other documents filed or required to be filed with respect to any Tax.

“Taxes” means (i) all foreign, federal, state, local and other net income, gross income, gross receipts, sales, use, ad valorem, value added, intangible, unitary, capital gain, transfer, franchise, profits, license, lease, service, service use, withholding, backup withholding, payroll, employment, estimated, excise, severance, stamp, occupation, premium, property, prohibited transactions, windfall or excess profits, value added tax, goods and services tax, social service tax, import tax, export tax, or other taxes of any kind whatsoever, together with any interest and

any penalties, additions to tax or additional amounts with respect thereto, (ii) any Liability for payment of amounts described in clause (i) whether as a result of transferee Liability, of being a member of an affiliated, consolidated, combined or unitary group for any period, or otherwise through operation of law, and (iii) any Liability for the payment of amounts described in clause (i) or (ii) as a result of any tax sharing, tax indemnity or tax allocation agreement or any other express or implied agreement to indemnify any other Person for Taxes; and the term "Tax" means any one of the foregoing Taxes.

"TFR Indemnification Agreement" means the TFR Indemnification Agreement to be entered into by Newco, the applicable Newco Subsidiaries and ST on the Closing Date, in a form reasonably acceptable to Intel, FP and ST.

"TFR Indemnity Obligations" means TFR Liability and any and all Losses arising from any dispute with any party related to any TFR Liability.

"TFR Liability" means "Trattamento di Fine Rapporto" obligations that are or may become payable to or in respect of any of the ST Transferred Employees with respect to their service with ST prior to their transfer to Newco or its Subsidiaries pursuant to the ST Asset Contribution Agreement.

"Third Actuary" shall have the meaning set forth in Section 5.11(c) of the Intel Asset Transfer Agreement and the ST Asset Contribution.

"Third Party A/P Payable by ST Transferred Entities" means all accounts payable and other amounts owed by the ST Transferred Entities to any Person other than ST and its Subsidiaries as applicable for raw materials or supplies received by or services rendered to the ST Transferred Entities, recorded or required to be recorded as such on the financial statements of ST and its Subsidiaries as of the Effective Time prepared on a basis consistent with past practice and in accordance with GAAP, but for purposes of Section 2.8(b)-(e) of the ST Asset Contribution Agreement, accounts payable assumed by ST or its designated Subsidiaries under Section 2.8(a) of the ST Asset Contribution Agreement shall not be included in Third Party A/P Payable by ST Transferred Entities.

"Third Party A/R Owed to ST Transferred Entities" means all accounts receivable and other current rights to payment of the ST Transferred Entities from any Person other than ST and its Subsidiaries, together with any unpaid interest or fees accrued thereon or other amounts due with respect thereto, recorded or required to be recorded as such on the financial statements of ST and its Subsidiaries as of the Effective Time prepared on a basis consistent with past practice and in accordance with GAAP, but for purposes of the Section 2.8(b)-(e) of the ST Asset Contribution Agreement, accounts receivable transferred to ST or its designated Subsidiaries under Section 2.8(a) of the ST Asset Contribution Agreement shall not be included in Third Party A/R Owed to ST Transferred Entities.

"Third Party Appraisal Firm" shall have the meaning set forth in Section 4.13 of the Master Agreement.

“Toa Payoh Equipment” means the machinery, laboratory and other equipment, tools and other tangible personal property set forth under the heading “Toa Payoh” in Schedule 2.1 to the ST ACA Disclosure Letter.

“Trademarks” means trademarks and registrations and applications therefor.

“Trade Secrets” means confidential know how, inventions, discoveries, concepts, ideas, methods, processes, designs, formulae, technical data, source code, drawings, specifications (including logic specifications), data bases, data sheets, customer lists, Customer Data and other confidential information that constitute trade secrets under applicable law, in each case excluding any rights in respect of any of the foregoing that comprise Copyrights, mask work rights or Patents.

“Transaction Documents” means the Master Agreement, the Intel Asset Transfer Agreement, the ST Asset Contribution Agreement, the Share Purchase Agreement, the Intel Ancillary Agreements, the ST Ancillary Agreements, the Shareholders’ Agreement, the Confidentiality Agreement, and all of the documents contemplated by any such agreement or entered into by any of the Parties thereto or their Subsidiaries in connections with the transactions contemplated by such agreements.

“Uncapped ST Losses” means Losses (i) pursuant to a breach of any of Sections 3.2 (Authorization and Enforceability), 3.10 (Tax Matters), 3.12(a) (Pension Plans), 3.15 (Environmental Matters), and 3.22(a) (Organization) and 3.22(b) (Capitalization), (ii) pursuant to Section 6.2(a)(iii), (iii) resulting from a breach of any covenant other than those set forth in Section 4.10 of the Master Agreement and (iv) resulting from a willful breach of any covenant set forth in Section 4.10 of the Master Agreement).

ASSET CONTRIBUTION AGREEMENT

By and Between

[NEWCO],

and

STMICROELECTRONICS N.V.

Dated as of __, 200__

TABLE OF CONTENTS

	Page
ST ASSET CONTRIBUTION AGREEMENT	1
ARTICLE I DEFINITIONS	1
1.1 Definitions	1
1.2 Defined Terms Generally	1
ARTICLE II Transfer Of Assets	2
2.1 ST Transferred Assets	2
2.2 ST Excluded Assets	4
2.3 ST Transferred Liabilities	5
2.4 ST Excluded Liabilities	6
2.5 Assignment of Contracts and Rights	7
2.6 Consideration	9
2.7 Inventory Adjustment to Consideration	9
2.8 ST Transferred Entities Purchase Price Adjustment	11
2.9 Capital Expenditures	12
2.10 Pre Closing Deliveries by Newco	14
2.11 Pre Closing Deliveries by ST	14
2.12 Closing	15
2.13 Post Closing Registrations	16
ARTICLE III REPRESENTATIONS AND WARRANTIES OF ST	16
3.1 Existence and Good Standing	16
3.2 Authorization and Enforceability	16
3.3 Governmental Authorization	17

	Page
3.4 Non-Contravention	17
3.5 Personal Property	17
3.6 Real Property	17
3.7 Litigation	18
3.8 ST Transferred Contracts and Consents	18
3.9 Compliance with Applicable Laws	19
3.10 Tax Matters	19
3.11 Intellectual Property	22
3.12 Employee Matters	23
3.13 Financial Information	23
3.14 Absence of Certain Changes	24
3.15 Environmental Matters	25
3.16 Product Warranties	26
3.17 Transferred Assets	26
3.18 Customers	26
3.19 Insurance	26
3.20 Inventories	26
3.21 Advisory Fees	27
3.22 Representations Regarding ST Transferred Entities and ST Transferred Interests	27
3.23 Investment Representations	28
3.24 Disclaimer of Warranties	29
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF NEWCO	29
4.1 Existence and Good Standing	29
4.2 Authorization and Enforceability	30

	Page
4.3 Non-Contravention	30
4.4 Capitalization	30
4.5 Valid Issuance of Shares	31
4.6 Exempt Offering	31
4.7 Lack of Registration Rights and Voting Agreements	31
4.8 Reliance	32
ARTICLE V COVENANTS	32
5.1 Access to Information	32
5.2 Compliance with Terms of Governmental Approvals and Consents	33
5.3 Use of Marks	33
5.4 Cooperation in Third Party Litigation	33
5.5 Assignments	34
5.6 Reasonable Efforts	34
5.7 Allocation of Non-Tax Operating Expenses	34
5.8 Tax Matters	34
5.9 Accounts Receivable	39
5.10 Accounts Payable	40
5.11 Employees	40
5.12 Protection of Privacy	43
5.13 Export Compliance	43
5.14 Satisfaction of ST Pre-Closing Product Obligations	43
5.15 Additional ST Financial Statements	43
5.16 Settlement of Claims	44
5.17 Back-end Equipment	44

**FINAL ATTACHMENT
TO MASTER AGREEMENT**

	Page
5.18 Master Agreement Covenants	45
5.19 Further Assurances	46
5.20 Release of Liens	46
ARTICLE VI INDEMNIFICATION	46
6.1 General Survival	46
6.2 Indemnification	46
6.3 Manner of Indemnification	49
6.4 Third-Party Claims	49
6.5 Exclusive Remedy and Waiver and Release of Certain Claims	50
6.6 Subrogation	51
6.7 Damages	51
6.8 Environmental Indemnification Procedures	51
ARTICLE VII MISCELLANEOUS	53
7.1 Notices	53
7.2 Amendments; Waivers	55
7.3 Expenses	56
7.4 Successors and Assigns	56
7.5 Governing Law	56
7.6 Counterparts; Effectiveness	56
7.7 Entire Agreement	56
7.8 Captions	57
7.9 Severability	57
7.10 Dispute Resolution	57
7.11 Submission to Jurisdiction; Waiver of Jury Trial	59

	Page
7.12 Third Party Beneficiaries	60
7.13 Specific Performance	60
7.14 No Presumption Against Drafting Party	60