

**Carlo Bozotti, President and Chief Executive Officer,
STMicroelectronics: Q216 Earnings Results
Wednesday, July 27, 2016 – Final**

Thank you for joining us this morning on our second quarter earnings' conference call.

Today I would like to share our progress towards our most important objective for 2016: **returning ST to revenue growth**, focusing on two strategic areas -Smart Driving and Internet of Things.

As you know, we are targeting those applications that are expected to grow the fastest –from car digitalization and electrification to Internet of Things for portable and wearable devices as well as Smart Home, City and Industrial applications.

Already during the first quarter we saw a first step towards returning to year-over-year growth with two of our major product businesses, representing about 50% of our 2015 sales – Automotive and Microcontrollers.

And, in the second quarter, we made a further step forward.

Automotive and Microcontrollers continued their positive revenue momentum. On top of this, our Power Discrete business, our Imaging Products Division, as well as our Analog & MEMS product group, grew sequentially and we are now well positioned to grow on a year-over-year basis in the second half of 2016.

Now let's go through our key figures.

First, total revenues increased on a sequential basis to \$1.703 billion, up 5.6%. This was slightly above the mid-point of our guidance. Importantly, all three product groups and the Imaging Product Division delivered sequential growth.

Second, our sequential growth in revenues translated into progress on gross margin. Specifically, the second quarter gross margin came in at 33.9%, a quarter to quarter improvement of 50 basis points. Unused capacity charges in the period impacted the gross margin by about 45 basis points, compared to about 60 basis points in the first quarter.

Third, combined R&D and SG&A expenses of \$565 million were lower on a sequential basis by \$6 million, mainly benefiting from fewer calendar days. Operating expenses also reflected the initial benefits of the set-top box restructuring plan. More importantly, I can confirm that we are on track to capture about \$100 million of annualized cost savings from our set-top box restructuring program exiting 2016.

Fourth, our operating income before impairment and restructuring turned positive during the second quarter, coming in at \$40 million thanks to the sequential growth in revenue and improvement in gross margin.

Finally, we also saw an improvement in our free cash flow, increasing to \$47 million in the second quarter, from \$31 million in the first quarter. For the first half of 2016 this brings free cash flow to \$78 million.

Now let's move to a more detailed business review.

In ADG, our Automotive and Discrete Group, revenues increased 7.5% on a sequential basis. Importantly, we saw a return to sequential growth for our Power Discrete products, increasing by double-digits.

This sharp improvement is due to a broad-based recovery, following the market downturn that began last year, as well as to our marketing initiatives. In Automotive, we had another solid quarter of broad-based sequential growth with revenues up over 4%. On a year-over-year basis, Automotive increased about 6%. While the performance of Power Discrete products improved sequentially, it was not yet enough to grow year-over-year. However, based upon our current market visibility, Power Discrete products are positioned to contribute to year-over-year growth starting in the second half of 2016.

ADG operating income of \$61 million in the second quarter was up sharply on a sequential basis, increasing from \$39 million in the first quarter. ADG operating margin increased to 8.5% compared to 5.7% in the first quarter. Both Power Discrete and Automotive contributed to ADG's operating margin growth.

The second quarter was an important one for ADG, in terms of announcements and awards covering our three priority areas: safer, greener and more connected driving.

In advanced safety, we announced the continuation of our strong partnership with Mobileye through the development of the 5th generation of the system-on-chip in 7nm FinFET technology.

We had wins in Japan with Tier 1s for a complete ABS chipset for motorbikes, with a 32-bit microcontroller, and for a next-generation airbag smart-power chipset. We also started a collaboration with a major Japanese Tier 1 for a surround-view camera system and with a new customer for another ADAS (advanced safety) application. Both of these projects are using our 28nm FD-SOI technology.

For **greener** driving, spurred by car electrification, our key technologies are the new generation of VIPower and Silicon Carbide. VIPower continues to be a strong contributor to our sales in this area and we recently celebrated the 25th anniversary of the creation of this industry-leading ST proprietary technology. For Silicon Carbide, during the quarter we announced a complete set of advanced SIC-power devices for high-voltage power modules to extend vehicle range, increase convenience, and improve reliability.

In the area of **connected** cars, we continued the expansion of our 32-bit automotive microcontroller business with a major award from a Japanese Tier 1. We also announced, together with Autotalks, the development of a solution to combine satellite navigation with vehicle-to-vehicle and -infrastructure communication for better positioning information in difficult city environments.

In addition to our automotive focus, we also have products inside ADG that serve many other markets. Some key wins were: ESD protection devices for smartphone and wearable market leaders in the US and Asia and designs for our super-junction and silicon carbide MOSFET product families across a range of applications, including servers, solar, gaming systems, and dc/dc converters.

Turning now to AMG, our Analog and MEMS Group, revenues increased 1.8% sequentially, thanks to both our general purpose and analog products, while the sales of our MEMS products decreased mainly reflecting lower sales of microphones for wireless applications.

AMG's operating margin was 0.2% in the second quarter, comparable to the 0.5% in the first quarter. While we started sequential growth in revenues, operating results decreased slightly.

We can, however, reaffirm our expectation of an improved second half for AMG, for both revenues and operating results.

In our consumer business we ramped production of our 6-axis ultra-low-power MEMS accelerometer and gyroscope, optical-image-stabilization gyroscope and barometric sensor for the latest Samsung Galaxy S7 and S7 Edge smartphones. During the quarter we also announced a collaboration with Qualcomm on sensors for smart mobile devices. In China, and more generally in Asia, we landed multiple design wins for motion sensors for user interface and optical image stabilization and for applications like sport watches; we ramped production of pressure sensors for wearables and smartphones, and our latest touchscreen sensor was selected by smartphone and tablet customers. Finally, we introduced a programmable single-chip Bluetooth Low Energy solution.

The diversification of our sensor business is ongoing. In Automotive we booked new design wins for custom MEMS accelerometers in Japan and for our 3-axis gyroscope from a Tier 1.

Within AMG, we have also had continued success in the drone market. One example is with motor drivers, where we began ramping shipments of our latest STSPIN chip for a new high-performance drone from a well-known Chinese OEM.

Last for AMG, I would like to highlight our success in electricity metering for Smart Homes and Cities. During the quarter we began volume production of multiple chips for the next generation smart meters of Enel – these chips include processing and metrology ICs, an accelerometer, as well as NFC tags and high density EEPROMs from our Microcontrollers and Digital ICs group, to which I will now turn.

MDG's net revenues increased 4.6% on a sequential basis and totaled \$556 million. Microcontrollers represent the large majority of the sales in this group, and were the principal driver of sequential revenue growth, thanks to our general purpose STM32 family. On a sequential and year-over-year basis, Microcontrollers were up over 4%. Digital product sales grew sequentially, driven by Digital ASICs for networking applications.

MDG's operating margin improved sequentially to 1.5%. The loss in Digital was substantially lower than that of the first quarter as we are

progressing with savings from the ongoing set-top box restructuring plan.

As we said before, we expect the combination of this restructuring plan and the growth of Digital ASIC revenues to drive substantial improvement in MDG profitability.

Again, I want to emphasize the strong position we have in microcontrollers. In fact, our STM32 family of general-purpose microcontrollers continues to be a leading choice for a broad range of Smart Things in the IoT. One example is the drone market I talked about earlier, where our microcontrollers were chosen by several major drone manufacturers for flight and motor control functions. Another example is in smart lighting applications, where we were selected by a major European lighting manufacturer. During the quarter we further strengthened the STM32 ecosystem launching a cooperation agreement with Arduino to expand access to the community of makers across the globe. We have also announced new free development tools and added a USB Type-C middleware stack to support developers.

Security is essential for IoT expansion and a key element of our strategy. During the quarter we introduced a new family of secure elements called STSAFE. These are designed to protect all types of connected devices in the Internet of Things.

In our custom silicon business we had an FD-SOI ASIC award from a major Japanese player and several 55nm BiCMOS designs. We also ramped production of ST's first 100Gbit/second silicon photonic transceiver.

Let me speak briefly of our Imaging Product Division which is reported in the segment "Others". Here we had a strong sequential increase in sales thanks to our Time-of-Flight specialized image sensors entering multiple smartphone models –ten new flagship smartphones in Q2 alone-. Among these, we can mention the Huawei P9, P9plus and Honor V8. And we continue to see a good momentum.

Now let's turn to our business outlook. In the third quarter, we are anticipating a strong sequential growth in net revenues which would drive a further improvement in our gross margin.

In terms of bookings, we saw an improvement last quarter in many applications and, looking to the third quarter, we expect all our product groups and the Imaging Product Division to contribute to sequential growth.

However, while we see further improvement in our business, the macro backdrop, particularly for Europe, has become more complex, with increased uncertainty. Therefore, it is not clear if or how this may impact overall GDP, the semiconductor market or individual customer demand.

With that word of caution, based upon our current visibility on our end-markets and customer plans, the increase in bookings translates into a sequential revenue growth guidance of about 5.5%, plus or minus 3.5%.

We expect the growth in revenues and more favorable product mix to bring a meaningful improvement to gross margin. Specifically, for the third quarter we are targeting a gross margin of about 35.5%, plus or minus 2.0%. This gross margin target still embeds a negative impact from unused capacity of about 65 basis points.

More broadly, we see growth in the second half of 2016 compared to the year-ago period. Automotive and Microcontrollers are already contributing in a strong manner since the start of the year. We took a step forward in the second quarter with sequential growth in Power Discrete, Imaging and AMG.

So for the second half of the year in total, again based upon our current visibility and market backdrop, we anticipate another step forward, with all product groups and the Imaging Product Division positioned to deliver year-over-year sales growth.

In turn, the improvements in our operating performance will lead to higher free cash flow in comparison to the first half of the year.

My colleagues and I would now be happy to take your questions.