

STMICROELECTRONICS NV

Form 6-K

May 01, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated May 1, 2019

Commission File Number: 1-13546

STMicroelectronics N.V.

(Name of Registrant)

WTC Schiphol Airport

Schiphol Boulevard 265

1118 BH Schiphol Airport

The Netherlands

(Address of Principal Executive Offices)

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

Form 20-F

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)(1):

Yes

No

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 First Quarter ended March 30, 2019:

Operating and Financial Review and Prospects;

Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months ended March 30, 2019; and

Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flows and Statements of Equity for the three months ended March 30, 2019 and Notes thereto included elsewhere in this Form 6-K, and our annual report on Form 20-F for the year ended December 31, 2018 as filed with the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”) on February 28, 2019 (the “Form 20-F”). The following discussion contains statements of future expectations and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections “Business Overview” and “Liquidity and Capital Resources—Financial Outlook: Capital Investment”. Our actual results may differ significantly from those projected in the forward-looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements in addition to the factors set forth below, see “Cautionary Note Regarding Forward-Looking Statements” and “Item 3. Key Information—Risk Factors” included in the Form 20-F. We assume no obligation to update the forward-looking statements or such risk factors.

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

Critical Accounting Policies using Significant Estimates.

Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months ended March 30, 2019 designed to provide context for the other sections of the MD&A, including our expectations for selected financial items for the second quarter of 2019.

Other Developments in the first quarter of 2019.

Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months ended March 30, 2019, as well as segment information.

Legal Proceedings.

Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.

Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.

Impact of Recently Issued U.S. Accounting Standards.

Backlog and Customers, discussing the level of backlog and sales to our key customers.

Disclosure Controls and Procedures.

Cautionary Note Regarding Forward-Looking Statements.

STMicroelectronics N.V. (“ST” or the “Company”) is a global semiconductor leader delivering intelligent and energy-efficient products and solutions that power the electronics at the heart of everyday life. ST’s products are found everywhere today and together with our customers, we are enabling smarter driving and smarter factories, cities and homes, along with the next generation of mobile and Internet of Things devices. By getting more from technology to get more from life, ST stands for life.augmented.

Critical Accounting Policies Using Significant Estimates

There were no material changes in the first three months of 2019 to the information provided under the heading “Critical Accounting Policies Using Significant Estimates” included in our Form 20-F except the new guidance on leasing detailed in Note 5 Recent Accounting Pronouncements.

Fiscal Year

Under Article 35 of our Articles of Association, our fiscal year extends from January 1 to December 31. The first quarter of 2019 ended on March 30, 2019. The second quarter will end on June 29, the third quarter will end on September 28 and the fourth quarter will end on December 31, 2019. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years’ periods, as illustrated in the below table for the years 2018 and 2019.

	Q1	Q2	Q3	Q4
Days				
2018	90	91	91	93
2019	89	91	91	94

Business Overview

Our results of operations for each period were as follows:

	Three Months Ended			% Variation		
	March 30, 2019	December 31, 2018	March 31, 2018	Sequential	Year-Over-Year	
	(In millions, except per share amounts)					
Net revenues	\$2,076	\$ 2,648	\$2,226	(21.6)%	(6.7)%
Gross profit	818	1,059	888	(22.8)	(7.9)
Gross margin as percentage of net revenues	39.4 %	40.0 %	39.9 %	-60bps	-50bps	
Operating income	211	443	269	(52.4)	(21.6)
Net income attributable to parent company	178	418	239	(57.4)	(25.4)
Earnings per share (Diluted)	\$0.20	\$ 0.46	\$0.26	(56.5)%	(23.1)%

The total available market is defined as the “TAM”, while the serviceable available market, the “SAM”, is defined as the market for products sold by us (which consists of the TAM and excludes major devices such as Microprocessors (MPUs), Dynamic random-access memories (DRAMs), optoelectronics devices, Flash Memories and the Wireless Application Specific market products such as Baseband and Application Processor).

Based on the data published by World Semiconductor Trade Statistics (WSTS), semiconductor industry revenues decreased in the first quarter of 2019, on a sequential basis, by approximately 16% for the TAM and 7% for the SAM, to reach approximately \$97 billion and \$45 billion, respectively. On a year-over-year basis, the TAM decreased by approximately 13% while the SAM remained substantially flat.

First quarter 2019 net revenues amounted to \$2,076 million, decreasing sequentially by 21.6%, 90 basis points lower than the mid-point of our released guidance. On a sequential basis, Automotive and Discrete Group (ADG) revenues decreased 6.6%, Analog, MEMS and Sensors Group (AMS) revenues decreased 44.1% primarily due to lower Imaging revenues, while Microcontrollers and Digital ICs Group (MDG) revenues decreased 10.5%.

On a year-over-year basis, first quarter net revenues decreased 6.7% mainly driven by lower revenues in AMS and MDG, partially offset by higher revenues in ADG. Specifically, AMS revenues decreased by 15.7%, mainly driven by Imaging and Analog; MDG revenues were lower by 17.7%, entirely due to reduced sales in MMS. ADG revenues were higher by 10.5% supported by both Automotive and Power Discrete.

Our revenue performance was below the performance of the SAM on a sequential and year-over-year basis.

Our effective average exchange rate for the first quarter of 2019 was \$1.16 for €1.00 compared to \$1.17 for €1.00 in the fourth quarter of 2018 and \$1.18 for €1.00 in the first quarter of 2018. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see “Impact of Changes in Exchange Rates”.

Our first quarter of 2019 gross profit was \$818 million and gross margin was 39.4%, 40 basis points above the mid-point of our guidance, mainly due to lower sales price pressure and a better product mix than expected. On a sequential basis, gross margin decreased 60 basis points, mainly due to sales price pressure. Gross margin decreased 50 basis points year-over-year, mainly impacted by sales price pressure including the currency effect on revenues, partially offset by better product mix and improved manufacturing efficiency.

Our aggregated selling, general & administrative (SG&A) and research & development (R&D) costs amounted to \$640 million, increasing compared to \$630 million and \$614 million in the prior and year-ago quarter respectively. On a year-over-year basis, operating expenses increased mainly due to higher labor cost, including variable and share based compensation.

Other income and expenses, net, amounted to positive \$33 million, increasing compared to the previous and year-ago quarters, mainly due to higher R&D funding, mainly benefitting from the grants associated with the “Nano 2022” program in France as part of the European Commission “Important Project of Common European Interest” (IPCEI) program.

In the first quarter of 2019, our operating income was \$211 million, equivalent to 10.2% of net revenues, compared to \$443 million in the fourth quarter of 2018 (16.8% of net revenues), and to \$269 million (12.1% of net revenues) in the year-ago quarter. Sequentially and on a year-over-year basis, our operating results decreased, mainly reflecting lower revenues and lower level of gross margin.

Our net cash from operating activities was \$341 million and net cash used in investing activities was \$408 million including the net cash outflow of \$76 million for the acquisition of 55% of Norstel’s share capital, generating a negative free cash flow (non U.S. GAAP measure) of \$67 million for the first quarter of 2019. Our net cash variation was positive \$101 million, including the net cash from financing activities of \$173 million (comprised mainly of proceeds from long-term debt of \$281 million, the repurchase of common stock of \$61 million and dividend payment of \$54 million).

Looking at the second quarter, we plan to return to sequential revenue growth. Our second quarter outlook, at the mid-point, is for net revenues to increase about 2.4%, plus or minus 350 basis points. Gross margin is expected to be about 38.5%, plus or minus 200 basis points.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.14 = €1.00 for the 2019 second quarter and includes the impact of existing hedging contracts. The second quarter will close on June 29, 2019.

Additionally, for the full year 2019, we expect net revenues to be in the range of about \$9.45 to \$9.85 billion. We therefore plan for strong sequential growth in the second half of the year compared with the first half, across the Industrial, Automotive and Personal Electronics end markets. Our revenue expectation is taking into account engaged customer programs, new product introductions, and assumes improving market conditions.

We are moderating our investment plans, with our 2019 CAPEX plan now \$1.1 - \$1.2 billion, from \$1.2 - \$1.3 billion initially communicated.

Our objectives in 2019 are to outperform our served market and to deliver sustainable profitability.

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

Other Developments in the First Quarter of 2019

On March 15, we announced and hosted the official launch of the French “Nano2022” program for the microelectronics industry at our Crolles site. “Nano2022” is part of the European Commission’s IPCEI for Microelectronics initiative and is specifically a five-year public-private strategic support program targeting not only research, development, and innovation, but also first industrial deployment. “Nano2022” will support our French R&D and manufacturing sites: Crolles, Grenoble, Rennes, Rousset, and Tours; advances in key technologies: new generations of microcontrollers, microprocessors, and digital integrated circuits; power conversion technologies, including wide-bandgap materials, to optimize electric system performance; and new specialized imaging and 3D sensors.

On March 27, we announced the main resolutions to be submitted for adoption at the Company’s Annual General Meeting of Shareholders (AGM), which will be held in Amsterdam, the Netherlands, on May 23, 2019. The main resolutions, proposed by the Supervisory Board, include:

The adoption of the Company’s Statutory Annual Accounts for the year ended December 31, 2018, prepared in accordance with International Financial Reporting Standards (IFRS) and filed with the Netherlands Authority for the Financial Markets (AFM) on March 27, 2019;

The distribution of a cash dividend of \$0.24 per outstanding share of the Company’s common stock, to be distributed in quarterly installments of \$0.06 in each of the second, third and fourth quarters of 2019 and first quarter of 2020 to shareholders of record in the month of each quarterly payment;

The reappointment of Ms. Martine Verluyten, as member of the Supervisory Board, for a one-year term expiring at the 2020 AGM;

The reappointment of Ms. Janet Davidson, as member of the Supervisory Board, for a three-year term expiring at the 2022 AGM;

The appointment of Ms. Lucia Morselli⁽¹⁾, in replacement of Mr. Salvatore Manzi, as member of the Supervisory Board, for a three-year term expiring at the 2022 AGM;

The approval of the stock-based portion of the compensation and the special bonus of the President and CEO;

The authorization to the Managing Board, until the conclusion of the 2020 AGM, to repurchase shares, subject to the approval of the Supervisory Board;

The regular delegation to the Supervisory Board of the authority to issue new common and preference shares, to grant rights to subscribe for such shares, and to limit and/or exclude existing shareholders’ pre-emptive rights on common shares, until the conclusion of the 2020 AGM; and

The specific delegation for purposes of mergers and acquisitions to the Supervisory Board of the authority to issue new common shares, to grant rights to subscribe for such shares, and to limit and/or exclude existing shareholders’ pre-emptive rights on common shares, until the conclusion of the 2020 AGM.

⁽¹⁾ On April 3, we announced that Ms. Claudia Bugno, who was initially proposed to become a new member of our Supervisory Board at our upcoming AGM scheduled for May 23, 2019, informed us that she was no longer available for appointment to our Supervisory Board. Since April 3, we considered various alternatives, including whether or not to propose a different candidate for appointment as a new member of our Supervisory Board, in order to serve instead of Ms. Bugno. We subsequently announced, on April 9, that our Supervisory Board resolved to propose Ms. Lucia Morselli for appointment to our Supervisory Board at the 2019 AGM.

Results of Operations

Segment Information

We design, develop, manufacture and market a broad range of products, including discrete and standard commodity components, application-specific integrated circuits, full-custom devices and semi-custom devices and application-specific standard products for analog, digital and mixed-signal applications. In addition, we further participate in the manufacturing value chain of Smartcard products, which includes the production and sale of both silicon chips and Smartcards.

Our reportable segments are as follows:

Automotive and Discrete Group (ADG), comprised of dedicated automotive ICs (both digital and analog), and discrete and power transistor products for all market segments.

Analog, MEMS and Sensors Group (AMS), comprised of low-power high-end analog ICs (both custom and general purpose) for all markets, smart power products for Industrial, Computer and Consumer markets, Touch Screen Controllers, Low Power Connectivity solutions (both wireline and wireless) for IoT, power conversion products, metering solutions for Smart Grid and all MEMS products for sensors or actuators, subsystems, as well as the Imaging Products division (including the sensors and modules utilizing the Company's Time-of-Flight technology).

Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, Digital ASICs, Aerospace & Defense products including components for microwave and millimeter wave.

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 part of research and development expenses. In compliance with our internal policies, certain costs are not allocated to the segments, but reported in "Others". Those include impairment, restructuring charges and other related closure costs, management reorganization expenses, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses, patent claims and litigations and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold. Finally, R&D grants are allocated to the our segments proportionally to the incurred R&D expenses on the sponsored projects.

Wafer costs are allocated to the segments based on actual cost. From time to time, with respect to specific technologies, wafer costs are allocated to segments based on market price.

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First Quarter 2019 vs. Fourth Quarter 2018 and First Quarter 2018

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

	Three Months Ended					
	March 30, 2019			December 31, 2018		
	\$	% of net		\$	% of net	
	million	revenues		million	revenues	
Net sales	\$2,071	99.8	%	\$2,633	99.4	%
Other revenues	5	0.2		15	0.6	
Net revenues	2,076	100.0		2,648	100.0	
Cost of sales	(1,258)	(60.6))	(1,589)	(60.0))
Gross profit	818	39.4		1,059	40.0	
Selling, general and administrative	(272)	(13.1))	(285)	(10.8))
Research and development	(368)	(17.7))	(345)	(13.0))
Other income and expenses, net	33	1.6		16	0.6	
Impairment, restructuring charges and other related closure costs	-	-		(2)	-	
Operating income	211	10.2		443	16.8	
Interest income (expense), net	2	0.1		1	-	
Other components of pension benefit costs	(3)	(0.2))	(2)	-)
Income (loss) on equity-method investments	1	0.1		6	0.2	
Loss on financial instruments, net	-	-		(1)	-	
Income before income taxes and noncontrolling interest	211	10.2		447	17.0	
Income tax expense	(32)	(1.6))	(28)	(1.2))
Net income	179	8.6		419	15.8	
Net income attributable to noncontrolling interest	(1)	-		(1)	-	
Net income attributable to parent company	\$178	8.6	%	\$418	15.8	%

Net revenues

	Three Months Ended			% Variation	
	March 30, 2019	December 31, 2018	March 31, 2018	Sequential	Year-Over-Year
	(In millions)				
Net sales	\$2,071	\$ 2,633	\$2,214	(21.3))%
Other revenues	5	15	12	(68.5))
Net revenues	\$2,076	\$ 2,648	\$2,226	(21.6))%

Our first quarter 2019 net revenues decreased sequentially by 21.6%, 90 basis points below the mid-point of our guidance. The sequential decrease resulted from a decrease of approximately 27% in volumes partially offset by an increase of approximately 5% in average selling prices, which was driven by improved product mix, partially offset by pure pricing effect.

On a year-over-year basis, our net revenues decreased by 6.7% as a result of an approximate 17% decrease in volumes, partially offset by an increase in average selling prices of approximately 10%, entirely due to an improved product mix, partially offset by pure pricing effect.

Net revenues by product group

	Three Months Ended			% Variation		
	March 30, 2019	December 31, 2018	March 31, 2018	Sequential	Year-over-Year	
	(In millions)					
Automotive and Discrete Group (ADG)	\$903	\$ 967	\$817	(6.6)%	10.5	%
Analog, MEMS and Sensors Group (AMS)	552	988	655	(44.1)	(15.7)
Microcontrollers and Digital ICs Group (MDG)	617	689	750	(10.5)	(17.7)
Others	4	4	4	-	-	
Total consolidated net revenues	\$2,076	\$ 2,648	\$2,226	(21.6)%	(6.7)%

On a sequential basis, ADG revenues decreased 6.6%. The decrease in ADG revenues was driven by lower volumes of approximately 31%, partially offset by an approximate 24% increase in average selling prices, mainly due to a better product mix. AMS revenues decreased 44.1% sequentially mainly due to lower sales in Imaging. The decrease in AMS revenues was due to lower volumes of approximately 24% and an approximate 20% decrease in average selling prices, mainly due to a less favorable product mix. MDG revenues decreased 10.5%, due to an approximate 20% decrease in volumes, partially offset by an approximate 10% increase in average selling prices, mainly due to a better product mix.

On a year-over-year basis, first quarter net revenues decreased by 6.7%, mainly driven by lower revenues in AMS and MDG, while ADG revenues increased by 10.5% with both Power Discrete and Automotive contributing. AMS revenues decreased 15.7% compared to the year-ago period mainly driven by lower sales in Imaging and in Analog. The decrease was mainly due to lower volumes of approximately 4% and to a less favorable product mix resulting in lower average selling prices of approximately 11%. MDG revenues decreased 17.7% mainly driven by MMS. The decrease in MDG revenues was mainly driven by lower volumes. ADG revenues increased 10.5% compared to the year-ago period. The increase was entirely due to higher average selling prices of approximately 34%, driven by a more favorable product mix, while volumes decreased by approximately 24%.

Net Revenues by Market Channel ⁽¹⁾

	Three Months Ended					
	March 30, 2019	December 31, 2018	March 31, 2018			
OEM	66 %	69 %	63 %			
Distribution	34	31	37			
Total	100 %	100 %	100 %			

Original Equipment Manufacturers (“OEM”) are the end-customers to which we provide direct marketing

(1) application engineering support, while Distribution customers refers to the distributors and representatives that we engage to distribute our products around the world.

By market channel, our first quarter net revenues in Distribution amounted to 34% of our total revenues, increasing from 31% in the prior quarter but decreasing from 37% in the prior-year quarter.

Net Revenues by Location of Shipment ⁽¹⁾

Three Months Ended % Variation

	March 30, 2019	December 31, 2018	March 31, 2018	Sequential Year-Over-Year		
	(In millions)					
EMEA	\$620	\$ 617	\$613	0.5	%	1.2
Americas	347	342	293	1.4		18.3
Asia Pacific	1,109	1,689	1,320	(34.3)		(16.0)
Total	\$2,076	\$ 2,648	\$2,226	(21.6)	%	(6.7)

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

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On a sequential basis, Asia Pacific revenues decreased 34.3%, with Imaging being the main contributor to the decrease. Americas revenues increased 1.4% due to higher sales in Digital while EMEA remained substantially flat. On a year-over-year basis, Americas and EMEA experienced a revenue increase while Asia Pacific revenues decreased mainly due to lower sales in MMS and Imaging.

Gross profit

	Three Months Ended			Variation		
	March	December	March			
	30,	31, 2018	31,	Sequential	Year-Over-Year	
	2019		2018			
	(In millions)					
Gross profit	\$818	\$ 1,059	\$888	(22.8)%	(7.9)%
Gross margin (as percentage of net revenues)	39.4%	40.0	% 39.9 %	-60bps	-50bps	

In the first quarter of 2019, gross margin was 39.4%, 40 basis points above the mid-point of our guidance, mainly due to lower sales price pressure and a better product mix than expected. Sequentially, gross margin decreased by 60 basis points, mainly impacted by sales price pressure.

On a year-over-year basis, gross margin decreased by 50 basis points, mainly impacted by sales price pressure including the currency effect on revenues, partially offset by better product mix and improved manufacturing efficiency.

Operating expenses

	Three Months Ended			Variation		
	March	December	March			
	30,	31, 2018	31,	Sequential	Year-Over-Year	
	2019		2018			
	(In millions)					
Selling, general and administrative expenses	\$(272)	\$ (285)	\$(265)	4.9 %	(2.5)%
Research and development expenses	(368)	(345)	(349)	(6.8)	(5.4)
Total operating expenses	\$(640)	\$ (630)	\$(614)	(1.5)%	(4.2)%
As percentage of net revenues	(30.8)%	(23.8)%	(27.6)%	-700bps	-320bps	

The first quarter 2019 operating expenses were \$640 million compared to \$630 million in the fourth quarter of 2018. On a year-over-year basis, operating expenses increased by \$26 million, mainly due to higher labor cost, including variable and share based compensation.

As a percentage of revenues, our operating expenses amounted to 30.8% in the first quarter of 2019, increasing sequentially and on a year-over-year basis, mainly due to lower revenues.

R&D expenses were net of research tax credits in France and Italy, which amounted to \$32 million in the first quarter of 2019, compared to \$39 million and \$33 million in the prior and year-ago quarters, respectively.

Other income and expenses, net

Three Months Ended		
March	December	March
30,	31,	31,
2019	31, 2018	2018

	(In millions)			
Research and development funding	\$34	\$ 19		\$ 11
Exchange gain, net	-	-		2
Phase-out and start-up costs	(1)	(1)		-
Patent costs	(1)	(1)		(3)
Gain on sale of businesses and non-current assets	-	1		6
Other, net	1	(2)		-
Other income and expenses, net	\$33	\$ 16		\$ 16
As percentage of net revenues	1.6%	0.6	%	0.7 %

In the first quarter of 2019, we recognized net other income of \$33 million, increasing sequentially and on a year-over-year basis mainly due to higher R&D funding.

Impairment, restructuring charges and other related closure costs

	Three Months Ended	
	March	March
	30, December	31,
	2019	2018
	(In millions)	
Impairment, restructuring charges and other related closure costs	\$-	\$ (2) \$ (21)

In the fourth quarter of 2018, we recorded \$2 million of impairment, restructuring charges and other related closure costs, related to the impairment of acquired technologies, for which it was determined that they had no future alternative use. In the first quarter of 2018, we recorded \$21 million of impairment, restructuring charges and other related closure costs, entirely related to the set-top box plan which is now substantially completed in all locations.

Operating income

	Three Months Ended	
	March	March
	30, December	31,
	2019	31, 2018
	(In millions)	
Operating income	\$211	\$ 443
As percentage of net revenues	10.2%	16.8 %

The first quarter of 2019 operating income was \$211 million, compared to an operating income of \$443 million and \$269 million in the prior and year-ago quarters, respectively.

Sequentially, our operating results decreased, mainly reflecting lower revenues, and included \$30 million of R&D and pre-industrialization funding associated with the Nano2022 program in France, as part of the European Commission IPCEI funding program, of which \$22 million was a catch-up from year 2018. On a year-over-year basis, operating income decreased by \$58 million mainly reflecting a lower level of revenues.

Operating income by product group

	Three Months Ended					
	March 30, 2019		December 31, 2018		March 31, 2018	
	\$	% of net	\$	% of net	\$	% of net
	million	revenues	million	revenues	million	revenues
Automotive and Discrete Group (ADG)	\$95	10.6 %	\$141	14.6 %	\$90	11.0 %
Analog, MEMS and Sensors Group (AMS)	43	7.8	202	20.5	64	9.8
Microcontrollers and Digital ICs Group (MDG)	83	13.4	122	17.7	146	19.5
Total operating income of product segments	221	10.7	465	17.6	300	13.5
Others ⁽¹⁾	(10)	-	(22)	-	(31)	-
Total operating income	\$211	10.2 %	\$443	16.8 %	\$269	12.1 %

Operating results of “Others” include items such as unused capacity charges, impairment & restructuring charges and other related closure costs, management reorganization expenses, phase out and start-up costs, and other (1)unallocated expenses such as strategic or special research and development programs, certain corporate-level operating expenses, patent claims and litigations, and other costs that are not allocated to product groups, as well as assembly services and other revenue.

In the first quarter of 2019, ADG's operating income was \$95 million, decreasing sequentially by \$46 million mainly due to a lower level of revenues, both in Automotive and Power Discrete. AMS' operating income was \$43 million, declining sequentially by \$159 million impacted by Imaging strong sales decrease and by the lower revenues in Analog. MDG's operating income was \$83 million, decreasing compared to the fourth quarter of 2018 by \$39 million mainly due to MMS decreased profitability impacted by general purpose microcontroller lower sales and less favorable product mix.

Compared to a year ago, ADG's operating profit improved by \$5 million. AMS' operating income declined by \$21 million compared to \$64 million in the prior-year quarter, driven by Imaging and Analog lower level of revenues. MDG's operating income decreased by \$63 million mainly impacted by MMS lower profitability.

Reconciliation to consolidated operating income

	Three Months Ended		
	March 30, 2019	December 31, 2018	March 31, 2018
	(In millions)		
Total operating income of product segments	\$221	\$ 465	\$ 300
Impairment, restructuring charges and other related closure costs	-	(2)	(21)
Unallocated manufacturing results	2	3	2
Strategic and other research and development programs and other non-allocated provisions ⁽¹⁾	(12)	(23)	(12)
Total operating loss Others	(10)	(22)	(31)
Total consolidated operating income	\$211	\$ 443	\$ 269

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

Interest income (expense), net

	Three Months Ended	
	March 30, 2019	March 31, 2018
	(In millions)	
Interest income (expense), net	\$2 \$ 1	\$ (3)

In the first quarter of 2019, we recorded a net interest income of \$2 million, improving sequentially and on a year-over-year basis, composed of \$16 million of interest income, partially offset by interest expense on our borrowings and banking fees of \$14 million.

Interest expense recorded in the first quarters of 2019 and 2018 included a \$9 million charge, non-cash, related to the senior unsecured convertible bonds issued on July 3, 2017. Interest expense recorded in the fourth quarter of 2018 included a \$10 million charge, non-cash, related to the senior unsecured convertible bonds issued on July 3, 2017.

Income tax expense

	Three Months Ended	
	March 30, 2019	March 31, 2018
	(In millions)	
Income tax expense	\$(32) \$ (28)	\$ (22)

During the first quarter of 2019, we registered an income tax expense of \$32 million, reflecting the estimated annual effective tax rate in each of our jurisdictions, applied to the first quarter of 2019 consolidated result before taxes.

Net income attributable to parent company

Three Months Ended

	March 30, 2019	December 31, 2018	March 31, 2018
	(In millions)		
Net income attributable to parent company	\$ 178	\$ 418	\$ 239
As percentage of net revenues	8.6 %	15.8 %	10.7 %

For the first quarter of 2019, we reported a net income attributable to parent company of \$178 million. The first quarter 2019 net income represented diluted earnings per share of \$0.20 compared to \$0.46 in the prior quarter and \$0.26 in the prior-year quarter.

Legal Proceedings

For a discussion of legal proceedings, see Note 26 Contingencies, Claims and Legal Proceedings to our Interim Consolidated Financial Statements.

Impact of Changes in Exchange Rates

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

As a market practice, the reference currency for the semiconductor industry is the U.S. dollar and the market prices of semiconductor products are mainly denominated in U.S. dollars. However, revenues for some of our products (primarily certain of our products sold in Europe) are quoted in currencies other than the U.S. dollar and as such are directly affected by fluctuations in the value of the U.S. dollar. As a result of currency variations, the appreciation of the Euro compared to the U.S. dollar could increase our level of revenues when reported in U.S. dollars or the depreciation of the Euro compared to the U.S. dollar could decrease our level of revenues when reported in U.S. dollars. Over time and depending on market conditions, the prices in the industry could align to the equivalent amount in U.S. dollars, except that there is a lag between the changes in the currency rate and the adjustment in the price paid in local currency, which is proportional to the amplitude of the currency swing, and such adjustment could be only partial and/or delayed, depending on market demand. Furthermore, certain significant costs incurred by us, such as manufacturing costs, SG&A expenses, and R&D expenses, are largely incurred in the currency of the jurisdictions in which our operations are located. Given that most of our operations are located in the Euro zone and other non-U.S. dollar currency areas, including Singapore, our costs tend to increase when translated into U.S. dollars when the U.S. dollar weakens or to decrease when the U.S. dollar strengthens.

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

Our Interim Consolidated Statements of Income for the three months ended March 30, 2019 included income and expense items translated at the average U.S. dollar exchange rate for the period, plus the impact of the hedging contracts expiring during the period. Our effective exchange rate was \$1.16 for €1.00 in the first quarter of 2019 compared to \$1.17 for €1.00 in the fourth quarter of 2018 and \$1.18 for €1.00 in the first quarter of 2018. These effective exchange rates reflect the actual exchange rates combined with the impact of cash flow hedging contracts that matured in the period.

The time horizon of our cash flow hedging for manufacturing costs and operating expenses may run up to 24 months, for a limited percentage of our exposure to the Euro, depending on currency market circumstances. As of March 30, 2019, the outstanding hedged amounts were €722 million to cover manufacturing costs and €451 million to cover operating expenses, both at an average exchange rate of about \$1.20 for €1.00 (considering the collars at upper strike), maturing over the period from April 3, 2019 to June 30, 2020. As of March 30, 2019, measured with respect to the exchange rate at period closing of about \$1.12 to €1.00, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory resulted in a deferred loss before tax of approximately \$42 million, recorded in "Accumulated other comprehensive income (loss)" in the Consolidated Statements of Equity, compared to a deferred loss before tax of approximately \$38 million at December 31, 2018.

We also hedge certain manufacturing costs denominated in Singapore dollars (SGD); as of March 30, 2019, the outstanding hedged amounts were SGD 163 million at an average exchange rate of about SGD 1.35 to \$1.00 maturing over the period from April 4, 2019 to February 27, 2020. As of March 30, 2019, these outstanding hedging contracts and certain expiring contracts covering manufacturing expenses capitalized in inventory resulted in a deferred gain before tax of less than \$1 million, recorded in “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Equity, compared to a deferred loss before tax of approximately \$1 million at December 31, 2018.

Our cash flow hedging policy is not intended to cover our full exposure and is based on hedging a declining portion of our exposure in the next four quarters. In the first quarter of 2019, as a result of our cash flow hedging, we recorded a net loss of \$23 million consisting of a loss of about \$14 million to costs of goods sold, \$7 million to research and development and \$2 million in selling, general and administrative expenses, while in the comparable quarter in 2018, we recorded a net gain of \$34 million.

In addition to our cash flow hedging, in order to mitigate potential exchange rate risks on our commercial transactions, we purchase and enter into forward foreign currency exchange contracts and currency options to cover foreign currency exposure in payables or receivables at our affiliates, which we account for as fair value instruments. We may in the future purchase or sell similar types of instruments. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk” in our Form 20-F. Furthermore, we may not predict in a timely fashion the amount of future transactions in the volatile industry environment. No assurance may be given that our hedging activities will sufficiently protect us against declines in the value of the U.S. dollar. Consequently, our results of operations have been and may continue to be impacted by fluctuations in exchange rates. The net effect of our consolidated foreign exchange exposure resulted in a net gain of less than \$1 million recorded in “Other income and expenses, net” in our Interim Consolidated Statements of Income for the first quarter of 2019.

The assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. Income and expenses, as well as cash flows, are translated at the average exchange rate for the period. The balance sheet impact, as well as the income statement and cash flow impact, of such translations have been, and may be expected to be, significant from period to period since a large part of our assets and liabilities and activities are accounted for in Euros as they are located in jurisdictions where the Euro is the functional currency. Adjustments resulting from the translation are recorded directly in equity, and are shown as “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Equity. At March 30, 2019, our outstanding indebtedness was denominated mainly in U.S. dollars and in Euros.

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

Impact of Changes in Interest Rates

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

Our interest income (expense), net, as reported in our Interim Consolidated Statements of Income, is the balance between interest income received from our cash and cash equivalents and marketable securities investments and interest expense paid on our financial liabilities, non-cash interest expense on the senior unsecured convertible bonds and bank fees (including fees on committed credit lines). Our interest income is dependent upon fluctuations in interest rates, mainly in U.S. dollars and Euros, since we invest primarily on a short-term basis; any increase or decrease in the market interest rates would mean a proportional increase or decrease in our interest income. Our interest expenses are also dependent upon fluctuations in interest rates, since our financial liabilities include European Investment Bank Floating Rate Loans at Libor and Euribor plus variable spreads.

At March 30, 2019, our total liquidity, including cash and cash equivalents, restricted cash and marketable securities generated an average interest income annual rate of 2.29%. At the same date, the average interest annual rate on our outstanding debt was 2.31% including the non-cash effective interest of the senior unsecured convertible bonds, while the average cash interest annual rate was only 0.46%.

Impact of Changes in Equity Prices

As of March 30, 2019, we did not hold any significant equity participations, which could be subject to a material impact in changes in equity prices. However, we hold equity participations whose carrying value could be reduced due to further losses or impairment charges of our equity-method investments. See Note 20 to our Consolidated Financial Statements.

Liquidity and Capital Resources

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

Cash flow

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

During the first three months of 2019, our net cash increased by \$101 million, due to the net cash from operating and financing activities exceeding the net cash used in investing activities.

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

	Three Months Ended	
	March 30, 2019	March 30, 2018
	(In millions)	
Net cash from operating activities	\$341	\$455
Net cash used in investing activities	(408)	(374)
Net cash from (used in) financing activities	173	(54)
Effect of changes in exchange rates	(5)	5
Net cash increase	\$101	\$32

Net cash from operating activities. Net cash from operating activities is the sum of (i) net income adjusted for non-cash items and (ii) changes in net working capital. The net cash from operating activities for the first three months of 2019 was \$341 million, decreasing compared to \$455 million in the prior-year period mainly due to lower net income and negative change in the net working capital.

Net cash used in investing activities. Investing activities used \$408 million of cash in the first three months of 2019 increasing compared to \$374 million in the prior-year period after the net cash outflow of \$76 million for the acquisition of 55% of Norstel's share capital. Payments for purchase of tangible assets, net of proceeds, totaled \$322 million, compared to \$351 million registered in the prior-year period.

Net cash from (used in) financing activities. Net cash from financing activities was \$173 million for the first three months of 2019, compared to \$54 million used for the first three months of 2018, and consisted mainly of \$281 million proceeds from long-term debt, \$61 million repurchase of common stock and \$54 million dividends paid to stockholders.

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

We also present Free Cash Flow, which is a non U.S. GAAP measure, defined as (i) net cash from operating activities plus (ii) net cash used in investing activities, excluding payment for purchase (and proceeds from sale) of marketable securities, and investment in short-term deposits. The result of this definition is ultimately net cash from operating activities plus payment for purchase (and proceeds from sale) of tangible, intangible and financial assets, proceeds received in the sale of businesses and cash paid for business acquisitions. We believe Free Cash Flow, a non U.S. GAAP measure, provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operations. Free Cash Flow is not a U.S. GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities. Free Cash Flow reconciles with the net cash increase (decrease) by including the payment for purchase (and proceeds from the sale) of marketable securities, the change in short-term deposits, the net cash from (used in) financing activities and the effect of changes in exchange rates. In addition, our definition of Free Cash Flow may differ from definitions used by other companies. Free Cash Flow is determined as follows from our Consolidated Statements of Cash Flows:

	Three Months Ended	
	March 30, 2019	March 30, 2018
Net cash from operating activities	\$341	\$455
Net cash used in investing activities	(408)	(374)
Excluding:		
Payment for purchase and proceeds from sale of marketable securities, and investment in short term deposits	-	14
Payment for purchase and proceeds from sale of tangible and intangible assets ⁽¹⁾	(408)	(360)
Free Cash Flow (non U.S. GAAP measure)	\$(67)	\$95

Reflects the total of the following line items reconciled with our Consolidated Statements of Cash Flows relating to the investing activities: Payment for purchase of tangible assets, Proceeds from sale of tangible assets, Payment for (1) purchase of intangible assets, Payment for purchase of financial assets, Proceeds from sale of financial assets, Proceeds received in sale of businesses, payment for business acquisition, net of cash and cash equivalents acquired.

Free Cash Flow decreased in the first three months of 2019 compared to the year-ago period, mainly due to lower cash from operating activities and higher cash used in investing activities, as a result the cash outflow of \$76 million for the acquisition of 55% of Norstel's share capital.

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

Our Net Financial Position represents the difference between our total liquidity and our total financial debt. Our total liquidity includes cash and cash equivalents, restricted cash, short-term deposits and marketable securities, and our total financial debt includes short-term debt, including bank overdrafts, and long-term debt, as represented in our Consolidated Balance Sheets. Net Financial Position is not a U.S. GAAP measure but we believe it provides useful information for investors and management because it gives evidence of our global position either in terms of net indebtedness or net cash by measuring our capital resources based on cash and cash equivalents, restricted cash, short-term deposits and marketable securities and the total level of our financial indebtedness. In addition, our definition of Net Financial Position may differ from definitions used by other companies and therefore comparability may be limited. Our Net Financial Position for each period has been determined as follows from our Consolidated Balance Sheets:

	As at		
	March 30, 2019	December 31, 2018	March 31, 2018
	(In millions)		
Cash and cash equivalents	\$2,307	\$ 2,266	\$ 1,791
Restricted cash	60	-	-
Short-term deposits	-	-	14
Marketable securities	331	330	429
Total Liquidity	2,698	2,596	2,234
Short-term debt	(173)	(146)	(119)
Long-term debt	(2,015)	(1,764)	(1,593)
Total financial debt	(2,188)	(1,910)	(1,712)

Net Financial Position	\$510	\$ 686	\$522
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Our Net Financial Position as of March 30, 2019 was \$510 million, decreasing compared to \$686 million at December 31, 2018.

Cash and cash equivalents amounted to \$2,307 million as at March 30, 2019.

15

Marketable securities amounted to \$331 million as at March 30, 2019, and consisted of U.S. Treasury Bonds available for sale.

Financial debt was \$2,188 million as at March 30, 2019, composed of (i) \$173 million of current portion of long-term debt and (ii) \$2,015 million of long-term debt. The breakdown of our total financial debt included (i) \$846 million in European Investment Bank (“EIB”) loans, (ii) \$1,325 million in the senior unsecured convertible bonds, and (iii) \$17 million in other long-term loans and loans from other funding programs.

The EIB Loans are comprised of three long-term amortizing credit facilities as part of our R&D funding programs. The first, signed in 2010, is a €350 million multi-currency loan to support our industrial and R&D programs. It was drawn mainly in U.S. dollars for an amount of \$321 million and only partially in Euros for an amount of €100 million, of which \$108 million remained outstanding as of March 30, 2019. The second, signed in 2013, is a €350 million multi-currency loan which also supports our R&D programs. It was drawn in U.S. dollars for an amount of \$471 million, of which \$176 million is outstanding as of March 30, 2019. The third, signed in August 2017, is a €500 million loan, in relation to R&D and capital expenditure investments in the European Union. It was fully drawn in Euros corresponding to \$562 million outstanding as of March 30, 2019.

On July 3, 2017, we issued a \$1.5 billion offering of senior unsecured bonds convertible into new or existing ordinary shares of ST, for net proceeds of \$1,502 million. The bonds were issued in two \$750 million principal amount tranches, one with a maturity of 5 years (37.5% conversion premium, negative 0.25% yield to maturity, 0% coupon) and the other 7 years (37.5% conversion premium, 0.25% yield to maturity, 0.25% coupon). The conversion price at issuance was \$20.54 on each tranche. The senior unsecured convertible bonds are convertible by the bondholders or callable by us, following a given time schedule, if certain conditions are satisfied. Under the terms of the bonds, we can satisfy the conversion rights either in cash or shares, or a combination of the two, at our selection. Assuming the exercise of the Issuer Soft Call at 130% of the Conversion Price after the initial lock-up period, the underlying shares under net shares settlement will be 16.9 million. Net proceeds from the issuance of the bonds of \$1,502 million were used for general corporate purposes, including the early redemption of the outstanding \$1 billion convertible bonds due 2019 and 2021, completed in the second half of 2017. Upon initial recognition, the proceeds were allocated between debt and equity by determining the fair value of the liability component using an income approach.

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

Our current ratings with the three major rating agencies that report on us on a solicited basis, are as follows: S&P: “BBB” with stable outlook; Moody’s: “Baa3” with stable outlook; Fitch: “BBB” with stable outlook.

	Payments Due by Period						
	Total	2019	2020	2021	2022	2023	Thereafter
	(In millions)						
Long-term debt (including current portion)	\$2,363	\$145	\$173	\$118	\$809	\$59	\$1,059

Financial Outlook: Capital Investment

Our policy is to modulate our capital spending according to the evolution of the semiconductor market. Based on current market visibility and the combination of new products, customer demand in the second half of 2019 and ongoing strategic initiatives, we are moderating our capital investment in 2019 to a range of approximately \$1.1 billion to \$1.2 billion, from \$1.2 to \$1.3 billion initially communicated. A portion of this capital expenditure will be devoted to support three strategic initiatives: i) in Agrate Italy the start of the construction of a new 300mm fab to support next generation mixed signal, IGBT and power products; ii) the expansion of the installed capacity in SiC both in front-end and back-end and the start-up of production of GaN technology in Catania 150mm and Tours 200mm and iii) next generation Image sensor technology. In addition to our strategic initiatives, our main capital investment in front-end is in i) our 300mm fab in Crolles, expanding capacity optimizing existing infrastructure to

support production ramp up on our main runner technologies; ii) mix evolution, and a few selected programs of capacity growth and infrastructure preparation, mainly in the area of mixed signal and discrete processes; and iii) capacity increase of Power MOS technology in 200mm in Singapore by the progressive integration of the former Micron fab in Singapore. The most important 2019 capital investment for our back-end facilities are expected to be: (i) capacity growth on certain package families, including the SiC technology, next generation Imaging sensor technologies and new products for Automotive and Industrial, to sustain market demand; (ii) modernization and rationalization of package lines targeting cost savings benefits; and (iii) specific investments in the areas of factory automation, quality, environment and energy savings. In addition, we will invest in overall capacity adjustment in final testing and wafers probing (EWS) to meet increased demand and a changed product mix as well as invest in quality, safety, maintenance, productivity and cost savings in both 150mm, 200mm front-end fabs and back-end plants.

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

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

We believe that we have the financial resources needed to meet our currently projected business requirements for the next twelve months, including capital expenditures for our manufacturing activities, working capital requirements, approved dividend payments and the repayment of our debts in line with their maturity dates.

Contractual Obligations, Commercial Commitments and Contingencies

Our contractual obligations, commercial commitments and contingencies are mainly comprised of: long term purchase commitments for material, equipment and software license, agreement to purchase the Singapore fab from Micron technologies, take or pay type of agreements to outsource wafers from foundries, commercial agreements with customers, long term debt obligations, pension obligations and other long term liabilities.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at March 30, 2019.

Impact of Recently Issued U.S. Accounting Standards

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

Backlog and Customers

During the first quarter of 2019, our booking plus net frames orders decreased compared to the fourth quarter of 2018. We entered the second quarter 2019 with a backlog lower than the level we had when entering in the first quarter 2019. Backlog (including frame orders) is subject to possible cancellation, push back and lower ratio of frame orders being translated into firm orders and, thus, it is not necessarily indicative of the amount of billings or growth to be registered in subsequent periods.

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

Disclosure Controls and Procedures

Evaluation

Our management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (“Disclosure Controls”) as of the end of the period covered by this report. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities and Exchange Act of 1934, such as this periodic report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of certain components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis.

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

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

Changes in Internal Control over Financial Reporting

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

Limitations on Effectiveness of Controls

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

Other Reviews

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

Cautionary Note Regarding Forward-Looking Statements

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

Changes in global trade policies, including the adoption and expansion of tariffs and trade barriers, that could affect the macro-economic environment and adversely impact the demand for our products;

Uncertain macro-economic and industry trends, which may impact end-market demand for our products;

Customer demand that differs from projections;

The ability to design, manufacture and sell innovative products in a rapidly changing technological environment;

Changes in economic, social, labor, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macro-economic or regional events, military conflicts, social unrest, labor actions, or terrorist activities;

Unanticipated events or circumstances, which may impact our ability to execute our plans and/or meet the objectives of our R&D and manufacturing programs, which benefit from public funding;

The Brexit vote and the perceptions as to the impact of the withdrawal of the U.K. may adversely affect business activity, political stability and economic conditions in the U.K., the Eurozone, the EU and elsewhere. While we do not have material operations in the U.K. and have not experienced any material impact from Brexit on our underlying business to date, we cannot predict its future implications;

Financial difficulties with any of our major distributors or significant curtailment of purchases by key customers;

The loading, product mix, and manufacturing performance of our production facilities and/or our required volume to fulfill capacity reserved with suppliers or third party manufacturing providers;

Availability and costs of equipment, raw materials, utilities, third-party manufacturing services and technology, or other supplies required by our operations;

The functionalities and performance of our IT systems, which are subject to cybersecurity threats and which support our critical operational activities including manufacturing, finance and sales, and any breaches of our IT systems or those of our customers or suppliers;

Theft, loss, or misuse of personal data about our employees, customers, or other third parties, and breaches of global and local privacy legislation, including the EU's General Data Protection Regulation ("GDPR");

The impact of intellectual property ("IP") claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;

Changes in our overall tax position as a result of changes in tax rules, new or revised legislation, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;

Variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;

The outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;

Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, or recalls by our customers for products containing our parts;

Natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, health risks and epidemics in locations where we, our customers or our suppliers operate;

Industry changes resulting from vertical and horizontal consolidation among our suppliers, competitors, and customers; and

The ability to successfully ramp up new programs that could be impacted by factors beyond our control, including the availability of critical third party components and performance of subcontractors in line with our expectations.

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward-looking terminology, such as “believes”, “expects”, “may”, “are expected to”, “should”, “would be”, “seeks” or “anticipates” or similar expressions or the negative thereof or 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 our Form 20-F as anticipated, believed or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this Form 6-K to reflect subsequent events or circumstances.

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

STMICROELECTRONICS N.V.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	Pages
Consolidated Statements of Income for the Three Months Ended March 30, 2019 and March 31, 2018 (unaudited)	F-1
Consolidated Statements of Comprehensive Income for the Three Months Ended March 30, 2019 and March 31, 2018 (unaudited)	F-2
Consolidated Balance Sheets as of March 30, 2019 (unaudited) and December 31, 2018 (audited)	F-3
Consolidated Statements of Cash Flows for the Three Months Ended March 30, 2019 and March 31, 2018 (unaudited)	F-4
Consolidated Statements of Equity (unaudited)	F-5
Notes to Interim Consolidated Financial Statements (unaudited)	F-6

STMicroelectronics N.V.
CONSOLIDATED STATEMENTS OF INCOME

	Three months ended (Unaudited)	
	March 30, 2019	March 31, 2018
In million of U.S. dollars except per share amounts		
Net sales	2,071	2,214
Other revenues	5	12
Net revenues	2,076	2,226
Cost of sales	(1,258)	(1,338)
Gross profit	818	888
Selling, general and administrative	(272)	(265)
Research and development	(368)	(349)
Other income and expenses, net	33	16
Impairment, restructuring charges and other related closure costs	-	(21)
Operating income	211	269
Interest income (expense), net	2	(3)
Other components of pension benefit costs	(3)	(3)
Income (loss) on equity-method investments	1	-
Income before income taxes and noncontrolling interest	211	263
Income tax expense	(32)	(22)
Net income	179	241
Net income attributable to noncontrolling interest	(1)	(2)
Net income attributable to parent company	178	239
 Earnings per share (Basic) attributable to parent company stockholders	 0.20	 0.27
Earnings per share (Diluted) attributable to parent company stockholders	0.20	0.26

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

STMicroelectronics N.V.
CONSOLIDATED
STATEMENTS OF
COMPREHENSIVE
INCOME

	Three months ended (Unaudited) March March 30, 31, 2019 2018	
In million of U.S. dollars		
Net income	179	241
Other comprehensive income (loss), net of tax:		
Currency translation adjustments arising during the period	(35)	49
Foreign currency translation adjustments	(35)	49
Net unrealized gains arising during the period	1	(3)
Net unrealized gains (losses) on securities	1	(3)
Net unrealized (losses) gains arising during the period	(23)	22
Less : reclassification adjustment for (income) losses included in net income	20	(34)
Net unrealized gains (losses) on derivatives	(3)	(12)
Net gains (losses) arising during the period	2	2
Defined benefit pension plans	2	2
Other comprehensive (loss) income, net of tax	(35)	36
Comprehensive income (loss)	144	277
Less : comprehensive income (loss) attributable to noncontrolling interest	1	2
Comprehensive income (loss) attributable to the company's stockholders	143	275

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

STMicroelectronics N.V.
CONSOLIDATED BALANCE SHEETS

	As at March 30, 2019 (Unaudited)	December 31, 2018 (Audited)
In million of U.S. dollars		
Assets		
Current assets:		
Cash and cash equivalents	2,307	2,266
Restricted cash	60	-
Marketable securities	331	330
Trade accounts receivable, net	1,102	1,277
Inventories	1,765	1,562
Other current assets	454	419
Total current assets	6,019	5,854
Goodwill	163	121
Other intangible assets, net	291	212
Property, plant and equipment, net	3,740	3,495
Non-current deferred tax assets	659	672
Long-term investments	62	61
Other non-current assets	455	452
	5,370	5,013
Total assets	11,389	10,867
Liabilities and equity		
Current liabilities:		
Short-term debt	173	