

STMICROELECTRONICS NV

Form 20-F

March 03, 2017

Table of Contents

As filed with the Securities and Exchange Commission on March 3, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the fiscal year ended December 31, 2016

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number: 1-13546

STMicroelectronics N.V.

(Exact name of registrant as specified in its charter)

**Not Applicable
(Translation of registrant's
name into English)**

**The Netherlands
(Jurisdiction of incorporation
or organization)**

WTC Schiphol Airport

Schiphol Boulevard 265

1118 BH Schiphol

The Netherlands

(Address of principal executive offices)

Carlo Bozotti

39, chemin du Champ des Filles

1228 Plan-Les-Ouates

Geneva

Switzerland

Tel: +41 22 929 29 29

Fax: +41 22 929 29 88

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class: **Name of Each Exchange on Which Registered:**
Common shares, nominal value 1.04 per share **New York Stock Exchange**
Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

911,030,420 common shares at December 31, 2016

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company (Do not check if a smaller reporting company)

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	4
<u>Item 2. Offer Statistics and Expected Timetable</u>	4
<u>Item 3. Key Information</u>	4
<u>Item 4. Information on the Company</u>	15
<u>Item 5. Operating and Financial Review and Prospects</u>	27
<u>Item 6. Directors, Senior Management and Employees</u>	57
<u>Item 7. Major Shareholders and Related Party Transactions</u>	73
<u>Item 8. Financial Information</u>	74
<u>Item 9. Listing</u>	75
<u>Item 10. Additional Information</u>	76
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	87
<u>Item 12. Description of Securities Other than Equity Securities</u>	89
<u>PART II</u>	
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	91
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	91
<u>Item 15. Controls and Procedures</u>	91
<u>Item 16A. Audit Committee Financial Expert</u>	93
<u>Item 16B. Code of Ethics</u>	93
<u>Item 16C. Principal Accountant Fees and Services</u>	93
<u>Item 16D. Exemptions from the Listing Standards for Audit Committees</u>	94
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	94
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	94
<u>Item 16G. Corporate Governance</u>	95
<u>PART III</u>	
<u>Item 17. Financial Statements</u>	97
<u>Item 18. Financial Statements</u>	97
<u>Item 19. Exhibits</u>	97

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report on Form 20-F (the "Form 20-F"), references to "we", "us" and "Company" are to STMicroelectronics N.V. together with its consolidated subsidiaries, references to "EU" are to the European Union, references to "€" and the "Euro" are to the Euro currency of the EU, references to the "United States" and the "U.S." are to the United States of America and references to "\$" and to "U.S. dollars" are to United States dollars. References to "mm" are to millimeters and references to "nm" are to nanometers.

We have compiled market size and our market share data in this Form 20-F using statistics and other information obtained from several third-party sources. Except as otherwise disclosed herein, all references to trade association data are references to World Semiconductor Trade Statistics ("WSTS"). Certain terms used in this Form 20-F are defined in "Certain Terms".

We report our financial statements in U.S. dollars and prepare our Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). We also report certain non-U.S. GAAP financial measures (free cash flow, adjusted diluted earnings per share and net financial position), which are derived from amounts presented in the financial statements prepared under U.S. GAAP. Furthermore, we are required by Dutch law to report our Statutory and Consolidated Financial Statements, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union. The IFRS financial statements are reported separately and can differ materially from the statements reported in U.S. GAAP.

Various amounts and percentages used in this Form 20-F have been rounded and, accordingly, they may not total 100%.

We and our affiliates own or otherwise have rights to the trademarks and trade names, including those mentioned in this Form 20-F, used in conjunction with the marketing and sale of our products.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Form 20-F that are not historical facts, particularly in "Item 3. Key Information - Risk Factors", "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects" and "Business Outlook" 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:

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;

unanticipated events or circumstances, which may impact our ability to execute the planned reductions in our net operating expenses and/or meet the objectives of our R&D programs, which benefit from public funding;

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;

the start or time to start of new products, for which we invest in manufacturing capacity, which depends on the performance or decisions of third parties, including customers, suppliers and suppliers of our customers, in addition to our own development;

the Brexit vote and the perceptions as to the impact of the withdrawal of the United Kingdom (U.K.) from the European Union which may adversely affect business activity, political stability and economic conditions in the U.K., the Eurozone, the EU and elsewhere;

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

Table of Contents

the loading, product mix and manufacturing performance of our production facilities;

the functionalities and performance of our Information Technology (IT) systems, 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;

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 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;

the ability to successfully restructure underperforming business lines and associated restructuring charges and cost savings that differ in amount or timing from our estimates;

changes in our overall tax position as a result of changes in tax laws, 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;

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;

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

industry changes resulting from vertical and horizontal consolidation among our suppliers, competitors and customers.

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 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 . 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 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 20-F 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 Securities and Exchange Commission (SEC) filings, could have a material adverse effect on our business and/or financial condition.

Table of Contents**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**Selected Financial Data**

The table below sets forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2016. Such data have been derived from our audited Consolidated Financial Statements. Audited Consolidated Financial Statements for each of the years in the three-year period ended December 31, 2016, including the Notes thereto (collectively, the Consolidated Financial Statements), are included elsewhere in this Form 20-F, while data for prior periods have been derived from our audited Consolidated Financial Statements used in such periods.

The following information should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the audited Consolidated Financial Statements and the related Notes thereto included in Item 18. Financial Statements in this Form 20-F.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(In millions except per share and ratio data)				
Consolidated Statements of Income Data:					
Net sales	\$ 6,944	\$ 6,866	\$ 7,335	\$ 8,050	\$ 8,380
Other revenues	29	31	69	32	113
Net revenues	6,973	6,897	7,404	8,082	8,493
Cost of sales	(4,518)	(4,565)	(4,906)	(5,468)	(5,710)
Gross profit	2,455	2,332	2,498	2,614	2,783
Operating expenses:					
Selling, general and administrative	(911)	(897)	(927)	(1,066)	(1,166)
Research and development	(1,336)	(1,425)	(1,520)	(1,816)	(2,413)
Other income and expenses, net	99	164	207	95	91
Impairment, restructuring charges and other related closure costs	(93)	(65)	(90)	(292)	(1,376)

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Operating income (loss)	214	109	168	(465)	(2,081)
Interest expense, net	(20)	(22)	(18)	(5)	(35)
Income (loss) on equity-method investments	7	2	(43)	(122)	(24)
Gain (loss) on financial instruments, net			(1)		3
Income (loss) before income taxes and noncontrolling interest	201	89	106	(592)	(2,137)
Income tax benefit (expense)	(31)	21	23	(37)	(51)
Net income (loss)	170	110	129	(629)	(2,188)
Net loss (income) attributable to noncontrolling interest	(5)	(6)	(1)	129	1,030
Net income (loss) attributable to parent company	165	104	128	(500)	(1,158)
Earnings per share (basic) attributable to parent company stockholders	0.19	0.12	0.14	(0.56)	(1.31)
Earnings per share (diluted) attributable to parent company stockholders	0.19	0.12	0.14	(0.56)	(1.31)
Number of shares used in calculating earnings per share (basic)	881.2	876.5	886.5	889.5	886.7
Number of shares used in calculating earnings per share (diluted)	886.3	880.6	889.8	889.5	886.7

Table of Contents

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(In millions except per share and ratio data)				
Consolidated Balance Sheets Data (end of period):					
Cash and cash equivalents	1,629	1,771	2,017	1,836	2,250
Short-term deposits				1	1
Marketable securities	335	335	334	57	238
Restricted cash		4			4
Total assets	8,008	8,195	9,004	9,173	10,434
Net assets	4,596	4,693	5,055	5,717	6,364
Short-term debt	117	191	202	225	630
Long-term debt	1,334	1,421	1,599	928	671
Total parent company stockholders' equity	4,535	4,632	4,994	5,643	6,225
Common stock and capital surplus	3,975	3,936	3,898	3,737	3,711
Other Data:					
Dividend per share	0.24	0.40	0.40	0.40	0.40
Capital expenditures, net of proceeds from sales	(607)	(467)	(496)	(531)	(476)
Net cash from operating activities	1,039	842	715	366	612
Depreciation and amortization	696	736	811	910	1,107
Debt-to-equity ratio ⁽¹⁾	0.32	0.35	0.36	0.20	0.21

(1) Debt-to-equity ratio is the ratio between our total financial debt (short-term debt, including bank overdrafts, and long-term debt) and our total parent company stockholders' equity.

Risks Related to the Semiconductor Industry which Impact Us

The semiconductor industry is cyclical and downturns in the semiconductor industry can negatively affect our results of operations and financial condition.

The semiconductor industry is cyclical and has been subject to significant downturns from time to time, as a result of global economic conditions as well as industry-specific factors, such as built-in excess capacity, fluctuations in product supply, product obsolescence and changes in end-customer preferences. Downturns are typically characterized by reduction in overall demand, accelerated erosion of selling prices, reduced revenues and high inventory levels, any of which could result in a significant deterioration of our results of operations. Such macroeconomic trends typically relate to the semiconductor industry as a whole rather than to the individual semiconductor markets to which we sell our products. To the extent that industry downturns are concurrent with the timing of new increases in production capacity or introduction of new advanced technologies in our industry, the negative effects on our business from such industry downturns may also be more severe. We have experienced revenue volatility and market downturns in the past and expect to experience them in the future, which could have a material adverse impact on our results of operations and financial condition.

We may not be able to match our production capacity to demand.

As a result of the cyclicity and volatility of the semiconductor industry, it is difficult to predict future developments in the markets we serve, and, in turn, to estimate requirements for production capacity. If our markets, major customers or certain product designs or technologies do not perform as well as we have anticipated, we risk unused capacity charges, write-offs of inventories and losses on products, and we could be required to undertake restructuring measures that may involve significant charges to our earnings. Furthermore, during certain periods, we have also

experienced increased demand in certain market segments and product technologies, which has led to a shortage of capacity and an increase in the lead times of our delivery to customers. See Item 5. Operating and Financial Review and Prospects Results of Operations Impairment, restructuring charges and other related closure costs .

Competition in the semiconductor industry is intense, and we may not be able to compete successfully if our product design technologies, process technologies and products do not meet market requirements. Furthermore, the competitive environment of the industry has resulted, and is expected to continue to result, in vertical and horizontal consolidation among our suppliers, competitors and customers, which may lead to erosion of our market share, impact our ability to compete and require us to restructure our operations.

We compete in different product lines to various degrees on certain characteristics, for example, price, technical performance, product features, product design, product availability, process technology, manufacturing

Table of Contents

capabilities and sales and technical support. Given the intense competition in the semiconductor industry, if our products do not meet market requirements based on any of these characteristics, our business, financial condition and results of operations could be materially adversely affected. Our competitors may have a stronger presence in key markets and geographic regions, greater name recognition, larger customer bases, greater government support and greater financial, research and development, sales and marketing, manufacturing, distribution, technical and other resources than we do. These competitors may be able to adapt more quickly to changes in the business environment, to new or emerging technologies and to changes in customer requirements.

The semiconductor industry is intensely competitive and characterized by the high costs associated with developing marketable products and manufacturing technologies as well as high levels of investment in production capabilities. As a result, the semiconductor industry has experienced, and is expected to continue to experience, significant vertical and horizontal consolidation among our suppliers, competitors and customers. Consolidation in the semiconductor industry could erode our market share, negatively impact our ability to compete and require us to restructure our operations.

We, and the semiconductor industry as a whole, may be impacted by changes in, or uncertainty about, global, regional and local economic, political, legal, regulatory and social environments, including as a result of curtailment of trade and other business restrictions, financial market volatility, military conflict, civil unrest and/or terrorist activities, as well as natural events such as severe weather, health risks or epidemics.

We, and the semiconductor industry as a whole, are significantly impacted by global, regional and local environments. Changes in, and uncertainty about, economic, political, legal, regulatory and social conditions pose a risk as consumers and businesses may postpone spending in response to factors such as curtailment of trade and other business restrictions, financial market volatility, interest rate fluctuations, shifts in inflationary and deflationary expectations, lower capital and productivity growth, unemployment, negative news, declines in income or asset values and/or other factors. Such global, regional and local conditions could have a material adverse effect on customer and end-market demand for our products, thus materially adversely affecting our business and financial condition.

We, and the semiconductor industry as a whole, face greater risks due to the international nature of the semiconductor business, including in the countries where we, our customers or our suppliers operate, such as:

instability of foreign governments, including the threat of war, military conflict, civil unrest, regime changes, mass migration and terrorist attacks;

natural events such as severe weather, earthquakes and tsunamis;

epidemics such as disease outbreaks, pandemics and other health related issues;

changes in, or uncertainty about, laws and policies affecting trade and investment, including following Brexit and including through the imposition of trade and travel restrictions, government sanctions, local practices which favor local companies and constraints on investment;

complex and varying government regulations and legal standards, particularly with respect to export control regulations and restrictions, customs and tax requirements, data privacy, intellectual property and anti-corruption; and

differing practices of regulatory, tax, judicial and administrative bodies, including with regards to the interpretation of laws, governmental approvals, permits and licenses.

Risks Related to Our Operations

Market dynamics have driven, and continue to drive us, to a strategic repositioning.

In recent years, we have undertaken several initiatives to reposition our business, both through divestitures and investments. Our strategies to improve our results of operations and financial condition have led us, and may in the future lead us, to acquire businesses that we believe to be complementary to our own, or to divest ourselves of or wind down activities that we believe do not serve our longer term business plans. Our potential acquisition strategies depend in part on our ability to identify suitable acquisition targets, finance their acquisition, obtain approval by our shareholders and obtain required regulatory and other approvals. Our potential divestiture strategies depend in part on our ability to compete and to identify the activities in which we should no longer engage, obtain the relevant approvals pursuant to our governance process and then determine and execute appropriate methods to divest of them.

Table of Contents

We are constantly monitoring our product portfolio and cannot exclude that additional steps in this repositioning process may be required. Furthermore, we cannot assure that any strategic repositioning of our business, including executed and possible future acquisitions or dispositions, will be successful and will not result in impairment, restructuring charges and other related closure costs.

Acquisitions and divestitures involve a number of risks that could adversely affect our operating results and financial condition, including: we may be unable to successfully integrate businesses or teams we acquire with our culture and strategies on a timely basis or at all; and we may be required to record charges related to the goodwill or other long-term assets associated with the acquired businesses. There can be no assurance that we will be able to achieve the full scope of the benefits we expect from a particular acquisition, divestiture or investment. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any acquired businesses. In addition, the financing of future acquisitions or divestitures may negatively impact our financial position, including our ability to pay a dividend, and credit rating and we could be required to raise additional funding.

Other risks associated with acquisitions include: assumption of potential liabilities, disclosed or undisclosed, associated with the business acquired, which liabilities may exceed the amount of indemnification available from the seller; potential inaccuracies in the financials of the business acquired; and our ability to retain customers of an acquired entity or business. Identified risks associated with divestitures include: loss of activities and technologies that may have complemented our remaining businesses or operations; and loss of important services provided by key employees that are assigned to divested activities.

Our high fixed costs could adversely impact our results.

Our operations are characterized by high fixed or other difficult to reduce costs, including costs related to manufacturing, particularly as we operate our own manufacturing facilities, and the employment of our highly skilled workforce. When demand for our products decreases, competition increases or we fail to forecast demand accurately, we are driven to reduce prices and we are not always able to decrease our total costs in line with resulting revenue declines. As a result, the costs associated with our operations may not be fully absorbed, leading to unused capacity charges, higher average unit costs and lower gross margins, adversely impacting our results.

Our capital needs are high compared to those competitors who do not produce their own products and we may need additional funding in the coming years to finance our investments, to purchase other companies or technologies developed by third parties or to refinance our maturing indebtedness.

As a result of our choice to maintain control of a large portion of our manufacturing technologies, we may require significant capital expenditure to maintain or upgrade our facilities in the future. We monitor our capital expenditures taking into consideration factors such as trends in the semiconductor market, customer requirements and capacity utilization. These capital expenditures may increase in the future if we decide to upgrade or expand the capacity of our manufacturing facilities. There can be no assurance that future market demand and products required by our customers will meet our expectations. We also may need to invest in other companies, in IP and/or in technology developed either by us or by third parties to maintain or improve our position in the market or to complement or expand our existing business. Failure to invest appropriately or in a timely manner could have a material adverse effect on our business and results of operations.

The foregoing may require us to secure additional financing, including through the issuance of debt, equity or both. The timing and the size of any new share or bond offering would depend upon market conditions as well as a variety of other factors. In addition, the capital markets may from time to time offer terms of financing that are particularly

favorable. We cannot exclude that we may access the capital markets opportunistically to take advantage of market conditions. Any such transaction or any announcement concerning such a transaction could materially impact the market price of our common shares. If we are unable to access capital on acceptable terms, this may adversely affect our business and results of operations.

Our financial results can be affected by fluctuations in exchange rates, principally in the value of the U.S. dollar.

Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the major portion of our revenues, while, more importantly, we incur a significant portion of our costs in currencies other than the U.S. dollar. A significant variation of the value of the

Table of Contents

U.S. dollar against the principal currencies that have a material impact on us (primarily the Euro, but also certain other currencies of countries where we have operations, such as the Singapore dollar) could result in a favorable impact, net of hedging, on our net income in the case of an appreciation of the U.S. dollar, or a negative impact, net of hedging, on our net income if the U.S. dollar depreciates relative to these currencies, in particular with respect to the Euro.

In order to reduce the exposure of our financial results to the fluctuations in exchange rates, our principal strategy has been to balance as much as possible the proportion of sales to our customers denominated in U.S. dollars with the amount of purchases from our suppliers denominated in U.S. dollars and to reduce the weight of the other costs, including depreciation, denominated in Euros and in other currencies. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have hedged certain line items on our Consolidated Statements of Income, in particular with respect to a portion of the cost of sales, the majority of the R&D expenses and certain SG&A expenses located in the Euro zone. We also hedge certain manufacturing costs, included within the cost of sales, denominated in Singapore dollars. There can be no assurance that our hedging transactions will prevent us from incurring higher Euro-denominated manufacturing costs when translated into our U.S. dollar-based accounts. See Item 5. Operating and Financial Review and Prospects Impact of Changes in Exchange Rates and Item 11. Quantitative and Qualitative Disclosures About Market Risk .

We depend on collaboration with other semiconductor industry companies, research organizations, universities and suppliers to further our R&D efforts, and our business and prospects could be materially adversely affected by the failure or termination of such alliances.

Our success depends on our ability to introduce innovative new products and technologies to the marketplace on a timely basis. In light of the high levels of investment required for R&D activities, we depend on collaborations with other semiconductor industry companies, research organizations, universities and suppliers to develop or access new technologies.

Such collaboration provides us with a number of important benefits, including the sharing of costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities. However, there can be no assurance that our collaboration efforts will be successful and allow us to develop and access new technologies in due time, in a cost-effective manner and/or to meet customer demands. If a particular collaboration terminates before our intended goals are accomplished we may incur additional unforeseen costs, and our business and prospects could be adversely affected. Furthermore, if we are unable to develop or otherwise access new technologies, whether independently or in collaboration with another industry participant, we may fail to keep pace with the rapid technology advances in the semiconductor industry, our participation in the overall semiconductor industry may decrease and we may also lose market share.

We receive public funding, and a reduction in the amount available to us or demands for repayment could increase our costs and impact our results of operations.

To support our proprietary R&D for technology investments and investments in cooperative R&D ventures, we have in the past benefited and expect to continue to benefit in the future from public funding, mainly from French, Italian and European Union governmental entities. The public funding we receive is subject to periodic review by the relevant authorities and there can be no assurance that we will continue to benefit from such programs at current levels or that sufficient alternative funding will be available if we lose such support. If any of the public funding programs we participate in are curtailed or discontinued and we do not reduce the relevant R&D costs, this could have a material adverse effect on our business. Furthermore, to receive public funding, we enter into agreements which require compliance with extensive regulatory requirements and set forth certain conditions relating to the funded programs. If we fail to meet the regulatory requirements or applicable conditions, we may, under certain circumstances, be required

to refund previously received amounts, which could have a material adverse effect on our results of operations. If there are changes in the public funding we receive, this could affect our ability to continue investing in R&D at current levels and we could experience a material adverse effect on our business, financial condition and results of operations.

Our operating results may vary significantly from quarter to quarter and annually and may also differ significantly from our expectations or guidance.

Our operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability or lead to significant variability of our operating results from one period to the next.

Table of Contents

These factors include capital requirements, inventory management, availability of funding, competition, new product developments, start of adoption of our new products by customers, technological changes, manufacturing or supplier issues and effective tax rates. In addition, in periods of industry overcapacity or when our key customers encounter difficulties in their end markets or product ramps, orders are more exposed to cancellations, reductions, price renegotiation or postponements, which in turn reduce our management's ability to forecast the next quarter or full year production levels, revenues and margins. For these reasons and others that we may not yet have identified, our revenues and operating results may differ materially from our expectations or guidance as visibility is reduced. See Item 4. Information on the Company Backlog .

Our business is dependent in large part on continued growth in the industries and segments into which our products are sold and on our ability to retain existing customers and attract new ones. A market decline in any of these industries, our inability to retain and attract customers, or customer demand for our products which differs from our projections, could have a material adverse effect on our results of operations.

The demand for our products depends significantly on the demand for our customers' end products. Growth of demand in the industries and segments into which our products are sold fluctuates significantly and is driven by a variety of factors, including consumer spending, consumer preferences, the development and acceptance of new technologies and prevailing economic conditions. Changes in our customers' markets and in our customers' respective shares in such markets could result in slower growth and a decline in demand for our products. In addition, if projected industry growth rates do not materialize as forecasted, our spending on process and product development ahead of market acceptance could have a material adverse effect on our business, financial condition and results of operations.

Our business is dependent upon our ability to retain existing customers. Our existing customers' product strategy may change from time to time and we have no certainty that our business, financial position and results of operations will not be affected. Our business is also dependent upon our ability to attract new customers. There can be no assurance that we will be successful in attracting and retaining new customers, or in adequately projecting customer demand for our products. Our failure to do so could materially adversely affect our business, financial position and results of operations.

Disruptions in our relationships with any one of our key customers or distributors, and/or material changes in their strategy or financial condition or business prospects, could adversely affect our results of operations.

A substantial portion of our sales is derived from a limited number of customers and distributors. There can be no assurance that our customers or distributors will continue to book the same level of sales with us that they have in the past, will continue to succeed in the markets they serve and will not purchase competing products over our products. Many of our key customers and distributors operate in cyclical businesses that are also highly competitive, and their own market positions may vary considerably. In recent years, some of our customers have vertically integrated their businesses. Such vertical integrations may impact our business. Our relationships with the newly formed entities could be either reinforced or jeopardized by the integration. If we are unable to maintain or increase our market share with our key customers or distributors, or if they were to increase product returns or fail to meet payment obligations, our results of operations could be materially adversely affected. Certain of our products are customized to our customers specifications. If customers do not purchase products made specifically for them, we may not be able to recover a cancellation fee from our customers or resell such products to other customers.

Our operating results can also vary significantly due to impairment of goodwill and other intangible assets incurred in the course of acquisitions and equity investments, as well as to impairment of tangible assets due to changes in the business environment.

Our operating results can vary significantly due to impairment of goodwill, other intangible assets and equity investments booked pursuant to acquisitions, joint venture agreements and the purchase of technologies and licenses from third parties. Because the market for our products is characterized by rapidly changing technologies, significant changes in the semiconductor industry, and the potential failure of our business initiatives, our future cash flows may not support the value of goodwill and other intangibles registered in our Consolidated Balance Sheets. See Item 5. Operating and Financial Review and Prospects Overview Critical Accounting Policies Using Significant Estimates Impairment of goodwill , Intangible assets subject to amortization and Income (loss) on Equity-method Investments

Table of Contents

We depend on patents to protect our rights to our technology and may face claims of infringing the IP rights of others.

We depend on patents and other IP rights to protect our products and our manufacturing processes against misappropriation by others. The process of seeking patent protection can be long and expensive, and there can be no assurance that that we will receive patents from currently pending or future applications. Even if patents are issued, they may not be of sufficient scope or strength to provide meaningful protection or any commercial advantage. In addition, effective IP protection may be unavailable or limited in some countries. Our ability to enforce one or more of our patents could be adversely affected by changes in patent laws, laws in certain foreign jurisdictions that may not effectively protect our intellectual property rights or by ineffective enforcement of laws in such jurisdictions. Competitors may also develop technologies that are protected by patents and other IP and therefore either be unavailable to us or be made available to us subject to adverse terms and conditions. We have in the past used our patent portfolio to negotiate broad patent cross-licenses with many of our competitors enabling us to design, manufacture and sell semiconductor products, without concern of infringing patents held by such competitors. We may not in the future be able to obtain such licenses or other rights to protect necessary IP on favorable terms for the conduct of our business, and such failure may adversely impact our results of operations. Such cross-license agreements expire from time to time and there is no assurance that we can or we will extend them.

We have from time to time received, and may in the future receive, communications alleging possible infringement of third party patents and other IP rights. Some of those claims are made by so-called non-practicing entities against which we are unable to assert our own patent portfolio to lever licensing terms and conditions. Competitors with whom we do not have patent cross-license agreements may also develop technologies that are protected by patents and other IP rights and which may be unavailable to us or only made available on unfavorable terms and conditions. We may therefore become involved in costly litigation brought against us regarding patents and other IP rights. See Note 23 to our Consolidated Financial Statements. IP litigation may also involve our customers who in turn may seek indemnification from us should we not prevail and/or who may decide to curtail their orders for those of our products over which claims have been asserted. Such lawsuits may therefore have a material adverse effect on our business. We may be forced to stop producing substantially all or some of our products or to license the underlying technology upon economically unfavorable terms and conditions or we may be required to pay damages for the prior use of third party IP and/or face an injunction.

The outcome of IP litigation is inherently uncertain and may divert the efforts and attention of our management and other specialized technical personnel. Such litigation can result in significant costs and, if not resolved in our favor, could materially and adversely affect our business, financial condition and results of operations.

We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules or the outcome of tax assessments and audits could cause a material adverse effect on our results.

We operate in many jurisdictions with highly complex and varied tax regimes. Changes in tax rules or the outcome of tax assessments and audits could have a material adverse effect on our results. Our tax rate is variable and depends on changes in the level of operating results 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 receive certain tax benefits in some countries, and these benefits may not be available in the future due to changes in the local jurisdictions. As a result, our effective tax rate could increase in the coming years. In addition, the acquisition or divestiture of businesses in certain jurisdictions could materially affect our effective tax rate.

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable income

that is sufficient to utilize loss carry-forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies. The recorded amount of total deferred tax assets could be reduced, resulting in a loss in our Consolidated Statement of Income, a decrease in our total assets and, consequently, in our stockholders equity, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in business condition or in management's plans or due to other factors, such as changes in tax laws and regulations.

We are subject to the possibility of loss contingencies arising out of tax claims, assessment of uncertain tax positions and provisions for specifically identified income tax exposures. We are also subject to tax audits in

Table of Contents

certain jurisdictions. There can be no assurance that we will be successful in resolving potential tax claims that result from these audits, which could result in material adjustments in our tax positions. We book provisions on the basis of the best current understanding; however, we could be required to book additional provisions in future periods for amounts that cannot currently be assessed. Our failure to do so and/or the need to increase our provisions for such claims could have a material adverse effect on our consolidated income statement and our financial position.

Our operating results depend on our ability to obtain quality supplies on commercially reasonable terms. As we depend on a limited number of suppliers for materials, equipment and technology, we may experience supply disruptions if suppliers interrupt supply, increase prices or experience material adverse changes in their financial condition.

Our ability to meet our customers' demand to manufacture our products depends upon obtaining adequate supplies of quality materials on a timely basis and on commercially reasonable terms. Certain materials are available from a limited number of suppliers or only from a limited number of suppliers in a particular region. We purchase certain materials whose prices on the world markets have fluctuated significantly in the past and may fluctuate significantly in the future. Although supplies for the materials we currently use are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. In addition, the costs of certain materials may increase due to market pressures and we may not be able to pass on such cost increases to our customers.

We also purchase semiconductor manufacturing equipment and third party licensed technology from a limited number of suppliers and providers and, because such equipment and technology are complex, it is difficult to replace one supplier or provider with another or to substitute one piece of equipment or type of technology for another. In addition, suppliers and providers may extend lead times, limit our supply, increase prices or change contractual terms related to certain manufacturing equipment and third party licensed technology, any of which could adversely affect our results. Furthermore, suppliers and technology providers tend to focus their investments on providing the most technologically advanced equipment, materials and technology and may not be in a position to address our requirements for equipment, materials or technology of older generations. Although we work closely with our suppliers and providers to avoid such shortages, there can be no assurance that we will not encounter these problems in the future.

Consolidation among our suppliers or vertical integration among our competitors may limit our ability to obtain sufficient quantities of materials, equipment and/or technology on commercially reasonable terms. If we are unable to obtain supplies of materials, equipment or technology in a timely manner or at all, or if such materials, equipment or technology prove inadequate or too costly, our results of operations could be adversely affected.

If our external silicon foundries or back-end subcontractors fail to perform, this could adversely affect our business prospects.

We currently use external silicon foundries and back-end subcontractors for a portion of our manufacturing activities. If our external silicon foundries or back-end subcontractors are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. Prices for these services also vary depending on capacity utilization rates at our external silicon foundries and back-end subcontractors, quantities demanded and product and process technology. Such outsourcing costs can vary materially and, in cases of industry shortages, they can increase significantly, negatively impacting our business prospects.

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities, disruptions or inefficient implementation of production changes that can significantly increase our costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and increasingly costly equipment and are continuously modified or maintained in an effort to improve yields and product performance and lower the cost of production. Impurities or other difficulties in the manufacturing process can lower yields, interrupt production or result in scrap. As system complexity and production changes have increased and sub-micron technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. We have from time to time experienced bottlenecks and production difficulties that have caused delivery delays and quality control problems. There can be no assurance that that we will not experience bottlenecks or production, transition or other difficulties in the future.

Table of Contents

We may experience quality problems from time to time that can result in decreased sales and operating margin and product liability or warranty claims.

We sell complex products that may not in each case comply with specifications or customer requirements or may contain design and manufacturing defects. Although our general practice is to contractually limit our liability to the repair, replacement or refund of defective products, we may face product liability, warranty, delivery failure, and/or other claims relating to our products that could result in significant expenses relating to compensation payments, product recalls or other actions to maintain good customer relationships, which could result in decreased sales and operating margin and other material adverse effects on our business. Costs or payments we may make in connection with warranty and other claims or product recalls may adversely affect our results of operations. There can be no assurance that we will be successful in maintaining our relationships with customers with whom we incur quality problems. Furthermore, if litigation occurs we could incur significant costs and liabilities to defend ourselves against such claims and, if damages are awarded against us, there can be no assurance that our insurance policies will be available or adequate to protect us against such claims.

Our computer systems and networks are subject to attempted security breaches and other cybersecurity threats, which, if successful, could adversely impact our business.

We have, from time to time, experienced attempts by others to gain unauthorized access to our computer systems and networks. The reliability and security of our information technology infrastructure and software, and our ability to expand and continually update technologies in response to our changing needs is critical to our business. In the current environment, there are numerous and evolving risks to cyber security, including criminal hackers, state-sponsored intrusions, industrial espionage, employee malfeasance, and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and those of our customers, suppliers and providers of third party licensed technology, and some of those attempts may be successful. Such breaches could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of our, our customer, or other third party data or systems, theft of sensitive or confidential data, including personal information and intellectual property, system disruptions, and denial of service. In the event of such breaches, we, our customers or other third parties could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and other financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. As these threats continue to develop and grow, we have been adapting our security measures. We continue to increase the amount we allocate to implementing, maintaining and/or updating security systems to protect data and infrastructure and to raising security awareness among those having access to our systems, but these security measures cannot provide absolute security. We may also be adversely affected by security breaches related to our equipment providers and providers of third party licensed technology. As a global enterprise, we could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection. Additionally, cyber attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to us, our customers, or other third party operations or services, financial loss, potential liability, and damage our reputation and affect our relationships with our customers and suppliers.

We may be subject to theft, loss, or misuse of personal data about our employees, customers, or other third parties, which could increase our expenses, damage our reputation, or result in legal or regulatory proceedings.

The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business could result in significantly increased security costs or costs related to defending legal claims. Global privacy legislation, including various EU directives regulating data privacy and security and the transmission of content using the Internet involving

residents of the EU, enforcement, and policy activity in this area are rapidly expanding and creating a complex compliance regulatory environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, our failure to comply with local and international privacy or data protection laws and regulations could result in proceedings against us by governmental entities or others.

Some of our production processes and materials are environmentally sensitive, which could expose us to liability and increase our costs due to environmental, health and safety laws and regulations or because of damage to the environment.

We are subject to environmental, health and safety laws and regulations that govern various aspects, including the use, storage, discharge and disposal of chemicals, gases and other hazardous substances used in our

Table of Contents

operations. Compliance with such laws and regulations could adversely affect our manufacturing costs or product sales by requiring us to acquire costly equipment, materials or greenhouse gas allowances, or to incur other significant expenses in adapting our manufacturing processes or waste and emission disposal processes. Furthermore, environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. Failure by us to control the use of, or adequately restrict the discharge of, chemicals or hazardous substances could subject us to future liabilities.

Loss of key employees could hurt our competitive position.

Our success depends to a significant extent upon our key executives and R&D, engineering, marketing, sales, manufacturing, support and other personnel. Our success also depends upon our ability to continue to attract, retain and motivate qualified personnel. The competition for such employees is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on us.

The interests of our controlling shareholder, which is in turn indirectly controlled by the French and Italian governments, may conflict with other investors' interests. In addition, our controlling shareholder may sell our existing common shares or issue financial instruments exchangeable into our common shares at any time.

We have been informed that as of December 31, 2016, STMicroelectronics Holding N.V. (ST Holding), owned 250,704,754 shares, or approximately 27.5%, of our issued common shares. ST Holding may therefore be in a position to effectively control the outcome of decisions submitted to the vote at our shareholders' meetings, including but not limited to the appointment of the members of our Managing and Supervisory Boards.

We have been informed that ST Holding's shareholders, each of which is ultimately controlled by the French or Italian government, are party to a shareholders agreement (the STH Shareholders Agreement), which governs relations between them. We are not a party to the STH Shareholders Agreement. See Item 7. Major Shareholders and Related Party Transactions - Major Shareholders . The STH Shareholders Agreement includes provisions requiring the unanimous approval by the shareholders of ST Holding before ST Holding can vote its shares in our share capital, which may give rise to a conflict of interest between our interests and investors' interests, on the one hand, and the (political) interests of ST Holding's shareholders, on the other hand. Our ability to issue new shares or other securities giving access to our shares may be limited by ST Holding's desire to maintain its shareholding at a certain level and our ability to buy back shares may be limited by ST Holding due to a Dutch law requiring one or more shareholders acquiring 30% or more of our voting rights to launch a tender offer for our outstanding shares.

The STH Shareholders Agreement also permits our respective French and Italian indirect shareholders to cause ST Holding to dispose of its stake in us at any time, thereby reducing the current level of their respective indirect interests in our common shares. Sales of our common shares or the issuance of financial instruments exchangeable into our common shares or any announcements concerning a potential sale by ST Holding could materially impact the market price of our common shares depending on the timing and size of such sale, market conditions as well as a variety of other factors.

Our shareholder structure and our preference shares may deter a change of control.

We have an option agreement in place with an independent foundation, whereby the foundation can acquire preference shares in the event of actions which the board of the independent foundation determines would be contrary to our interests, our shareholders and our other stakeholders and which in the event of a creeping acquisition or offer

for our common shares are not supported by our Managing Board and Supervisory Board. In addition, our shareholders have authorized us to issue additional capital within the limits of the authorization by our general meeting of shareholders, subject to the requirements of our Articles of Association, without the need to seek a specific shareholder resolution for each capital increase. Accordingly, an issue of preference shares or new shares may make it more difficult for a shareholder to obtain control over our general meeting of shareholders. These anti-takeover provisions could substantially impede the ability of our shareholders to benefit from a change in control and, as a result, may materially adversely affect the market price of our ordinary shares and our investors' ability to realize any potential change of control premium. See Item 7. Major Shareholders and Related Party Transactions - Major Shareholders - Preference Shares.

Table of Contents

Any decision to reduce or discontinue paying cash dividends to our shareholders could adversely impact the market price of our common shares.

On an annual basis, our Supervisory Board, upon the proposal of the Managing Board, may propose the distribution of a cash dividend to the general meeting of our shareholders. See Item 8. Dividend Policy. Any reduction or discontinuance by us of the payment of cash dividends at historical levels could cause the market price of our common shares to decline.

We are required to prepare financial statements under IFRS and we also prepare Consolidated Financial Statements under U.S. GAAP, and such dual reporting may impair the clarity of our financial reporting.

We use U.S. GAAP as our primary set of reporting standards. Applying U.S. GAAP in our financial reporting is designed to ensure the comparability of our results to those of our competitors, as well as the continuity of our reporting, thereby providing our stakeholders and potential investors with a clear understanding of our financial performance. As we are incorporated in The Netherlands and our shares are listed on Euronext Paris and on the Borsa Italiana, we are subject to EU regulations requiring us to also report our results of operations and financial statements using IFRS.

As a result of the obligation to report our financial statements under IFRS, we prepare our results of operations using both U.S. GAAP and IFRS, which are currently not consistent. Such dual reporting can materially increase the complexity of our financial communications. Our financial condition and results of operations reported in accordance with IFRS will differ from our financial condition and results of operations reported in accordance with U.S. GAAP, which could give rise to confusion in the marketplace.

There are inherent limitations on the effectiveness of our controls.

There can be no assurance that a system of internal control over financial reporting, including one determined to be effective, will prevent or detect all misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance regarding financial statement preparation and presentation. Projections of the results of any evaluation of the effectiveness of internal control over financial reporting into future periods are subject to inherent risk. The relevant controls may become inadequate due to changes in circumstances or the degree of compliance with the underlying policies or procedures may deteriorate.

Because we are subject to the corporate law of The Netherlands, U.S. investors might have more difficulty protecting their interests in a court of law or otherwise than if we were a U.S. company.

Our corporate affairs are governed by our Articles of Association and by the laws governing corporations incorporated in The Netherlands. The rights of our investors and the responsibilities of members of our Managing and Supervisory Boards under Dutch law are not as clearly established as under the rules of some U.S. jurisdictions. Therefore, U.S. investors may have more difficulty in protecting their interests in the face of actions by our management, members of our Managing and Supervisory Boards or our controlling shareholders than U.S. investors would have if we were incorporated in the United States.

Our executive offices and a substantial portion of our assets are located outside the United States. In addition, ST Holding and most members of our Managing and Supervisory Boards are residents of jurisdictions other than the United States. As a result, it may be difficult or impossible for shareholders to effect service within the United States upon us, ST Holding, or members of our Managing or Supervisory Boards. It may also be difficult or impossible for shareholders to enforce outside the United States judgments obtained against such persons in U.S. courts, or to enforce

in U.S. courts judgments obtained against such persons in courts in jurisdictions outside the United States. This could be true in any legal action, including actions predicated upon the civil liability provisions of U.S. securities laws. In addition, it may be difficult or impossible for shareholders to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon U.S. securities laws.

We have been advised by Dutch counsel that the United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. As a consequence, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, will not be enforceable in The Netherlands. However, if the party in whose

Table of Contents

favor such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to The Netherlands court the final judgment that has been rendered in the United States. If The Netherlands court finds that the jurisdiction of the federal or state court in the United States has been based on grounds that are internationally acceptable and that proper legal procedures have been observed, the court in The Netherlands would, under current practice, give binding effect to the final judgment that has been rendered in the United States unless such judgment contradicts The Netherlands public policy.

Item 4. Information on the Company History and Development of the Company

STMicroelectronics N.V. was formed and incorporated in 1987 as a result of the combination of the semiconductor business of SGS Microelettronica (then owned by Società Finanziaria Telefonica (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by the former Thomson-CSF, now Thales, a French corporation). We completed our initial public offering in December 1994 with simultaneous listings on the Bourse de Paris (now known as Euronext Paris) and the New York Stock Exchange (NYSE). In 1998, we also listed our shares on the Borsa Italiana S.p.A. (Borsa Italiana).

We operated as SGS-Thomson Microelectronics N.V. until May 1998, when we changed our name to STMicroelectronics N.V. We are organized under the laws of The Netherlands, with our corporate legal seat in Amsterdam, The Netherlands, and our head offices at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol, The Netherlands. Our telephone number there is +31-20-654-3210. Our headquarters and operational offices are managed through our wholly owned subsidiary, STMicroelectronics International N.V., and are located at 39 Chemin du Champ des Filles, 1228 Plan-Les-Ouates, Geneva, Switzerland. Our main telephone number there is +41-22-929-2929. Our agent for service of process in the United States related to our registration under the U.S. Securities Exchange Act of 1934, as amended, is Corporation Service Company (CSC), 80 State Street, Albany, New York, 12207. Our operations are also conducted through our various subsidiaries, which are organized and operated according to the laws of their country of incorporation, and consolidated by STMicroelectronics N.V.

Business Overview

We are a global independent semiconductor company that designs, develops, manufactures and markets a broad range of products, including discrete and standard commodity components, application-specific integrated circuits (ASICs), full custom devices and semi-custom devices and application-specific standard products (ASSPs) for analog, digital and mixed-signal applications. In addition, we participate in the manufacturing value chain of smartcard products, which include the production and sale of both silicon chips and Smartcards.

Our diverse product portfolio is built upon a unique, strong foundation of proprietary and differentiated leading-edge technologies. We use all of the prevalent function-oriented process technologies, including complementary metal-on silicon oxide semiconductors (CMOS), bipolar and non-volatile memory technologies. In addition, by combining basic processes, we have developed advanced systems-oriented technologies that enable us to produce differentiated and application-specific products, including our pioneering fully depleted silicon-on-insulator (FD-SOI) technology offering superior performance and power efficiency compared to bulk CMOS, bipolar CMOS technologies (Bi-CMOS) and radio frequency silicon-on-insulator (RF-SOI) for mixed-signal and high-frequency applications, and diffused metal-on silicon oxide semiconductor (DMOS) technology and bipolar, CMOS and DMOS (BCD) technologies for intelligent power applications, Silicon Carbide (SiC) for high-efficiency systems, micro-electro-mechanical systems (MEMS), embedded memory technologies and differentiated Imaging

Technologies. This broad technology portfolio, a cornerstone of our strategy, enables us to meet the increasing demand for System-on-Chip (SoC) and System-in-Package (SiP) solutions. Complementing this depth and diversity of process and design technology is our IP portfolio which we also use to enter into broad patent cross-licensing agreements with other major semiconductor companies.

For our 2016 Results of Operations, see Item 5. Operating and Financial Review and Prospects Results of Operations Segment Information .

Strategy

We are a global leader in the semiconductor market, serving a broad range of customers across different areas. Our strategy takes into account the evolution of the markets we serve and the environment and

Table of Contents

opportunities we see for the years to come. We focus on developing industry-leading products and solutions for the application areas which are expected to experience solid growth rates driven by long-term trends affecting people's lives. These trends include population ageing and concentration in cities, ubiquitous connectivity, and the need for more energy efficiency across all applications.

Our products are used in a wide variety of applications, which can be broadly grouped into three areas: automotive systems, industrial systems and consumer connected devices. We enable smarter driving by making vehicles safer, more environmentally friendly and more connected. We help make smarter homes, cities, workplaces and factories in which things can be done more efficiently and flexibly, in a more sustainable manner, safer and with a better experience for the people at the center. We enable creators of smart connected consumer devices to develop and take to market their devices quickly and efficiently. In doing this we ensure that ST is found everywhere microelectronics make a positive and innovative contribution to people's lives. By getting more from technology to get more from life, ST stands for life.augmented.

Product Information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as chips, combine multiple transistors on a single piece of material to form a complete electronic circuit. With our portfolio of semiconductor products, we serve customers across the spectrum of electronics applications with innovative solutions.

We have analog products that can be used to design any system requiring semiconductors, including sensors, signal channel devices, output power stages discrete and/or integrated as well as complete power management blocks. Complemented by a comprehensive range of general purpose and application specific microcontrollers, our analog devices can fulfill the needs of any design.

In addition, we have historically been one of the leading suppliers and innovators in the domain of semiconductor devices dedicated to automotive applications. We have a portfolio spanning complex power train, microcontrollers, audio and infotainment devices and body and convenience dedicated and standard functions as well as a broad offering of components for advanced driver assistance systems (ADAS), MEMS automotive sensors and SiC. The products designed and manufactured specifically for automotive applications are complemented by a large range of automotive grade products, both tested and guaranteed to perform under stringent automotive environmental conditions.

We also have digital products that are at the heart of electronics systems, including microcontrollers, ASICs and specialized imaging sensors. Our full set of microcontrollers includes one of the industry's broadest ranges of general-purpose devices serving all market segments, secure microcontrollers for mobile devices, wearables, banking, identification, industrial, automotive and Internet of Things (IoT) markets and a series of embedded microprocessors for various applications in industrial, computing and communications markets.

On top of the product design R&D spending, our principal investment and resource allocation decisions in the semiconductor business area are for expenditures on technology R&D as well as capital investments in front-end and back-end manufacturing facilities, which are planned at the corporate level; therefore, our product groups share common R&D for process technology and manufacturing capacity for some of their products.

Our reportable segments are as follows:

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

Analog and MEMS Group (AMG), 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, either sensors or actuators.

Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, and digital ASICs as well as restructured businesses such as set-top box ICs or former ST-Ericsson products.

Others includes all the financial values related to the Imaging Product Division (including the sensors and modules from our Time of Flight technology), Subsystems and other products, as well as items not allocated to

Table of Contents

the segments such as impairment, restructuring charges and other related closure costs, unused capacity charges, strategic or special research and development programs and other minor unallocated expenses such as: certain corporate-level operating expenses, patent claims and litigation, and other costs that are not allocated to the segments.

Below is a description of our main categories of products.

Automotive and Discrete Group (ADG)

Dedicated Automotive ICs

We are a top automotive semiconductor vendor supplying solutions to leading suppliers of carmakers worldwide. We combine an unparalleled platform of advanced technologies with an unswerving commitment to quality, and a thorough understanding of the automotive market gained through close collaboration with leading customers. Our automotive-solutions portfolio covers all key application areas in the car: Powertrain, Chassis, Safety and Security, including ADAS, Body Electronics and Infotainment.

For powertrain, we provide silicon solutions for the full range of engine-management systems: from motorbikes and scooters to the most advanced drive-by-wire solutions. Developments in engine management are driven by both government emission regulations and energy concerns. We continue to work closely with major automotive OEMs, as we have for years, to reduce fuel consumption via advanced technologies such as Variable Valve Timing and Gasoline Direct Injection. Thanks to the cooperation with certain leading car makers, our microcontrollers are currently in the electrical engines of leading hybrid cars.

With regards to Chassis, we provide a broad range of solutions to increase vehicle-occupant safety, including devices for airbags, anti-lock brakes, traction control, electric power steering and suspension systems. We are a leading supplier of chips for automotive airbags and anti-lock braking systems, which currently represent the largest portion of automotive safety electronics.

We are a leading player in advanced driver assistance systems (ADAS) that help avoid or minimize the severity of traffic accidents. We manufacture leading-edge products for vision and radar (both short range 24GHz and long range 77GHz) based systems that assist the driver with capabilities such as lane-departure warning, forward-collision warning, vision/radar fusion and pedestrian detection. We are also working on our first-generation modular offering for V2X (vehicle-to-vehicle and vehicle-to-infrastructure) as we progress toward semi- and fully-autonomous vehicles.

Today's car body electronics involve a myriad of inter-networked electronic systems, from dome and door-zone controls, HVAC (heating, ventilation, and air-conditioning) systems, and seat controls to wiper and lighting controls. The penetration of electronics in the car is increasing all the time, as are the requirements for improved reliability and diagnostic capabilities. We address the concept of the smart junction box, which is an intelligent power and switching center for the vehicle that integrates functions and features from exterior and cabin lighting to wipers, with a comprehensive architecture that consists of upgradable hardware and software modules. And with our proprietary VIPower silicon technology and thorough application knowledge, we have become the market leader in automotive lighting electronics, offering solutions for both exterior and interior lighting, from incandescent bulbs to LED- or HID (High-Intensity Discharge)-based systems.

Our car infotainment and navigation portfolio includes complete turnkey solutions for digital radio, navigation and telematics, and wireless connectivity in the car. We have leveraged our more than 20 years at the forefront of AM/FM radio technology to lead in digital radio. We produce all of the semiconductor components for car radios from the

tuner through the baseband to multimedia processing and playback and the Company's car-radio systems are optimized for harsh reception environments and minimized power consumption. Our portfolio of products for navigation also includes a family of System-on-Chip solutions capable of receiving signals from multiple satellite navigation systems, including BeiDou, GPS, GALILEO, GLONASS and QZSS, to improve user position accuracy and navigation in poor satellite visibility conditions, such as in urban canyons.

Discrete and Power Transistor

Discrete and power transistors families include both power products and protection devices serving mainly Industrial, Power Management, Telecom, Computer & Peripherals as well as automotive applications.

Table of Contents

Leading-edge power technologies for both high-voltage and low-voltage applications combined with a full package range and innovative die bonding technologies exemplify our innovation in power transistors. Our portfolio includes MOSFETs ranging from -500 to 1500 V, silicon carbide (SiC) MOSFETs featuring the industry's highest temperature rating of 200 °C, IGBTs with breakdown voltages ranging from 350 to 1300 V and a wide range of power bipolar transistors. Our portfolio of protection devices supports all industry requirements for electrical overstress and electrostatic surge protection, lightning surge protection and automotive protection. Our protection devices have passed all certifications, meeting or exceeding international protection standards for electrical hazards on electronics boards found in the demanding automotive, computer, consumer, industrial and telecom markets.

Analog and MEMS Group (AMG)

Analog, Smart Power, Low Power RF, Touch Screen Controllers

We develop a broad range of innovative Power, Smart Power and Analog ICs, to serve markets such as those relating to smart grid, cloud computing, automation, portable and power conversion. These product families include: Industrial, covering motion control, digital power conversion, energy management and lighting ICs as well as AC-DC power supply and industrial analog ASSP; Custom Analog ICs, which are mainly power management ICs (PMIC) for data storage, server and portable power management devices; and General Purpose Analog, which is high end analog front end products as well as RF ICs.

We also develop a comprehensive range of operational amplifiers (both low-voltage and high-voltage), comparators and current-sense amplifiers. In addition to our portfolio of mainstream op amps and comparators, we offer specific products for healthcare, industrial, and automotive applications, as well as a range of high-performance products specifically designed to meet the strict requirements of the wearable market.

Our connectivity ICs range from wireline to wireless solutions. We optimize our products for reliability of the communication channel and low power consumption. For wireline communication, we offer a complete family of transceivers compatible with different protocol standards used in the industry (PRIME, Meters and More, IEC 61334-5-1, CAN and others). Our ultra-low power wireless solutions include Sub-1GHz RF chips (aka SPIRIT Family), latest generation Bluetooth Low Energy (aka BLENRG Family) and Wi-Fi technologies. We sell to OEMs and Mass Market both Standard and Dedicated RF solutions, either chips or certified modules.

Our FingerTip® family of Touch Screen Controllers provides true multi-touch capability, supporting unlimited simultaneous touches, and it is optimized for the extreme low power consumption. FingerTip also enhances multi-touch actions such as pinch-to-zoom, supports stylus operations and is compatible with both flat and curved display panel.

MEMS Sensors and Actuators

Our MEMS portfolio encompasses both Sensors and Actuators. We sell our MEMS products in all market application fields, including mobile, gaming, computer, automotive, Industrial, healthcare and IoT.

MEMS Sensors include Motion MEMS (Accelerometers, Gyroscopes, Magnetic Sensors), Environmental Sensors (pressure, humidity and temperature) and Microphones. We offer a unique sensor portfolio, from discrete to fully-integrated solutions, high performance sensor fusion to improve the accuracy of multi-axis sensor systems in order to enable highly-demanding applications, such as indoor navigation and location-based services, optical image stabilization and high-level quality products.

MEMS Actuators include: i) Thermal and Piezoelectric actuators for 2D and 3D Printing in Consumer, Commercial and Industrial market applications; ii) Piezoelectric Actuators for Auto Focus application in the Mobile Market; and iii) Piezoelectric, Electrostatic and Electromagnetic actuators for emerging VR/AR applications, ultra-low power depth cameras and LIDAR Systems for assisted Smart Driving.

Microcontrollers and Digital ICs Group (MDG)

Microcontroller, Memory & Secure MCU

We have microcontrollers dedicated to general purpose and secure applications as well as small density serial non-volatile memories. Our product portfolio contains a comprehensive range of microcontrollers, from robust, low-cost 8-bit microcontrollers up to 32-bit ARM[®]-based Cortex[®]-M0 and M0+, Cortex[®]-M3, Cortex[®]-M4, Cortex[®]-M7 Flash microcontrollers with a wide choice of peripherals. We have also extended this range to include an ultra-low-power MCU platform.

Table of Contents

The STM32 family of 32-bit Flash microcontrollers based on the ARM® Cortex®-M processor is designed to offer new degrees of freedom to microcontroller users. It offers a 32-bit product range that combines very high performance, real-time capabilities, digital signal processing, and low-power, low-voltage operation, while maintaining full integration and ease of development.

The unparalleled and large range of STM32 devices, based on an industry-standard core and accompanied by a vast choice of tools and software, makes this family of products an ideal choice, both for small projects and for entire platform decisions.

We offer leading products for secure applications in traditional smartcard applications and embedded security applications. Throughout our 20+ year presence in the smartcard security industry, we have supplied the market's most advanced technologies and solutions, with a continuous focus on innovation and the highest levels of security certification. Our expertise in security is a key to our leadership in the banking, pay-TV, mobile communication, identity, and transport fields. We also actively contribute to the emergence of new applications such as secure mobile transactions on near field communication (NFC) mobile phones, trusted computing, brand protection, etc. Our secure microcontroller product portfolio offers compliance with the latest security standards up to Common Criteria EAL6+, ICAO, and TCG1.2. Our secure microcontrollers cover a complete range of interfaces for both contact and contactless communication, including ISO 7816, ISO 14443 Type A & B, NFC, USB, SPI and I²C.

Our secure-microcontroller platforms rely on a highly-secure architecture combined with leading edge CPUs, such as ARM's SC300 and SC000, and advanced embedded non-volatile memory technologies such as 40-nm embedded Flash and 90-nm embedded EEPROM technologies.

We offer a wide range of small density serial non-volatile memories. The serial EEPROM family ranges from 1 Kbit to 2 Mbits and offers different serial interfaces: I²C, SPI, Microwire. The wide range of products are also automotive compliant, and thin packages are available for applications where space is critical.

RF memory and transceiver products are based on the 13.56 MHz carrier frequency and are also compatible with the NFC technology. We offer one of the most comprehensive portfolios, which includes NFC/RFID transceivers, Dynamic NFC/RFID tags (also known as Dual Interface EEPROM) and Standalone RFID tags and Readers.

Digital ASICs

We offer digital, including our proprietary FD-SOI technology and mixed-process ASICs for a broad range of applications, including silicon photonics devices, addressing communications infrastructure systems. Our family of embedded microprocessor units (MPUs) offers high levels of computation power for complex, networked communication, display and control applications, using state-of-the-art architecture, silicon technology and intellectual property.

Others

Specialized Imaging Sensors

We also have a broad portfolio of imaging solutions, including technology we have developed and patented, such as FlightSense™. Our FlightSense™ technology uses Time-of-Flight principles in order to propose a new generation of high-accuracy proximity and ranging sensors. FlightSense™ technology can be used in a host of application areas such as communication and consumer, home appliance, automotive and industrial, where accurate ranging, that is target reflectance independent, is required, as conventional infrared proximity sensor devices cannot output an

absolute range measure in the same manner.

Alliances with Customers and Industry Partnerships

We believe that alliances with customers and industry partnerships are critical to success in the semiconductor industry. Customer alliances provide us with valuable systems and application know-how and access to markets for key products, while allowing our customers to gain access to our process technologies and manufacturing infrastructure. We are actively working to expand the number of our customer alliances, targeting OEMs in the United States, in Europe and in Asia.

Table of Contents

From time to time we collaborate with other semiconductor industry companies, research organizations, universities and suppliers to further our R&D efforts. Such collaboration provides us with a number of important benefits, including the sharing of costs, reductions in our own capital requirements, acquisitions of technical know-how and access to additional production capacities.

Customers and Applications

We design, develop, manufacture and market thousands of products that we sell to thousands of customers. We emphasize balance in our product portfolio, in the applications we serve and in the regional markets we address. Our major customers include Apple, Bosch, Cisco, Conti, Delta, Hewlett-Packard, Huawei, Samsung, Seagate and Western Digital. To many of our key customers we provide a wide range of products, including application-specific products, discrete devices, memory products and programmable products. Our broad portfolio helps foster close relationships with customers, which provides opportunities to supply such customers' requirements for multiple products, including discrete devices, programmable products and memory products. We also sell our products through distributors and retailers.

Sales, Marketing and Distribution

Our sales and marketing is organized by a combination of country/area coverage and key accounts coverage with the primary objective being to accelerate sales growth and gain market share, particularly with regards to: strengthening the effectiveness of the development of our global accounts; boosting demand creation through an enhanced focus on geographical coverage; and establishing regional sales and marketing teams that are fully aligned with our product lines.

We have three regional sales organizations: EMEA; Americas; and Asia Pacific. Our regional sales organizations have a similar structure to enhance coordination in go-to-market activities and are strongly focused on revenue growth. The sales and marketing activities performed by our regional sales organizations are supported by product marketing that is carried out by each product group, which also includes product development functions. This matrix system reinforces our sales and marketing activities and our broader strategic objectives. An important component of our regional sales and marketing efforts is to expand our customer base, which we seek to do by adding sales representatives, regional competence centers and new generations of electronic tools for customer support.

We also have our Mass Market and Online Marketing Programs organization, which helps to provide consistency and coordination of key activities associated with mass market development by working in close co-operation with the regions and product lines. This organization covers several important responsibilities, such as mass market customer programs, mass market applications, global distribution administration, online marketing and mass market tools enablement.

In addition, we engage distributors and sales representatives to distribute our products around the world. Typically, distributors handle a wide variety of products, including those that compete with ours, and fulfill orders and service many of our customers. Most of our sales to distributors are made under agreements allowing for price protection and/or the right of return on unsold merchandise. We generally recognize revenues upon the transfer of ownership of the goods at the contractual point of delivery. Sales representatives, on the other hand, generally do not offer products that compete directly with our products, but may carry complementary items manufactured by others. Sales representatives do not maintain a product inventory. Their customers place large quantity orders directly with us and are referred to distributors for smaller orders.

At the request of certain of our customers, we also sell and deliver our products to electronics manufacturing services (EMS) companies, which, on a contractual basis with our customers, incorporate our products into the application specific products they manufacture for our customers. Certain customers require us to hold inventory on consignment in their hubs and only purchase inventory when they require it for their own production. This may lead to delays in recognizing revenues, as revenue recognition will occur, within a specific period of time, at the actual withdrawal of the products from the consignment inventory, at the customer's option.

For a breakdown of net revenues by segment and geographic region for the last three fiscal years, see Item 5. Operating and Financial Review and Prospects .

Research and Development

Since our creation, we have maintained a solid commitment to R&D. Almost one-fifth of our employees work in R&D for product design/development and technology and, in 2016, we spent approximately 19% of our

Table of Contents

net revenue on R&D. Our innovation in semiconductor technology as well as in hardware and software contribute to our making successful products that create value for us and our customers. Our complete design platforms, including a large selection of IPs and silicon-proven models and design rules, enable the fast development of products designed to meet customer expectations in terms of reliability, quality, competitiveness in price and time-to-market. We contribute to making our customers' products more efficient, more appealing, more reliable and safer.

We draw on a rich pool of chip fabrication technologies, including advanced FD-SOI, CMOS, specialized imaging, embedded non-volatile memories, mixed-signal, analog and MEMS and power processes. We combine front-end manufacturing and technology R&D under the same organization to ensure a smooth flow of information between the R&D and manufacturing organizations. We leverage significant synergies and shared activities between our product groups to cross-fertilize them. Technology R&D expenses are allocated to the relevant product groups on the basis of the estimated efforts.

We have advanced R&D centers which offer us a significant advantage in quickly and cost effectively introducing products. Furthermore, we have established a strong culture of partnership and through the years have created a network of strategic collaborations with key customers, suppliers, competitors, and leading universities and research institutes around the world. See Item 4. Information on the Company Alliances with Customers and Industry Partnerships. We also play leadership roles in numerous projects running under the European Union's IST (Information Society Technologies) programs and we also participate in certain R&D programs established by the EU, individual countries and local authorities in Europe (primarily in France and Italy). See Item 4. Information on the Company Public Funding.

We believe that market driven R&D founded on leading edge products and technologies is critical to our success. We devote significant effort to R&D because we believe such investment can be leveraged into competitive advantages. New developments in semiconductor technology can make end products significantly cheaper, smaller, faster, more reliable and embedded than their predecessors, with differentiated functionalities. They can enable significant value creation opportunities with their timely appearance on the market. The total amount of our R&D expenses in the past three fiscal years was \$1,336 million, \$1,425 million and \$1,520 million in 2016, 2015 and 2014, respectively. For more information on our R&D expenses, see Item 5. Operating and Financial Review and Prospects Results of Operations Research and Development Expenses.

Property, Plants and Equipment

We currently operate 13 main manufacturing sites around the world. The table below sets forth certain information with respect to our current manufacturing facilities, products and technologies. Front-end manufacturing facilities are fabs and back-end facilities are assembly, packaging and final testing plants.

Location	Products	Technologies
Front-end facilities		
Crolles1, France	Application-specific products	Fab: 200 mm manufacturing on CMOS and Bi-CMOS, Analog/RF technologies
Crolles2, France	Application-specific products and leading edge logic products; non-volatile memories and microcontrollers	Fab: 300 mm research and development and manufacturing on advanced CMOS Bulk and FD-SOI, Time of Flight, imaging, Analog/RF, embedded non-volatile memories and microcontrollers

		technologies
Agrate, Italy ⁽¹⁾	Non-volatile memories, microcontrollers and application-specific products MEMS	Fab 1: 200 mm BCD, MEMS, Microfluidics Fab 2: 200 mm, embedded Flash, research and development on non-volatile memories and BCD technologies.
Rousset, France	Non-volatile memories and microcontrollers, application-specific products	200 mm manufacturing on CMOS, embedded non-volatile memories, EEPROM and Analog/RF technologies
Catania, Italy ⁽²⁾	Power transistors, Smart Power and analog ICs and application-specific products, MEMS	Fab 1: 150 mm Power metal-on silicon oxide semiconductor process technology (MOS), VIPpower™, MO-3, MO-5, SiC and Pilot Line RF Fab 2: 200 mm, Microcontrollers, Advanced BCD, power MOS

Table of Contents

Location	Products	Technologies
Tours, France ⁽³⁾	Protection thyristors, diodes and ASD power transistors, IPAD	Fab: 125 mm, 150 mm and 200 mm (under ramp-up)
Ang Mo Kio, Singapore	Analog, microcontrollers, power transistors, commodity products, non-volatile memories, and application-specific products	Fab 1: 150 mm-bipolar, power MOS and BCD, EEPROM, smartcard, microcontrollers, CMOS logic, microfluidics, MEMS, Bi-CMOS Fab 2: 200 mm BCD and Power MOS (under ramp-up)
Back-end facilities		
Muar, Malaysia	Application-specific and standard products, microcontrollers	Ball Grid Array, Power Automotive, SOIC, QFP
Kirkop, Malta	Application-specific products, MEMS, Embedded Flash for Automotive	Ball and Land Grid Array, QFP
Toa Payoh, Singapore	Packaging research and development, EWS	
Bouskoura, Morocco	Non-volatile memories, discrete and standard products, micro modules, RF and subsystems	Power, Power Automotive, SOIC, Micromodules
Shenzhen, China ⁽⁴⁾	Non-volatile memories, optical packages, discrete, application-specific and standard products	SOIC, Power, Power Automotive, Optical Sensors
Calamba, Philippines	Application specific products and standard products, MEMS	Ball and Land Grid Array, QFN, Micromodules, Optical Sensors Module

(1) The consortium with Micron ended in June 2016.

(2) Fab 1 in Catania will be progressively converted into 200 mm and merged with Fab 2. A portion of Fab 1 will remain in 150 mm and will be devoted to SiC.

(3) Fab 125 mm in Tours will be progressively converted into 150 mm and merged with the existing Fab 150 mm.

(4) Jointly owned with SHIC, a subsidiary of Shenzhen Electronics Group.

At the end of 2016, our front-end facilities had a total maximum capacity of approximately 120,000 200 mm equivalent wafer starts per week. The number of wafer starts per week varies from facility to facility and from period to period as a result of changes in product mix. Our advanced 300 mm wafer fabrication facility in Crolles, France is expanding within existing infrastructure capacity to support the production ramp up of new technologies.

We own all of our manufacturing facilities, but certain facilities (Muar, Malaysia; Shenzhen, China; and Toa Payoh and Ang Mo Kio, Singapore) are built on land, which are the subject of long-term leases.

We have historically subcontracted a portion of total manufacturing volumes to external suppliers. In 2016, we purchased approximately 8% from external foundries of our total silicon production. Our plan is to continue sourcing

silicon from external foundries to give us flexibility in supporting our growth.

At December 31, 2016, we had approximately \$402 million in outstanding commitments for purchases of equipment and other assets for delivery in 2017. In 2016, our capital spending, net of proceeds, was \$607 million compared to \$467 million in 2015. In the 2014-2016 period the ratio of capital investment spending to net revenues was about 7.4%. For more information, see Item 5. Operating and Financial Review and Prospects Financial Outlook: Capital Investment .

Intellectual Property (IP)

Our success depends in part on our ability to obtain patents, licenses and other IP rights to protect our proprietary technologies and processes. IP rights that apply to our various products include patents, copyrights,

Table of Contents

trade secrets, trademarks and mask work rights. We currently own approximately 16,000 patents and pending patent applications, corresponding to over 9,500 patent families (each patent family containing all patents originating from the same invention), including approximately 500 original new patent applications filed in 2016.

We believe that our IP represents valuable assets. We rely on various intellectual property laws, confidentiality procedures and contractual provisions to protect our IP assets and enforce our IP rights. To optimize the value of our IP assets, we have engaged in licensing our design technology and other IP, including patents, when consistent with our competitive position and our customers' interests. We have also entered into broad-scope cross-licenses and other agreements which enable us to design, manufacture and sell semiconductor products using the IP rights of third parties and/or operating within the scope of IP rights owned by third parties.

From time to time, we are involved in IP litigation and infringement claims. See Note 23 and Item 3. Key Information Risk Factors . Regardless of the validity or the successful assertion of such claims, we may incur significant costs with respect to the defense thereof, which could have a material adverse effect on our results of operations, cash flow or financial condition.

Backlog

Our sales are made primarily pursuant to standard purchase orders that are generally booked from one to twelve months in advance of delivery. Quantities actually purchased by customers, as well as prices, are subject to variations between booking and delivery and, in some cases, to cancellation due to changes in customer needs or industry conditions. During periods of economic slowdown and/or industry overcapacity and/or declining selling prices, customer orders are not generally made far in advance of the scheduled shipment date. Such reduced lead time can reduce management's ability to forecast production levels and revenues. When the economy rebounds, our customers may strongly increase their demands, which can result in capacity constraints due to our inability to match manufacturing capacity with such demand.

In addition, our sales are affected by seasonality, with the first quarter generally showing lowest revenue levels in the year, and the third or fourth quarter historically generating higher amounts of revenues.

We also sell certain products to key customers pursuant to frame contracts. Frame contracts are annual contracts with customers setting forth quantities and prices on specific products that may be ordered in the future. These contracts allow us to schedule production capacity in advance and allow customers to manage their inventory levels consistent with just-in-time principles while shortening the cycle times required to produce ordered products. Orders under frame contracts are also subject to a high degree of volatility, because they reflect expected market conditions which may or may not materialize. Thus, they are subject to risks of price reduction, order cancellation and modifications as to quantities actually ordered resulting in inventory build-ups.

Furthermore, developing industry trends, including customers' use of outsourcing and their deployment of new and revised supply chain models, may reduce our ability to forecast changes in customer demand and may increase our financial requirements in terms of capital expenditures and inventory levels.

We entered 2016 with a backlog lower than we had entering 2015. For 2017, we entered the year with a backlog higher than what we had entering 2016.

Competition

Markets for our products are intensely competitive. While only a few companies compete with us in all of our product lines, we face significant competition in each of them. We compete with major international semiconductor companies. Smaller niche companies are also increasing their participation in the semiconductor market, and semiconductor foundry companies have expanded significantly, particularly in Asia. Competitors include manufacturers of standard semiconductors, ASICs and fully customized ICs, including both chip and board-level products, as well as customers who develop their own IC products and foundry operations. Some of our competitors are also our customers. We compete in different product lines to various degrees on the basis of price, technical performance, product features, product system compatibility, customized design, availability, quality and sales and technical support. In particular, standard products may involve greater risk of competitive pricing, inventory imbalances and severe market fluctuations than differentiated products. Our ability to compete successfully depends on elements both within and outside our control, including successful and timely development of new products and manufacturing processes, product performance and quality, manufacturing yields and product availability, customer service, pricing, industry trends and general economic trends.

Table of Contents

The semiconductor industry is intensely competitive and characterized by the high costs associated with developing marketable products and manufacturing technologies as well as high levels of investment in production capabilities. As a result, the semiconductor industry has experienced, and is expected to continue to experience, significant vertical and horizontal consolidation among our suppliers, competitors and customers, which could lead to erosion of our market share, impact our capacity to compete and require us to restructure our operations. See Item 3 Key Information Risk Factors .

Organizational Structure and History

We are organized in a matrix structure with geographic regions interacting with product lines, both supported by shared technology and manufacturing operations and by central functions, designed to enable us to be closer to our customers and to facilitate communication among the R&D, production, marketing and sales organizations.

While STMicroelectronics N.V. is the parent company, we also conduct our operations through service activities from our subsidiaries. We provide certain administrative, human resources, legal, treasury, strategy, manufacturing, marketing and other overhead services to our consolidated subsidiaries pursuant to service agreements for which we recover the cost.

The following table lists our consolidated subsidiaries and our percentage ownership as of December 31, 2016:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Australia, Sydney	STMicroelectronics PTY Ltd	100
Austria, Vienna	STMicroelectronics Austria GmbH	100
Belgium, Diegem	Proton World International N.V.	100
Brazil, Sao Paulo	South America Comércio de Cartões Inteligentes Ltda	100
Brazil, Sao Paulo	STMicroelectronics Ltda	100
Canada, Ottawa	STMicroelectronics (Canada), Inc.	100
China, Beijing	STMicroelectronics (Beijing) R&D Co. Ltd	100
China, Shanghai	STMicroelectronics (Shanghai) Co. Ltd	100
China, Shanghai	STMicroelectronics (China) Investment Co. Ltd	100
China, Shenzhen	Shenzhen STS Microelectronics Co. Ltd	60
China, Shenzhen	STMicroelectronics (Shenzhen) R&D Co. Ltd	100
Czech Republic, Prague	STMicroelectronics Design and Application s.r.o.	100
Finland, Nummela	STMicroelectronics Finland OY	100
France, Crolles	STMicroelectronics (Crolles 2) SAS	100
France, Grenoble	STMicroelectronics (Alps) SAS	100
France, Grenoble	STMicroelectronics (Grenoble 2) SAS	100
France, Le Mans	STMicroelectronics (Grand Ouest) SAS	100
France, Montrouge	STMicroelectronics S.A.	100
France, Rousset	STMicroelectronics (Rousset) SAS	100
France, Tours	STMicroelectronics (Tours) SAS	100
Germany, Aschheim-Dornach	STMicroelectronics GmbH	100

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Germany, Aschheim-Dornach	STMicroelectronics Application GmbH	100
Holland, Amsterdam	STMicroelectronics Finance B.V.	100
Holland, Amsterdam	STMicroelectronics Finance II N.V.	100
Holland, Amsterdam	STMicroelectronics International N.V.	100
Hong Kong	STMicroelectronics Ltd	100
India, New Delhi	STMicroelectronics Marketing Pvt Ltd	100
India, Noida	STMicroelectronics Pvt Ltd	100
Israel, Netanya	STMicroelectronics Ltd	100
Italy, Agrate Brianza	STMicroelectronics S.r.l.	100
Italy, Catania	CO.R.I.M.ME.	100
Italy, Naples	STMicroelectronics Services S.r.l.	100
Italy, Torino	ST-POLITO Scarl	75
Japan, Tokyo	STMicroelectronics KK	100

Table of Contents

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Malaysia, Kuala Lumpur	STMicroelectronics Marketing SDN BHD	100
Malaysia, Muar	STMicroelectronics SDN BHD	100
Malta, Kirkop	STMicroelectronics (Malta) Ltd	100
Mexico, Guadalajara	STMicroelectronics Marketing, S. de R.L. de C.V.	100
Morocco, Casablanca	Electronic Holding S.A.	100
Morocco, Casablanca	STMicroelectronics S.A.S. (Maroc)	100
Philippines, Calamba	STMicroelectronics, Inc.	100
Philippines, Calamba	Mountain Drive Property, Inc.	40
Singapore, Ang Mo Kio	STMicroelectronics Asia Pacific Pte Ltd	100
Singapore, Ang Mo Kio	STMicroelectronics Pte Ltd	100
Slovenia, Ljubljana	STMicroelectronics d.o.o.	100
Spain, Barcelona	STMicroelectronics Iberia S.A.	100
Sweden, Kista	STMicroelectronics A.B.	100
Switzerland, Geneva	STMicroelectronics S.A.	100
Switzerland, Geneva	INCARD S.A.	100
Switzerland, Geneva	ST New Ventures S.A.	100
Thailand, Bangkok	STMicroelectronics (Thailand) Ltd	100
United Kingdom, Bristol	STMicroelectronics (Research & Development) Limited	100
United Kingdom, Marlow	Inmos Limited	100
United Kingdom, Marlow	STMicroelectronics Limited	100
United Kingdom, Marlow	Synad Technologies Limited	100
United States, Coppel	STMicroelectronics Inc.	100
United States, Coppel	Genesis Microchip Inc.	100
United States, Coppel	Genesis Microchip (Delaware), Inc.	100
United States, Coppel	Genesis Microchip LLC	100
United States, Coppel	Genesis Microchip Limited Partnership	100
United States, Coppel	Sage Inc.	100
United States, Coppel	Faroudja, Inc.	100
United States, Coppel	Faroudja Laboratories Inc.	100
United States, Coppel	STMicroelectronics (North America) Holding, Inc.	100

The following table lists our principal equity-method investments and our percentage ownership as of December 31, 2016:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
Brazil, Sao Paulo	Incard do Brazil Ltda	50.0
Switzerland, Geneva	ST-Ericsson SA, in liquidation	50.0

We receive funding mainly from French, Italian and European Union governmental entities. Such funding is generally provided to encourage R&D activities, industrialization and local economic development. Public funding in France, Italy and Europe generally is open to all companies, regardless of their ownership or country of incorporation. The conditions for receipt of government funding may include eligibility restrictions, approval by EU authorities, annual budget appropriations, compliance with European Union regulations, as well as specifications regarding objectives and results. The approval process for such funding may be quite long, up to several years. Certain specific contracts require compliance with extensive regulatory requirements and set forth certain conditions relating to the funded programs. There could be penalties if these objectives are not fulfilled. Other contracts contain penalties for late deliveries or for breach of contract, which may result in repayment obligations. Our funding programs are classified under three general categories: funding for research and development activities, capital investment, and loans. We also benefit from tax credits for R&D activities in several countries (notably in France) as they are generally available to all companies. See Item 5. Operating and Financial Review and Prospects Results of Operations and the Notes to our Consolidated Financial Statements.

Table of Contents

The main programs for R&D in which we are involved include: (i) Pan-European program on Nanoelectronics Technology and Applications (PENTA); (ii) EU R&D projects within Horizon 2020 (the European Union's research and innovation framework); (iii) Electronic Components and Systems for European Leadership (ECSEL) initiative, which combines all electronics related R&D activities and is operated by joint undertakings formed by the European Union, some member states and industry; and (iv) national or regional programs for R&D and for industrialization in the electronics industries involving many companies and laboratories. The pan-European programs cover a period of several years, while national or regional programs in France and Italy are subject mostly to annual budget appropriation.

In our role as Coordinator and Project Leader of Nano2017, we have been allocated an overall funding budget of about 400 million for the period 2013-2017, subject to the conclusion of agreements every year with the public authorities and linked to the achievement of technical parameters and objectives. See Item 5. Operating and Financial Review and Prospects. We believe the Nano2017 R&D program will strengthen our leadership in key technologies such as FD-SOI (low-power, high-performance processing), imagers and photonic sensors and embedded non-volatile memories. These technologies are at the core of our digital portfolio which includes, among others, microcontrollers, imaging, analog and mixed signal, digital automotive and ASICs. We have no visibility whether a new multi-year program for R&D funding in France or in other countries could be adopted beyond 2017, based on our future R&D plan and available instruments. See Item 3 Key Information Risk Factors.

Suppliers

We use three main critical types of suppliers in our business: equipment suppliers, material suppliers and external silicon foundries and back-end subcontractors. We also purchase third party licensed technology from a limited number of providers.

In the front-end process, we use steppers, scanners, tracking equipment, strippers, chemo-mechanical polishing equipment, cleaners, inspection equipment, etchers, physical and chemical vapor-deposition equipment, implanters, furnaces, testers, probers and other specialized equipment. The manufacturing tools that we use in the back-end process include bonders, burn-in ovens, testers and other specialized equipment. The quality and technology of equipment used in the IC manufacturing process defines the limits of our technology. Demand for increasingly smaller chip structures means that semiconductor producers must quickly incorporate the latest advances in process technology to remain competitive. Advances in process technology cannot occur without commensurate advances in equipment technology, and equipment costs tend to increase as the equipment becomes more sophisticated.

Our manufacturing processes use many materials, including silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases. The prices of many of these materials are volatile due to the specificity of the market. We have therefore adopted a multiple sourcing strategy designed to protect us from the risk of price increases. The same strategy applies to supplies for the materials used by us to avoid potential material disruption of essential materials. Our multiple sourcing strategy, our Financial Risk Monitoring (FRISK) as well as the robustness of our supply chain and strong partnership with suppliers are intended to mitigate these risks.

Finally, we also use external subcontractors to outsource wafer manufacturing, as well as assembly and testing of finished products. See Property, Plants and Equipment above.

Environmental Matters

We are subject to a variety of environmental, health and safety laws and regulations in the jurisdictions where we operate which govern, among other things, the use, storage, discharge and disposal of chemicals and other hazardous

substances, emissions and wastes, as well as the investigation and remediation of soil and ground water contamination. We are also required to obtain environmental permits, licenses and other forms of authorization, or give prior notification, in order to operate.

We adopt a rigorous approach to managing our business operations in an environmentally responsible way. Consistent with our sustainability strategy, we have established proactive environmental policies with respect to the handling of chemicals, emissions, waste disposals and other substances of concern from our manufacturing operations. Company-wide we are certified to be in compliance with quality standard ISO 9001. Across our manufacturing activities and supply chain, we implement the highest standards. The majority of our sites are ISO 14001 certified and EMAS (Eco Management and Audit Scheme) validated. Furthermore, all of our front-end manufacturing sites are ISO 50001 certified.

Table of Contents

We believe that in 2016 our activities complied with then-applicable environmental regulations in all material respects. We have engaged outside consultants to audit all of our environmental activities and have created environmental management teams, information systems and training. We have also instituted environmental control procedures for processes used by us as well as our suppliers. In 2016, there were no material environmental claims made against us.

Item 5. Operating and Financial Review and Prospects Overview

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto included elsewhere in this 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 , Liquidity and Capital Resources and 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 . 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 U.S. GAAP requires us to make estimates and assumptions. The primary areas that require significant estimates and judgments by us include, but are not limited to:

sales returns and allowances;

inventory obsolescence reserves and normal manufacturing capacity thresholds to determine costs capitalized in inventory;

recognition and measurement of loss contingencies;

valuation at fair value of assets acquired or sold, including intangibles, goodwill, investments and tangible assets;

annual and trigger-based impairment review of goodwill and intangible assets, as well as the assessment, in each reporting period, of events, which could trigger impairment testing on long-lived assets;

estimated value of the consideration to be received and used as fair value for asset groups classified as assets held for sale and the assessment of probability of realizing the sale;

assessment of other-than-temporary impairment charges on financial assets, including equity-method investments;

recognition and measurement of restructuring charges and other related exit costs;

assumptions used in assessing the number of awards expected to vest on stock-based compensation plans;

assumptions used in calculating pension obligations and other long-term employee benefits; and

determination of the amount of taxes expected to be paid and tax benefit expected to be received, including deferred income tax assets, valuation allowance and provisions for uncertain tax positions and claims.

We base the estimates and assumptions on historical experience and on various other factors such as market trends, market information used by market participants and the latest available business plans 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, the actual results we experience could differ materially and adversely from our estimates.

Table of Contents

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) collection is reasonably assured. Our revenue recognition 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. 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 change in the current market price. We record the accrued amounts as a deduction of revenue at the time of our sale. The short outstanding inventory time period, our visibility into the inventory product pricing and our long distributor pricing history, have enabled us to reliably estimate price protection provisions at period-end. 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, which could adversely impact our profitability. From time to time terms of protection to distributors could be extended in respect to the standard term in which cases we accordingly accrue a specific provision against billing to defer the revenues recognition.

Our customers occasionally return our products for technical reasons. Our standard terms and conditions of sale provide that if we determine that products do not conform, we will repair or replace the non-conforming products, or issue a credit note or rebate of the purchase price. In certain cases, when the products we have supplied have been proven to be defective, we have agreed to compensate our customers for claimed damages in order to maintain and enhance our business relationship. Quality returns are usually associated with end-user customers, not with distribution channels. Quality returns are identified shortly after sale in customer quality control testing. We provide for such returns using past history and current conditions to form a reasonable estimate of future returns. We record the accrued amounts as a reduction of revenue.

Our insurance policy relating to product liability covers third party physical damage and bodily injury and indirect financial damages as well as immaterial non-consequential damages caused by defective products. However, 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 for damages, and that such claims usually must be submitted within a short period of time 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 that gave rise to the claims.

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 terms and conditions which require judgments. In such cases, following the guidance related to revenue recognition, the arrangement consideration is allocated to the different elements based on their respective selling prices determined using vendor-specific objective evidence, third party evidence or our best estimates of the selling price of the separable deliverables and the applicable revenue recognition criteria are applied to each of the separate elements. These arrangements generally do not include performance-, cancellation-, termination-, or refund-type provisions.

Trade accounts receivable. 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 an allowance accordingly. Furthermore, we evaluate our customers' financial condition periodically and record an allowance for any specific account we consider as doubtful. In 2016, we did not record any new material specific charge related to doubtful customers. 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.

Business combinations and goodwill. The purchase accounting method applied to business combinations requires extensive use of estimates and judgments to allocate the purchase price to the fair value of the identifiable assets acquired and liabilities assumed. If the assumptions and estimates used to allocate the purchase

Table of Contents

price are not correct or if business conditions change, purchase price adjustments or future asset impairment charges could be required. On July 28, 2016, we completed a transaction to acquire ams (SIX: AMS) assets and workforce related to Near-Field Communication (NFC) and Radio-frequency identification (RFID) Reader business. The acquired business, combined with our secure microcontrollers, positions us for a significant growth opportunity, with a complete portfolio of best-in-class technologies, products and competencies that comprehensively address the full range of the NFC and RFID markets for a wide customer base. The purchase consideration included a cash payment of \$78 million plus earn-out contingent to future results up to \$37 million and the acquisition resulted in \$42 million goodwill recognition. At December 31, 2016, the value of goodwill in our Consolidated Balance Sheet amounted to \$116 million.

Impairment of goodwill. Goodwill recognized in business combinations is not amortized but is tested for impairment annually in the third quarter, or more frequently if a triggering event indicating a possible impairment exists. Goodwill subject to potential impairment is tested at a reporting unit level. 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, significant management judgments and estimates are used in forecasting the future discounted cash flows associated with the reporting unit, including: the applicable industry's sales volume forecast and selling price evolution, the reporting unit's market penetration and its revenues evolution, the market acceptance of certain new technologies and products, the relevant cost structure, the discount rates applied using a weighted average cost of capital and the perpetuity rates used in calculating cash flow terminal values. Our evaluations are based on financial plans updated with the latest available projections of the semiconductor market, 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 prove to be incorrect, and future adverse changes in market conditions, changes in strategies, lack of performance of major customers or operating results of acquired businesses that are not in line with our estimates may require impairments.

We performed our annual impairment test of goodwill during the third quarters of 2016, 2015 and 2014 and concluded that there was no impairment. Impairment charges could result from new valuations triggered by changes in our product portfolio or strategic alternatives, particularly in the event of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the current carrying value.

Intangible assets subject to amortization. Intangible assets subject to amortization include intangible assets purchased from third parties recorded at cost and intangible assets acquired in business combinations recorded at fair value, comprised of technologies and licenses, and computer software. Intangible assets with finite useful lives are reflected net of any impairment losses and are amortized over their estimated useful life. We evaluate the carrying value of intangible assets with finite useful lives whenever changes in circumstances indicates that the carrying amount might not be recoverable. An impairment loss is recognized in the Consolidated Statements of Income for the amount by which the carrying amount exceeds fair value. We evaluate the remaining useful life of an intangible asset at each reporting date to determine whether events and circumstances warrant a revision to the remaining period of amortization. Our evaluations are based on financial plans updated with the latest available projections of growth in the semiconductor market and our sales expectations. They 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 us to recognize impairment charges on certain intangible assets.

During 2016, we impaired \$4 million of acquired technologies for which it was determined that they had no alternative future use. During 2015, we impaired certain intangible assets amounting to \$6 million, due to the fact that their projected cash flows, over their remaining useful life, were less than their carrying value. Additionally, we recognized impairments for \$7 million and \$3 million of acquired technologies in the third and fourth quarter of 2015 respectively, for which we determined that they had no alternative future use. During 2014, we recorded impairment charges of \$24 million, primarily on digital dedicated intangible assets.

We will continue to monitor the carrying value of our assets. If market conditions deteriorate, this could result in future non-cash impairment charges against earnings. Further impairment charges could also result from new valuations triggered by changes in our product portfolio or by strategic transactions, particularly in the event

Table of Contents

of a downward shift in future revenues or operating cash flows in relation to our current plans or in case of capital injections by, or equity transfers to, third parties at a value lower than the one underlying the carrying amount.

At December 31, 2016, the value of intangible assets subject to amortization in our Consolidated Balance Sheet amounted to \$195 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, the largest component of our long-lived assets, to be six years, except for our 300 mm manufacturing equipment whose useful life is estimated to be ten years. This estimate is based on our experience using the equipment over time. Depreciation expense is a major element of our manufacturing cost structure. We begin to depreciate newly acquired equipment when it is placed into service.

We evaluate each reporting period if there is reason to suspect impairment on tangible assets or groups of assets held for use and we perform an impairment review when there is reason to suspect that the carrying value of these long-lived assets might not be recoverable, particularly in case of a restructuring plan. If we identify events or changes in circumstances which are indicative that the carrying amount is not recoverable, we 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 and adjust, if appropriate, the assets' useful lives at each reporting date or when impairment indicators are identified. Assets classified as held for sale are reported as current assets in the Consolidated Balance Sheets at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated. In 2016, 2015 and 2014, no impairment charge was recorded on property, plant and equipment. The impairment on the assets held for sale amounted to \$3 million for the year ended December 31, 2016 and was nil in the years ended December 31, 2015 and 2014.

Our evaluations are based on financial plans updated with the latest projections of growth in the semiconductor market and 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 future growth differs from the estimates used in our plans, in terms of both market growth and production allocation to our manufacturing plants, this could require a further review of the carrying amount of our tangible assets and result in a potential impairment loss.

Inventory. Inventory is stated at the lower of cost or market value. Cost is based on the weighted average cost by adjusting the standard cost to approximate actual manufacturing costs on a quarterly basis; therefore, the cost is dependent on our manufacturing performance. In the case of underutilization of our manufacturing facilities, we estimate the costs associated with the unused capacity. These costs are not included in the valuation of inventory but are charged directly to cost of sales in the Consolidated Statements of Income. Market value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and cost of completion.

We perform, on a continuous basis, inventory write-offs of products, which have the characteristics of slow-moving, old production dates and technical obsolescence. The valuation of inventory requires us to estimate a reserve for obsolete or slow-selling inventory as well as inventory that is not of saleable quality. Reserve for obsolescence is estimated for excess uncommitted inventories based on the previous quarters' 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 record additional inventory reserve, which would have a negative impact on our gross margin.

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 we have a present obligation and the amount can be reasonably estimated. Given the significance and timing of

Table of Contents

the execution of our restructuring activities, the process is complex and involves periodic reviews of estimates made at the time the original decisions were taken. This process can require a significant amount of time due to requisite governmental and customer approvals and our capability to transfer technology and know-how to other locations. As we operate in a highly cyclical industry, we monitor and evaluate business conditions on a regular basis. If broader or newer initiatives, which could include production curtailment or closure of other manufacturing facilities, were to be taken, we may incur additional charges as well as change estimates of the 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 2016, the restructuring charges and other related closure costs amounted to \$85 million before taxes, mainly in connection with our set-top box restructuring plan. In 2015 and 2014, the restructuring charges and other related closure costs amounted to \$49 million and \$66 million before taxes, respectively.

Share-based compensation. We measure the cost of share-based service awards based on the fair value of the awards as of the grant date reflecting the market price of the underlying shares at the date of the grant, reduced by the present value of the dividends expected to be paid on the shares during the requisite service period. Our share-based service awards are granted to senior executives and selected employees. While the awards granted to selected employees are subject to a three-year service period, the awards granted to the senior executives are subject to both a three-year service period and the fulfillment of certain performance conditions, including our financial results when compared to industry performance. The expense is recognized over the requisite service period. In 2016, approximately one-half of the total amount of shares awarded were granted to senior executives and consequently were contingent on the achievement of performance conditions. In order to determine share-based compensation to be recorded for the period, we use significant estimates on the number of awards expected to vest, including the probability of achieving the fixed performance conditions including those relating to industry performance compared to our financial results, and our best estimates of award forfeitures and employees' service periods. Our assumptions related to industry performance are generally taken with a one quarter lag in line with the availability of market information. In 2016, 2015 and 2014, we recorded a total charge of approximately \$38 million, \$38 million and \$36 million relating to our outstanding stock award plans, respectively.

Income (loss) on Equity-method Investments. We record our share in the results of entities that we account for under the equity method. This recognition is based on results reported by these entities, relying on their internal reporting systems to measure financial results. In case of triggering events, such as continuing difficult market conditions, which could lead to continued operating losses and negative cash flows, or in the case of a strategic repositioning by one or more of our partners, we determine whether our investment is temporarily or other-than-temporarily impaired. If impairment is considered to be other-than-temporary, we need to assess the fair value of our investment and record an impairment charge directly in earnings when fair value is lower than the carrying value of the investment. We make this assessment by evaluating the business on the basis of the most recent plans and projections or to the best of our estimates. In 2016, we recognized an income of \$7 million related to our equity investments, compared to an income of \$2 million for the year ended December 31, 2015. For the year ended December 31, 2014, we reported a loss of \$43 million for the equity-method investments. We monitor our equity investments on an ongoing basis and, if required, other-than-temporary impairment charges could negatively impact our future results. As of December 31, 2016, the value in our Consolidated Balance Sheets of our equity investments was \$45 million, reported in the line Long-term investments .

Financial assets. We classify our financial assets in the following two categories, trading and available-for-sale. Such classification depends on the purpose for which the financial assets are acquired. We determine the classification of our financial assets at initial recognition. Unlisted equity securities with no readily determinable fair value are carried at cost; they are neither classified as trading nor as available-for-sale financial assets.

Trading and available-for-sale financial assets are measured at fair value. The fair value of quoted debt and equity securities is based on current market prices. If the market for a financial asset is not active, if no observable market price is obtainable, we measure fair value by using assumptions and estimates. In measuring fair value, we make maximum use of market inputs and minimize the use of unobservable inputs. As of December 31, 2016, the value in our Consolidated Balance Sheet of our financial assets was \$335 million invested in U.S. Treasury Bonds classified as assets available-for-sale.

Income taxes. We make estimates and judgments in determining income tax for the period, comprising current and deferred income tax. We need to assess the income tax expected to be paid or the tax benefit expected to be received related to the current year taxable profit and loss in each individual tax jurisdiction and recognize

Table of Contents

deferred income tax for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the Consolidated Financial Statements. Furthermore, we assess all material open income tax positions in all tax jurisdictions to determine any uncertain tax positions, and to record a provision for those that are not more likely than not to be sustained upon examination by the taxing authorities, which could require potential tax claims or assessments in various jurisdictions. In such an event and in case any tax assessment exceeds our provisions, we could be required to record additional charges in our accounts, which could significantly exceed our best estimates and our existing provisions. As of December 31, 2016, we had \$238 million of uncertain tax positions.

We also assess the likelihood of realization of our deferred tax assets originated by our net operating loss carry forwards. The ultimate realization of deferred tax assets is dependent upon, among other things, our ability to generate future taxable profit available against loss carry forwards or tax credits before their expiration or our ability to implement prudent and feasible tax planning strategies or the possibility to settle uncertain tax positions against available net operating loss carry forwards or similar tax losses and credits. We record a valuation allowance against the deferred tax assets when we consider it is more likely than not that the deferred tax assets will not be realized.

As of December 31, 2016, we had current deferred tax assets of \$95 million and non-current deferred tax assets of \$437 million, net of valuation allowances.

We could be required to record further valuation allowances thereby reducing the amount of total deferred tax assets, resulting in an increase of our income tax charge, if our estimates of projected future taxable income and benefits from available tax strategies are reduced as a result of a change in business conditions or in management's plans or due to other factors, or if changes in current tax regulations are enacted that impose restrictions on the timing or extent of our ability to utilize net operating losses and tax credit carry-forwards in the future. Likewise, a change in the tax rates applicable in the various jurisdictions or unfavorable outcomes of any ongoing tax audits could have a material impact on our future tax provisions in the periods in which these changes could occur.

Pension and Post-Employment Benefits. Our Consolidated Statements of Income and our Consolidated Balance Sheets include amounts for pension obligations and post-employment benefits that are measured using actuarial valuations. At December 31, 2016, our pension and post-employment benefit obligations net of plan assets amounted to \$347 million. These valuations are based on key assumptions, including discount rates, expected long-term rates of return on funds, turnover rates and salary increase rates. These assumptions used in the determination of the net periodic benefit cost 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. The measurement date we use for our plans is December 31.

As a consequence of our decision to downsize our United Kingdom (UK) operations in 2014, we have proposed that the UK pension schemes (the Bristol Scheme and the Marlow Scheme) be merged, which will generate moderate funding savings and provide the Trustees with additional security. The merger of the two schemes is still under discussion with the Trustees and is not expected to materially change our pension liabilities.

Patent and other Intellectual Property (IP) litigation or claims. We record a provision when we believe that it is probable that a liability has been incurred at the date of the Consolidated Financial Statements and the amount of the loss can be reasonably estimated. We regularly evaluate losses and claims to determine whether they need to be adjusted based on current information available to us. Such estimates are difficult to the extent that they are largely dependent on the status of ongoing litigation that may vary based on positions taken by the court with respect to issues submitted, demands of opposing parties, changing laws, discovery of new facts or other matters of fact or law. As of December 31, 2016, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to

either probable or possible risks. 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, facts or communications, unexpected rulings or changes in the law, this could have a material adverse effect on our results of operations or financial condition at the time it were to materialize. We are in discussion with several parties with respect to claims against us relating to possible infringement of IP rights. We are also involved in certain legal proceedings concerning such issues. See Item 8. Financial Information - Legal Proceedings and Note 23 to our Consolidated Financial Statements.

Table of Contents

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 beyond assessed uncertain tax positions as well as claims for environmental damages. We are also exposed to numerous legal risks which until now have not resulted in legal disputes and proceedings. These include risks related to product recalls, environment, anti-trust, anti-corruption and competition as well as other compliance regulations. We may also face claims in the event of breaches of law committed by individual employees or third parties. In determining loss contingencies, we consider the likelihood of a loss of an asset or the occurrence 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 re-evaluate any losses and claims and determine whether our provisions need to be adjusted based on the current information available to us. As of December 31, 2016, based on our current evaluation of ongoing litigation and claims we face, we have not estimated any amounts that could have a material impact on our results of operations and financial condition with respect to either probable or possible risks. In the event we are unable to accurately estimate the amount of such loss in a correct and timely manner, this could have a material adverse effect on our results of operations or financial condition at the time such loss was to materialize. For further details of our legal proceedings refer to Item 8. Financial Information Legal Proceedings and Note 23 to our Consolidated Financial Statements.

Fiscal Year 2016

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. In 2016, the first quarter ended on April 2, the second quarter ended on July 2, the third quarter ended on October 1 and the fourth quarter ended on December 31. In 2017, the first quarter will end on April 1, the second quarter will end on July 1, the third quarter will end on September 30 and the fourth quarter will end on December 31. 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 2015, 2016 and 2017.

	Q1	Q2	Q3	Q4
	Days			
2015	87	91	91	96
2016	93	91	91	91
2017	91	91	91	92

2016 Business Overview

Our results of operations for each period were as follows:

	Year ended December 31,		Three Months Ended		
	2016	2015	December 31, 2016	October 1, 2016	December 31, 2015
	(In millions, except per share amounts)		(Unaudited, in millions, except per share amounts)		
Net revenues	\$ 6,973	\$ 6,897	\$ 1,859	\$ 1,797	\$ 1,668
Gross profit	2,455	2,332	698	643	559

Gross margin as percentage of net revenues.	35.2%	33.8%	37.5%	35.8%	33.5%
Operating income	214	109	129	90	25
Net income attributable to parent company	165	104	112	71	2
Diluted earnings per share	\$ 0.19	\$ 0.12	\$ 0.13	\$ 0.08	\$ 0.00

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 industry data published by WSTS, semiconductor industry revenues in 2016 increased on a year-over-year basis by approximately 1% and approximately 4% for the TAM and the SAM, to reach approximately \$339 billion and \$156 billion, respectively. In the fourth quarter of 2016, both TAM and the SAM increased on a year-over-year basis by approximately 12%. Sequentially, in the fourth quarter of 2016, the TAM and the SAM increased by approximately 5% and 1%, respectively.

Table of Contents

In 2016, our revenues grew 1.1% compared to 2015. After a weak start to the year, reflecting both market and specific product transitions, revenues grew 6.5% in the second half of 2016 compared to the same period in the prior year. Importantly, by leveraging our strategic focus on Smart Driving and Internet of Things, we recorded year-over-year sales growth in the second half of 2016 across all of our product groups excluding discontinued businesses. Throughout 2016 we also further strengthened our technology and product portfolio, accelerating innovation and time-to-market to reinforce our leadership. Overall, we have improved our operating profitability through the combination of revenue growth, gross margin expansion and operating expense control.

In the fourth quarter we continued to see sustained demand, resulting in revenues and gross margin exceeding the midpoint of our guidance. Net revenues grew 3.5% sequentially and 11.5% year-over-year; our gross margin of 37.5% increased substantially both sequentially and year-over-year. Compared to the served market, our quarterly performance was above the SAM sequentially and slightly below on a year-over-year basis.

Our effective average exchange rate was \$1.11 for 1.00 for the full year 2016, compared to \$1.17 for 1.00 for the full year 2015. Our effective average exchange rate for the fourth quarter of 2016 was \$1.10 for 1.00, compared to \$1.12 for 1.00 for the third quarter of 2016 and \$1.11 for 1.00 in the fourth quarter of 2015. 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 2016 gross margin improved 140 basis points to 35.2% from 33.8% in 2015 mainly benefiting from manufacturing efficiencies, favorable currency effects, net of hedging, lower unused capacity charges and improved product mix partially offset by normal price pressure.

Our fourth quarter 2016 gross margin was 37.5%, 50 basis points above the midpoint of our guidance, and included about 20 basis points of unused capacity charges. Gross margin increased 170 basis points sequentially and 400 basis points year-over-year, in both cases on improved manufacturing efficiencies, lower unused capacity charges and improved product mix partially offset principally by normal price pressure.

Our operating expenses, comprised of SG&A and R&D expenses, amounted to \$2,247 million in 2016, decreasing by about 3% from \$2,322 million in the prior year, mainly reflecting lower R&D costs due to favorable currency effects, net of hedging, the benefits of the set-top box restructuring plan, and the savings plan completed in 2015. Our fourth quarter 2016 operating expenses experienced a sequential increase of about 5% mainly due to seasonality and increased level of R&D activity. On a year-over-year basis, our fourth quarter operating expenses decreased by approximately 2% mostly due to favorable currency effects, net of hedging, lower calendar days in the quarter and the cost reduction resulting from our savings plans.

Other income and expenses, net, in 2016 decreased to \$99 million from \$164 million in the prior year, mainly due to a lower level of R&D grants and a reduced gain from sale of non-strategic assets.

Impairment and restructuring charges were \$93 million in 2016 compared to \$65 million in 2015 and principally related to the set-top box restructuring plan. Impairment and restructuring charges in the fourth quarter were \$24 million compared to \$29 million in the prior quarter, both mostly related to the set-top box restructuring plan announced in January 2016. We continued to make progress on the restructuring of the set-top box business. Exiting 2016, the restructuring plan was on track and achieved about \$110 million of the total \$170 million of targeted annualized savings expected upon completion.

Operating income increased substantially in 2016 to \$214 million from \$109 million in 2015, mainly due to higher gross profit. Similarly, operating income before impairment and restructuring charges also increased sharply to

\$307 million, compared to \$174 million in 2015, reflecting favorable currency effects, net of hedging, manufacturing efficiencies, improved product mix, and lower operating expenses, partially offset mainly by price pressure and lower R&D grants. Fourth quarter operating income was \$129 million compared to \$90 million and \$25 million in the prior and year-ago quarter, respectively. Fourth quarter operating income before impairment and restructuring charges improved sequentially to \$153 million or 8.2% of revenues, from \$119 million or 6.6%, mainly due to higher revenues and gross profit, partially offset by higher operating expenses. On a year-over-year basis, operating income before impairment and restructuring charges improved by \$124 million mainly due to higher revenues, improved product mix, manufacturing efficiencies and fab loading, as well as the cost reduction resulting from our savings plans.

Full year 2016 net income increased 58% to \$165 million, equivalent to \$0.19 per share, compared to net income of \$104 million, or \$0.12 per share for the full year 2015.

Table of Contents

Capital expenditure payments, net of proceeds from sales, were \$228 million and \$607 million during the fourth quarter and full year of 2016, respectively. Full year 2015 capital expenditures were \$467 million. Combined capital expenditures for the years 2015-2016 were 7.7% as a percentage of combined net revenues.

During 2016, our net cash decreased by \$142 million, with net cash from operating activities reaching \$1,039 million. During 2016, we paid cash dividends to shareholders totaling \$251 million and used \$191 million of cash for long-term debt repayment.

Our free cash flow, a non-US GAAP measure, amounted to \$312 million (or \$390 million before the NFC and RFID reader assets acquisition of \$78 million) compared to \$327 million in 2015. Refer to Liquidity and Capital Resources for the reconciliation of the free cash flow, a non-US GAAP measure, to our cash flow statement.

Business Outlook

Based on market forecasts, a positive booking trend, and a strong point-of-sales performance at our distributors, we see the momentum of the second half of 2016 to continue entering 2017. We expect our first quarter to reflect better than normal seasonality, with a sequential net revenues decline of about 2.4%, plus or minus 3.5 percentage points. On a year-over year basis, this would translate into a net revenues growth of about 12.5% at the mid-point. We expect a gross margin of about 37.0%, plus or minus 2.0 percentage points.

This outlook is based on an assumed effective currency exchange rate of approximately \$1.08= 1.00 for the 2017 first quarter and includes the impact of existing hedging contracts. The first quarter will close on April 1, 2017.

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 herein.

Other Developments

In October 2016 we extended for another 10-year period the existing option agreement with Stichting Continuïteit ST, an independent Dutch foundation. For more information on the option agreement see Item 7. Major Shareholders and Related Party Transactions Preference Shares.

On August 23, 2016 we published our IFRS 2016 Semi Annual Accounts for the six-month period ended July 2, 2016 on our website and filed them with the AFM (Autoriteit Financiële Markten), the Netherlands Authority for the Financial Markets.

On July 29, 2016, we acquired ams (SIX: AMS) assets related to Near-Field Communication (NFC) and Radio-Frequency Identification (RFID) Reader business. We acquired intellectual property, technologies, products and business highly complementary to our secure microcontroller solutions serving mobile devices, wearables, banking, identification, industrial, automotive and IoT markets. The ams assets were acquired in exchange for a (i) cash payment of \$77.8 million (funded with available cash), and (ii) deferred earn-out contingent on future results, which we currently estimate at about \$12 million but which in any case will not exceed \$37 million.

On May 26, 2016 we announced the publication of our 2015 Sustainability Report.

On May 25, 2016 all of the proposed resolutions were adopted at our Annual General Meeting of Shareholders, held in Amsterdam. The main resolutions, approved by the shareholders, were:

The adoption of the Company's Statutory Annual Accounts for the year ended December 31, 2015, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union;

The distribution of a cash dividend of US\$0.24 per outstanding share of the Company's common stock, to be distributed in quarterly installments of US\$0.06 in each of the second, third and fourth quarters of 2016 and first quarter of 2017 to shareholders of record in the month of each quarterly payment;

Table of Contents

The appointment of Mr. Salvatore Manzi as a member of the Supervisory Board, for a three-year term expiring at the 2019 Annual General Meeting of Shareholders, in replacement of Mr. Alessandro Ovi whose mandate expired as of the 2016 Annual General Meeting of Shareholders;

The reappointment of Ms. Janet Davidson as a member of the Supervisory Board for a three-year term, expiring at the 2019 Annual General Meeting of Shareholders;

The 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 for a period of eighteen months; and

The authorization to our Managing Board, for eighteen months following the 2016 Annual General Meeting of Shareholders, to repurchase our shares, subject to the approval of our Supervisory Board.

On January 27, 2016, after an extensive review of external and internal options for the future of our set-top box business, we announced the discontinuation of the development of new platforms and standard products for set-top box and home gateway. The slower than expected market adoption of leading-edge products and increasing competition on low-end boxes, combined with the required high level of R&D investment, has led this business to generate significant losses in the course of the last years. As a result of this, we announced a global workforce review, including:

the redeployment of about 600 employees, currently associated with the set-top box business, to support principally ST's growth ambitions in digital automotive and microcontrollers;

a global workforce re-alignment that may affect approximately 1,400 employees worldwide, of which about 430 in France through a voluntary departure plan, about 670 in Asia and about 120 in the US. Deployment of the plan by country or site is subject to applicable legislation and depends on local negotiations. In 2016, the workforce re-alignment affected about 860 employees, out of which about 220 in France.

Annualized savings are estimated at \$170 million upon completion and restructuring costs at about \$170 million. At the end of the year ended December 31, 2016, the restructuring plan was on track and in the fourth quarter of 2016 achieved a yearly run rate of savings of about \$110 million out of the total \$170 million of targeted annualized savings expected upon completion.

On January 27, 2016, we also announced the change to our organization, to align with our strategic focus on Smart Driving and on Internet of Things applications. Three product Groups were established, reporting to the President & CEO: Automotive and Discrete Group (ADG), led by Marco Monti; Microcontrollers and Digital ICs Group (MDG), led by Claude Dardanne, and Analog and MEMS Group (AMG), led by Benedetto Vigna.

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 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 include the production and sale of both silicon chips and Smartcards.

During the first quarter of 2016, our internal organization changed to align with our strategic focus on Smart Driving and on Internet of Things applications. Comparative numbers were restated accordingly.

Our reportable segments are as follows:

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

Analog and MEMS Group (AMG), 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, either sensors or actuators.

Table of Contents

Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, and digital ASICs as well as restructured businesses such as set-top box ICs or former ST-Ericsson products.

Others includes all the financial values related to the Imaging Product Division (including the sensors and modules from our Time of Flight technology), Subsystems and other products, as well as items not allocated to the segments such as impairment, restructuring charges and other related closure costs, unused capacity charges, strategic or special research and development programs and other minor unallocated expenses such as: certain corporate-level operating expenses, patent claims and litigation, and other costs that are not allocated to the segments.

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 chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to our business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the U.S. GAAP guidance.

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, including impairment, restructuring charges and other related closure costs, 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 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 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.

Annual Results of Operations

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

	2016		2015		2014	
	\$ million	% of net revenues	\$ million	% of net revenues	\$ million	% of net revenues
Net sales	\$ 6,944	99.6%	\$ 6,866	99.6%	\$ 7,335	99.1%
Other revenues	29	0.4	31	0.4	69	0.9
Net revenues	6,973	100	6,897	100	7,404	100
Cost of sales	(4,518)	(64.8)	(4,565)	(66.2)	(4,906)	(66.3)
Gross profit	2,455	35.2	2,332	33.8	2,498	33.7
Selling, general and administrative	(911)	(13.0)	(897)	(13.0)	(927)	(12.5)
Research and development	(1,336)	(19.2)	(1,425)	(20.7)	(1,520)	(20.5)
Other income and expenses, net	99	1.4	164	2.4	207	2.8
Impairment, restructuring charges and other related closure costs	(93)	(1.3)	(65)	(0.9)	(90)	(1.2)

Operating income	214	3.1	109	1.6	168	2.3
Interest expense, net	(20)	(0.3)	(22)	(0.3)	(18)	(0.2)
Income (loss) on equity-method investments	7	0.1	2	0.0	(43)	(0.6)
Loss on financial instruments, net					(1)	(0.0)
Income before income taxes and noncontrolling interest	201	2.9	89	1.3	106	1.4
Income tax benefit (expense)	(31)	(0.4)	21	0.3	23	0.3
Net income	170	2.5	110	1.6	129	1.7
Net loss (income) attributable to noncontrolling interest	(5)	(0.1)	(6)	(0.1)	(1)	(0.0)
Net income attributable to parent company	\$ 165	2.4%	\$ 104	1.5%	\$ 128	1.7%

Table of Contents**Net revenues**

	Year Ended December 31,			% Variation	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
	(In millions)				
Net sales	\$ 6,944	\$ 6,866	\$ 7,335	1.1%	(6.4)%
Other revenues	29	31	69	(6.8)	(54.8)
Net revenues	\$ 6,973	\$ 6,897	\$ 7,404	1.1%	(6.8)%

Our 2016 net revenues increased 1.1% compared to the prior year, primarily as a result of an increase in volume of about 10%, offset to a large extent by a decline in average selling prices of approximately 9%. The decline in prices accounted for about 4%, while product mix accounted for about 5% of the average selling prices reduction. Excluding businesses undergoing a phase-out (mobile legacy products, camera modules and set-top box), net revenues increased 2.4% with strong growth in specialized image sensors and solid growth in automotive and microcontrollers, partially offset by reduced sales due to market softness earlier in the year in both analog and power discrete sales for the computer peripheral market, and in MEMS for the smartphone market.

Our 2015 net revenues decreased compared to prior year, impacted by weak market conditions, especially in the second half of the year, unfavorable currency effects, and lower revenues in legacy set-top box, imaging modules and mobile legacy products. Net revenues decreased by 6.8% as a result of a decline in average selling prices of approximately 10% and an increase in volume of approximately 3%. The reduction in average selling prices resulted from a 7% decline in prices, including currency impact, while product mix accounted for about 3% of the reduction.

No customer exceeded 10% of our total net revenues for the years 2016, 2015 and 2014.

Net revenues by product group

	Year Ended			% Variation	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
	(In millions)				
Automotive and Discrete Group (ADG)	\$ 2,813	\$ 2,731	\$ 2,897	3.0%	(5.7)%
Analog and MEMS Group (AMG)	1,584	1,671	1,877	(5.2)	(11.0)
Microcontrollers and Digital ICs Group (MDG)	2,285	2,292	2,377	(0.3)	(3.6)
Others	291	203	253		
Total consolidated net revenues	\$ 6,973	\$ 6,897	\$ 7,404	1.1%	(6.8)%

In 2016 our net revenues increased by approximately 3% for ADG, driven by our automotive products, while power and discretives slightly decreased, mainly affected by the weak peripheral and PC market. The 3% increase was due to a 10% increase in volumes, partially offset by a 7% decrease in average selling prices. AMG revenues decreased by about 5% on a 10% decrease in average selling prices, partially compensated by a 5% increase in volumes. The decrease was due to both Analog and MEMS performance. MDG revenues remained substantially flat, with microcontrollers progressing, mainly driven by our general purpose STM32 family, while digital revenues decreased. MDG performance was due to a volume increase of 10% being entirely offset by a decrease in average selling prices. Others registered a strong revenue growth due to the introduction, in the second half of the year, of new products in Time of Flight technology, while camera modules continued to be progressively phased out.

In 2015, our revenues decreased by approximately 6% for ADG, with both automotive and power and discrete products contributing to the decrease. The decrease resulted from an approximate 10% decrease in average selling prices, partially compensated by a 4% increase in volumes. AMG revenues were down by approximately 11%, mainly in MEMS, due to both a decrease in volumes (-4%) and average selling prices (-7%). MDG revenues registered a decrease of about 4%, due to a decrease in average selling prices of 11%, partially offset by a 7% increase in volumes. The decrease was entirely due to digital products, while microcontrollers and memories increased, driven by our general microcontrollers. This growth in microcontrollers was possible due to a combination of new innovative products in the STM32 family, as well as a strong customer base expansion. Others included revenues from the Imaging Product Division, the sales of Subsystems and sales of materials and other products not allocated to product segments.

Table of Contents**Net Revenues by Market Channel⁽¹⁾**

	Year Ended December 31,		
	2016	2015	2014
	(As percentage of net revenues)		
OEM	67%	68%	69%
Distribution	33	32	31
Total	100%	100%	100%

(1) Original Equipment Manufacturers (OEM) are the end-customers to which we provide direct marketing application engineering support, while Distribution customers refers to the distributors and representatives that we engage to distribute our products around the world.

Our revenues in Distribution registered an increase of about 1 percentage point for both the years 2016 and 2015, reaching a 33% share of total revenues as of December 31, 2016. The increase in Distribution plays an important role in our customer base expansion and diversification while also contributing to the increase of our gross margin.

Net Revenues by Location of Shipment⁽¹⁾

	Year Ended December 31,		% Variation
	2016	423	
Due in one to five years	18	18	
Due in more than five years	368	447	
	\$ 809	\$ 888	

Equity securities in privately held companies include cost basis and equity method investments. These amounted to \$51 million for the periods ended January 31, 2013 and October 31, 2012 and are included in long-term financing receivables and other assets.

Derivative Financial Instruments

HP is a global company that is exposed to foreign currency exchange rate fluctuations and interest rate changes in the normal course of its business. As part of its risk management strategy, HP uses derivative instruments, primarily forward contracts, option contracts, interest rate swaps, and total return swaps, to hedge certain foreign currency, interest rate and, to a lesser extent, equity exposures. HP's objective is to offset gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. HP does not have any leveraged derivatives and does not use derivative contracts for speculative purposes. HP designates its derivatives as fair value hedges, cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation ("net investment hedges"). Additionally, for derivatives not designated as hedging instruments, HP categorizes those economic hedges as other derivatives. HP recognizes all derivatives, on a gross basis, in the Consolidated Condensed Balance Sheets at fair value and reports them in Other current assets, Long-term financing receivables and other assets, Other accrued liabilities, or Other liabilities. HP classifies cash flows from the derivative programs as operating activities in the Consolidated Condensed Statements of Cash Flows.

As a result of the use of derivative instruments, HP is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, HP has a policy of only entering into contracts with carefully selected major

financial institutions based upon their credit ratings and other factors, and HP maintains dollar risk limits that correspond to each institution's credit rating and other factors. HP's established policies and procedures for mitigating credit risk on principal transactions and short-term cash include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. Master

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 8: Financial Instruments (Continued)**

agreements with counterparties include master netting arrangements as further mitigation of credit exposure to counterparties. These arrangements permit HP to net amounts due from HP to a counterparty with amounts due to HP from the same counterparty.

To further mitigate credit exposure to counterparties, HP has collateral security arrangements with substantially all of its counterparties. These arrangements require HP to post collateral or to hold collateral from counterparties when the derivative fair values exceed contractually established thresholds which are generally based on the credit ratings of HP and its counterparties. Such funds are generally transferred within two business days of the due date. As of January 31, 2013, HP held \$109 million of collateral and posted \$253 million under these collateralized arrangements, of which \$109 million was through re-use of counterparty cash collateral and \$144 million in cash. As of January 31, 2012, HP held \$240 million of collateral and posted \$23 million through re-use of counterparty cash collateral under these collateralized arrangements.

Fair Value Hedges

HP enters into fair value hedges to reduce the exposure of its debt portfolio to interest rate risk. HP issues long-term debt in U.S. dollars based on market conditions at the time of financing. HP uses interest rate swaps to mitigate the market risk exposures in connection with the debt to achieve primarily U.S. dollar LIBOR-based floating interest expense. The swap transactions generally involve principal and interest obligations for U.S. dollar-denominated amounts. Alternatively, HP may choose not to swap fixed for floating interest payments or may terminate a previously executed swap if it believes a larger proportion of fixed-rate debt would be beneficial. When investing in fixed-rate instruments, HP may enter into interest rate swaps that convert the fixed interest payments into variable interest payments and would classify these swaps as fair value hedges. For derivative instruments that are designated and qualify as fair value hedges, HP recognizes the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item, in Interest and other, net in the Consolidated Condensed Statements of Earnings in the current period.

Cash Flow Hedges

HP uses a combination of forward contracts and options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted net revenue and, to a lesser extent, cost of sales, operating expenses, and intercompany lease loans denominated in currencies other than the U.S. dollar. HP's foreign currency cash flow hedges mature generally within twelve months. However, certain leasing revenue-related forward contracts and intercompany lease loan forward contracts extend for the duration of the lease term, which can be up to five years. For derivative instruments that are designated and qualify as cash flow hedges, HP initially records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive income or loss as a separate component of stockholders' equity and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized in earnings. HP reports the effective portion of cash flow hedges in the same financial statement line item as the changes in value of the hedged item. During the three months ended January 31, 2013 there was no significant impact to results of operations as a result of discontinued cash flow hedges. During the three months ended

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

January 31, 2012, HP did not discontinue any cash flow hedge for which it was probable that a forecasted transaction would not occur.

Net Investment Hedges

HP uses forward contracts designated as net investment hedges to hedge net investments in certain foreign subsidiaries whose functional currency is the local currency. These derivative instruments are designated as net investment hedges and, as such, HP records the effective portion of the gain or loss on the derivative instrument together with changes in the hedged items in cumulative translation adjustment as a separate component of stockholders' equity.

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of forward contracts HP uses to hedge foreign currency balance sheet exposures. HP also uses total return swaps and, to a lesser extent, interest rate swaps, based on the equity and fixed income indices, to hedge its executive deferred compensation plan liability. For derivative instruments not designated as hedging instruments, HP recognizes changes in the fair values in earnings in the period of change. HP recognizes the gain or loss on foreign currency forward contracts used to hedge balance sheet exposures in Interest and other, net in the same period as the remeasurement gain and loss of the related foreign currency denominated assets and liabilities. HP recognizes the gain or loss on the total return swaps and interest rate swaps in Interest and other, net in the same period as the gain or loss from the change in market value of the executive deferred compensation plan liability.

Hedge Effectiveness

For interest rate swaps designated as fair value hedges, HP measures effectiveness by offsetting the change in fair value of the hedged debt with the change in fair value of the derivative. For foreign currency options and forward contracts designated as cash flow or net investment hedges, HP measures effectiveness by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item, both of which are based on forward rates. HP recognizes any ineffective portion of the hedge, as well as amounts not included in the assessment of effectiveness, in the Consolidated Condensed Statements of Earnings. As of January 31, 2013 and 2012, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness was not material for fair value, cash flow or net investment hedges. Hedge ineffectiveness for fair value, cash flow and net investment hedges was not material in the three months ended January 31, 2013 and 2012.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 8: Financial Instruments (Continued)***Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheets*

As discussed in Note 7, HP estimates the fair values of derivatives primarily based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. The gross notional and fair value of derivative financial instruments in the Consolidated Condensed Balance Sheets were as follows:

	As of January 31, 2013					As of October 31, 2012				
	Gross Notional ⁽¹⁾	Long-term Financing Receivables		Other Accrued Liabilities	Other Liabilities	Gross Notional ⁽¹⁾	Long-term Financing Receivables		Other Accrued Liabilities	Other Liabilities
Current Assets		Other Assets	Other Assets				Current Assets	Other Assets		
In millions										
Derivatives designated as hedging instruments										
Fair value hedges:										
Interest rate contracts	\$ 7,650	\$ 23	\$ 197	\$	\$	\$ 7,900	\$ 43	\$ 276	\$	\$
Cash flow hedges:										
Foreign exchange contracts	18,612	129	29	529	96	19,409	160	24	277	79
Net investment hedges:										
Foreign exchange contracts	1,714	12	18	34	23	1,683	14	15	36	24
Total derivatives designated as hedging instruments	27,976	164	244	563	119	28,992	217	315	313	103
Derivatives not designated as hedging instruments										
Foreign exchange contracts	16,010	95	13	101	17	18,687	61	17	51	19
Interest rate contracts ⁽²⁾	2,200	17		19		2,200	25		29	
Other derivatives	329	5				383	1		3	
Total derivatives not designated as hedging instruments	18,539	117	13	120	17	21,270	87	17	83	19
Total derivatives	\$ 46,515	\$ 281	\$ 257	\$ 683	\$ 136	\$ 50,262	\$ 304	\$ 332	\$ 396	\$ 122

(1) Represents the face amounts of contracts that were outstanding as of January 31, 2013 and October 31, 2012, respectively.

(2) Represents offsetting swaps acquired through previous business combinations that were not designated as hedging instruments.

Effect of Derivative Instruments on the Consolidated Condensed Statements of Earnings

The before-tax effect of derivative instruments and related hedged items in a fair value hedging relationship for the three months ended January 31, 2013 and 2012 were as follows:

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Gain (Loss) Recognized in Income on Derivative and Related Hedged Item					
Derivative Instrument	Location	Three months ended	Hedged Item	Location	Three months ended
		January 31, 2013			January 31, 2013
		In millions			In millions
Interest rate contracts	Interest and other, net	\$ (99)	Fixed-rate debt	Interest and other, net	\$ 98

26

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

Derivative Instrument	Location	Gain (Loss) Recognized in Income on Derivative and Related Hedged Item		Location	Three months ended January 31, 2012 In millions
		Three months ended January 31, 2012 In millions	Hedged Item		
Interest rate contracts	Interest and other, net	\$ 4	Fixed-rate debt	Interest and other, net	\$

The before-tax effect of derivative instruments in cash flow and net investment hedging relationships for the three months ended January 31, 2013 and 2012 were as follows:

Derivative Instrument	Gain (Loss) Recognized in Other Comprehensive Income ("OCI") on Derivative (Effective Portion) Three months ended January 31, 2013 In millions	Location	Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) Three months ended January 31, 2013 In millions	Location	Gain Recognized in Income on Derivative (Ineffective portion and Amount Excluded from Effectiveness Testing) Three months ended January 31, 2013 In millions
Cash flow hedges:					
Foreign exchange contracts	\$ (213)	Net revenue	\$ (61)	Net revenue	\$
Foreign exchange contracts	(125)	Cost of products	(3)	Cost of products	
Foreign exchange contracts	8	Other operating expenses	1	Other operating expenses	
Foreign exchange contracts	2	Interest and other, net	(5)	Interest and other, net	
Foreign exchange contracts	14	Net revenue	4	Interest and other, net	
Total cash flow hedges	\$ (314)		\$ (64)		\$
Net investment hedges:					
Foreign exchange contracts	\$ (15)	Interest and other, net	\$	Interest and other, net	\$

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 8: Financial Instruments (Continued)

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Three months ended January 31, 2012 In millions	Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) Location	Three months ended January 31, 2012 In millions	Gain Recognized in Income on Derivative (Ineffective portion and Amount Excluded from Effectiveness Testing) Location	Three months ended January 31, 2012 In millions
Cash flow hedges:					
Foreign exchange contracts	\$ 427	Net revenue	\$ 88	Net revenue	\$
Foreign exchange contracts	(8)	Cost of products	16	Cost of products	
Foreign exchange contracts	(3)	Other operating expenses	(1)	Other operating expenses	
Foreign exchange contracts	(9)	Net revenue	(5)	Interest and other, net	
Total cash flow hedges	\$ 407		\$ 98		\$
Net investment hedges:					
Foreign exchange contracts	\$ 25	Interest and other, net	\$	Interest and other, net	\$

As of January 31, 2013, HP expects to reclassify an estimated net accumulated other comprehensive loss of approximately \$254 million, net of taxes, to earnings in the next twelve months along with the earnings effects of the related forecasted transactions in association with cash flow hedges.

The before-tax effect of derivative instruments not designated as hedging instruments on the Consolidated Condensed Statements of Earnings for the three months ended January 31, 2013 and 2012 were as follows:

	Gain (Loss) Recognized in Income on Derivative Location	Three months ended January 31, 2013 In millions
Foreign exchange contracts	Interest and other, net	\$ (40)
Other derivatives	Interest and other, net	7
Interest rate contracts	Interest and other, net	2
Total		\$ (31)

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 8: Financial Instruments (Continued)**

	Gain (Loss) Recognized in Income on Derivative	Three months ended January 31, 2012
Location		In millions
Foreign exchange contracts	Interest and other, net	\$ 82
Other derivatives	Interest and other, net	(10)
Interest rate contracts	Interest and other, net	10
Total		\$ 82

Other Financial Instruments

For the balance of HP's financial instruments, accounts receivable, financing receivables, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities.

Note 9: Financing Receivables and Operating Leases

Financing receivables represent sales-type and direct-financing leases resulting from the placement of HP and third-party products. These receivables typically have terms from two to five years and are usually collateralized by a security interest in the underlying assets. Financing receivables also include billed receivables from operating leases. The components of financing receivables, which are included in Financing receivables and Long-term financing receivables and other assets in the accompanying Consolidated Condensed Balance Sheets, were as follows:

	January 31, 2013	October 31, 2012
	In millions	
Minimum lease payments receivable	\$ 8,016	\$ 8,133
Unguaranteed residual value	254	248
Unearned income	(679)	(688)
Financing receivables, gross	7,591	7,693
Allowance for doubtful accounts	(154)	(149)
Financing receivables, net	7,437	7,544
Less current portion	(3,316)	(3,252)
Amounts due after one year, net	\$ 4,121	\$ 4,292

Equipment leased to customers under operating leases was \$3.8 billion and \$3.9 billion at January 31, 2013 and October 31, 2012, respectively, and is included in machinery and equipment. Accumulated depreciation on equipment under lease was \$1.5 billion at both January 31, 2013 and October 31, 2012.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 9: Financing Receivables and Operating Leases (Continued)**

Due to the homogenous nature of its leasing transactions, HP manages its financing receivables on an aggregate basis when assessing and monitoring credit risk. Credit risk is generally diversified due to the large number of entities comprising HP's customer base and their dispersion across many different industries and geographical regions. The credit quality of an obligor is evaluated at lease inception and monitored over the term of a transaction. Risk ratings are assigned to each lease based on the creditworthiness of the obligor and other variables that augment or diminish the inherent credit risk of a particular transaction. Such variables include the underlying value and liquidity of the collateral, the essential use of the equipment, the term of the lease, and the inclusion of guarantees, letters of credit, security deposits or other credit enhancements.

The credit risk profile of the gross financing receivables, based on internally assigned ratings, was as follows:

	January 31, 2013	October 31, 2012
	In millions	
Risk Rating		
Low	\$ 4,346	\$ 4,461
Moderate	3,148	3,151
High	97	81
Total	\$ 7,591	\$ 7,693

Accounts rated low risk typically have the equivalent of a Standard & Poor's rating of BBB- or higher, while accounts rated moderate risk would generally be the equivalent of BB+ or lower. HP closely monitors accounts rated high risk and, based upon an impairment analysis, may establish specific reserves against a portion of these leases.

The allowance for doubtful accounts balance is comprised of a general reserve, which is determined based on a percentage of the financing receivables balance, and a specific reserve, which is established for certain leases with identified exposures, such as customer default, bankruptcy or other events, that make it unlikely that HP will recover its investment in the lease. The general reserve percentages are maintained on a regional basis and are based on several factors, which include consideration of historical credit losses and portfolio delinquencies, trends in the overall weighted-average risk rating of the portfolio, and information derived from competitive benchmarking.

The allowance for doubtful accounts and the related financing receivables were as follows:

	Three months ended January 31, 2013	
	In millions	
Allowance for doubtful accounts		
Balance, beginning of period	\$	149
Additions to allowance		9
Deductions, net of recoveries		(4)
Balance, end of period	\$	154

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 9: Financing Receivables and Operating Leases (Continued)**

	January 31, 2013	October 31, 2012
	In millions	
Allowance for financing receivables individually evaluated for loss	\$ 52	\$ 45
Allowance for financing receivables collectively evaluated for loss	102	104
Total	\$ 154	\$ 149
Gross financing receivables individually evaluated for loss	\$ 496	\$ 338
Gross financing receivables collectively evaluated for loss	7,095	7,355
Total	\$ 7,591	\$ 7,693

Accounts are generally put on non-accrual status (cessation of interest accrual) when they reach 90 days past due. The non-accrual status may not impact a customer's risk rating. In certain circumstances, such as when the delinquency is deemed to be of an administrative nature, accounts may still accrue interest when they reach 90 days past due. A write-off or specific reserve is generally recorded when an account reaches 180 days past due. Total financing receivables on non-accrual status were \$253 million and \$225 million at January 31, 2013 and October 31, 2012, respectively. Total financing receivables greater than 90 days past due and still accruing interest were \$243 million and \$113 million at January 31, 2013 and October 31, 2012, respectively.

Note 10: Guarantees*Guarantees and Indemnifications*

In the ordinary course of business, HP may provide certain clients with subsidiary performance guarantees and/or financial performance guarantees, which may be backed by standby letters of credit or surety bonds. In general, HP would be liable for the amounts of these guarantees in the event HP or HP's subsidiaries' nonperformance permits termination of the related contract by the client, the likelihood of which HP believes is remote. HP believes that the company is in compliance with the performance obligations under all material service contracts for which there is a performance guarantee.

HP has certain service contracts supported by client financing or securitization arrangements. Under specific circumstances involving nonperformance resulting in service contract termination or failure to comply with terms under the financing arrangement, HP would be required to acquire certain assets. HP considers the possibility of its failure to comply to be remote and the asset amounts involved to be immaterial.

In the ordinary course of business, HP enters into contractual arrangements under which HP may agree to indemnify the third party to such arrangement from any losses incurred relating to the services they perform on behalf of HP or for losses arising from certain events as defined within the particular contract, which may include, for example, litigation or claims relating to past performance. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments made related to these indemnifications have been immaterial.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 10: Guarantees (Continued)***Warranty*

HP provides for the estimated cost of product warranties at the time it recognizes revenue. HP engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers. Product warranty terms offered to customers, ongoing product failure rates, material usage and service delivery costs incurred in correcting a product failure, as well as specific product class failures outside of HP's baseline experience affect the estimated warranty obligation. If actual product failure rates, repair rates or any other post-sales support costs differ from these estimates, revisions to the estimated warranty liability would be required.

The changes in HP's aggregate product warranty liabilities for the three months ended January 31, 2013 were as follows:

	In millions
Product warranty liability at October 31, 2012	\$ 2,170
Accruals for warranties issued	523
Adjustments related to pre-existing warranties (including changes in estimates)	(7)
Settlements made (in cash or in kind)	(566)
Product warranty liability at January 31, 2013	\$ 2,120

Note 11: Borrowings*Notes Payable and Short-Term Borrowings*

Notes payable and short-term borrowings, including the current portion of long-term debt, were as follows:

	January 31, 2013		October 31, 2012	
	Amount Outstanding	Weighted- Average Interest Rate	Amount Outstanding	Weighted- Average Interest Rate
	In millions		In millions	
Current portion of long-term debt	\$ 5,656	1.4%	\$ 5,744	1.6%
Commercial paper	353	0.7%	365	0.9%
Notes payable to banks, lines of credit and other	466	2.1%	538	2.8%
	\$ 6,475		\$ 6,647	

Notes payable to banks, lines of credit and other includes deposits associated with HP's banking-related activities of approximately \$350 million and \$369 million at January 31, 2013 and October 31, 2012, respectively.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 11: Borrowings (Continued)***Long-Term Debt*

Long-term debt was as follows:

	January 31, 2013	October 31, 2012
	In millions	
U.S. Dollar Global Notes		
2006 Shelf Registration Statement:		
\$500 issued at discount to par at a price of 99.694% in February 2007 at 5.4%, due March 2017	\$ 499	\$ 499
\$1,500 issued at discount to par at a price of 99.921% in March 2008 at 4.5%, paid March 2013	1,500	1,500
\$750 issued at discount to par at a price of 99.932% in March 2008 at 5.5%, due March 2018	750	750
\$2,000 issued at discount to par at a price of 99.561% in December 2008 at 6.125%, due March 2014	1,998	1,998
\$1,500 issued at discount to par at a price of 99.993% in February 2009 at 4.75%, due June 2014	1,500	1,500
2009 Shelf Registration Statement:		
\$1,100 issued at discount to par at a price of 99.921% in September 2010 at 1.25%, due September 2013	1,100	1,100
\$1,100 issued at discount to par at a price of 99.887% in September 2010 at 2.125%, due September 2015	1,100	1,100
\$650 issued at discount to par at a price of 99.911% in December 2010 at 2.2%, due December 2015	650	650
\$1,350 issued at discount to par at a price of 99.827% in December 2010 at 3.75%, due December 2020	1,348	1,348
\$1,750 issued at par in May 2011 at three month USD LIBOR plus 0.28%, due May 2013	1,750	1,750
\$500 issued at par in May 2011 at three month USD LIBOR plus 0.4%, due May 2014	500	500
\$500 issued at discount to par at a price of 99.971% in May 2011 at 1.55%, due May 2014	500	500
\$1,000 issued at discount to par at a price of 99.958% in May 2011 at 2.65%, due June 2016	1,000	1,000
\$1,250 issued at discount to par at a price of 99.799% in May 2011 at 4.3%, due June 2021	1,248	1,248
\$750 issued at discount to par at a price of 99.977% in September 2011 at 2.35%, due March 2015	750	750
\$1,300 issued at discount to par at a price of 99.784% in September 2011 at 3.0%, due September 2016	1,298	1,298

33

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 11: Borrowings (Continued)**

	January 31, 2013	October 31, 2012
	In millions	
\$1,000 issued at discount to par at a price of 99.816% in September 2011 at 4.375%, due September 2021	998	998
\$1,200 issued at discount to par at a price of 99.863% in September 2011 at 6.0%, due September 2041	1,198	1,198
\$350 issued at par in September 2011 at three-month USD LIBOR plus 1.55%, due September 2014	350	350
\$650 issued at discount to par at a price of 99.946% in December 2011 at 2.625%, due December 2014	650	650
\$850 issued at discount to par at a price of 99.790% in December 2011 at 3.3%, due December 2016	849	849
\$1,500 issued at discount to par at a price of 99.707% in December 2011 at 4.65%, due December 2021	1,496	1,496
\$1,500 issued at discount to par at a price of 99.985% in March 2012 at 2.6%, due September 2017	1,500	1,500
\$500 issued at discount to par at a price of 99.771% in March 2012 at 4.05%, due September 2022	499	499
	25,031	25,031
EDS Senior Notes		
\$1,100 issued June 2003 at 6.0%, due August 2013	1,106	1,109
\$300 issued October 1999 at 7.45%, due October 2029	314	314
	1,420	1,423
Other, including capital lease obligations, at 0.60%-8.63%, due in calendar years 2013-2024	614	680
Fair value adjustment related to hedged debt	343	399
Less: current portion	(5,656)	(5,744)
Total long-term debt	\$ 21,752	\$ 21,789

As disclosed in Note 8, HP uses interest rate swaps to mitigate the market risk exposures in connection with certain fixed-interest global notes to achieve primarily U.S. dollar LIBOR-based floating interest expense. The interest rates in the table above have not been adjusted to reflect the impact of any interest rate swaps.

HP may redeem some or all of the Global Notes set forth in the above table at any time at the redemption prices described in the prospectus supplements relating thereto. The Global Notes are senior unsecured debt.

In May 2012, HP filed a shelf registration statement (the "2012 Shelf Registration Statement") with the SEC to enable the company to offer for sale, from time to time, in one or more offerings, an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants. The 2012 Shelf Registration Statement replaced the registration statement filed in May 2009.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 11: Borrowings (Continued)**

HP's Board of Directors has authorized the issuance of up to \$16.0 billion in aggregate principal amount of commercial paper by HP. HP's subsidiaries are authorized to issue up to an additional \$1.0 billion in aggregate principal amount of commercial paper. HP maintains two commercial paper programs, and a wholly-owned subsidiary maintains a third program. HP's U.S. program provides for the issuance of U.S. dollar denominated commercial paper up to a maximum aggregate principal amount of \$16.0 billion. HP's euro commercial paper program, which was established in September 2012, provides for the issuance of commercial paper outside of the United States denominated in U.S. dollars, euros or British pounds up to a maximum aggregate principal amount of \$3.0 billion or the equivalent in those alternative currencies. The combined aggregate principal amount of commercial paper issued under those programs at any one time cannot exceed the \$16.0 billion Board authorization. The HP subsidiary's Euro Commercial Paper/Certificate of Deposit Programme provides for the issuance of commercial paper in various currencies of up to a maximum aggregate principal amount of \$500 million.

HP maintains senior unsecured committed credit facilities primarily to support the issuance of commercial paper. HP has a \$3.0 billion five-year credit facility that expires in March 2017 and a \$4.5 billion four-year credit facility that expires in February 2015. Both facilities support the U.S. commercial paper program, and the five-year credit facility was amended in September 2012 to also support the euro commercial paper program. The amounts available under the five-year credit facility in euros and British pounds are limited to the U.S. Dollar equivalent of \$2.2 billion and \$300 million, respectively. Commitment fees, interest rates and other terms of borrowing under the credit facilities vary based on HP's external credit ratings. HP's ability to have a U.S. commercial paper outstanding balance that exceeds the \$7.5 billion supported by these credit facilities is subject to a number of factors, including liquidity conditions and business performance.

Within Other, including capital lease obligations, are borrowings that are collateralized by certain financing receivable assets. As of January 31, 2013, the carrying value of the assets approximated the carrying value of the borrowings of \$221 million.

As of January 31, 2013, HP had the capacity to issue an unspecified amount of additional debt securities, common stock, preferred stock, depositary shares and warrants under the 2012 Shelf Registration Statement. As of that date, HP also had up to approximately \$17.5 billion of available borrowing resources, including \$16.1 billion in authorized capacity under its commercial paper programs and approximately \$1.4 billion relating to uncommitted lines of credit. The extent to which HP is able to utilize the 2012 Shelf Registration Statement and the commercial paper programs as sources of liquidity at any given time is subject to a number of factors, including market demand for HP securities and commercial paper, HP's financial performance, HP's credit ratings and market conditions generally.

Note 12: Income Taxes*Provision for Taxes*

HP's effective tax rate was 21.7% and 19.4% for the three months ended January 31, 2013 and January 31, 2012, respectively. HP's effective tax rate increased due to discrete items in the three months ended January 31, 2013, as described below. HP's effective tax rate generally differs from the

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 12: Income Taxes (Continued)**

U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from HP's operations in lower-tax jurisdictions throughout the world. HP has not provided U.S. taxes for all of such earnings because HP plans to reinvest some of those earnings indefinitely outside the United States.

In the three months ended January 31, 2013, HP recorded discrete items resulting in a net tax charge of \$5 million, increasing the effective tax rate. These amounts consisted primarily of a tax charge of \$150 million related to a past uncertain tax position offset by approximately \$50 million of various adjustments to estimated tax provisions of foreign jurisdictions as well as \$45 million of benefits associated with restructuring charges, various uncertain tax positions and valuation allowance adjustments. In addition, in January 2013, the American Taxpayer Relief Act of 2012 was signed into law. HP recorded a tax benefit of \$50 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2013.

In the three months ended January 31, 2012, HP recorded discrete items with a net tax benefit of \$49 million, decreasing the effective tax rate. These amounts included net tax benefits of \$28 million from restructuring and acquisition charges, and \$23 million from reversals of accrued interest expense and penalties on uncertain tax positions, net of tax.

As of January 31, 2013, the amount of gross unrecognized tax benefits was \$2.8 billion, of which up to \$1.6 billion would affect HP's effective tax rate if realized. HP recognizes interest income from favorable settlements and income tax receivables and interest expense and penalties accrued on unrecognized tax benefits within income tax expense. As of January 31, 2013, HP had accrued a net \$209 million payable for interest and penalties. In the three months ended January 31, 2013, HP recognized \$1 million of net interest income on tax overpayments, net of tax.

HP engages in continuous discussion and negotiation with taxing authorities regarding tax matters in various jurisdictions. HP does not expect complete resolution of any Internal Revenue Service ("IRS") audit cycle within the next 12 months. However, it is reasonably possible that certain federal, foreign and state tax issues may be concluded in the next 12 months, including issues involving transfer pricing and other matters. Accordingly, HP believes it is reasonably possible that its existing unrecognized tax benefits may be decreased by an amount up to \$175 million within the next 12 months.

The breakdown between current and long-term deferred tax assets and deferred tax liabilities was as follows:

	January 31, 2013	October 31, 2012
	In millions	
Current deferred tax assets	\$ 3,743	\$ 3,783
Current deferred tax liabilities	(263)	(230)
Long-term deferred tax assets	1,580	1,581
Long-term deferred tax liabilities	(3,400)	(2,948)
Total deferred tax assets net of deferred tax liabilities	\$ 1,660	\$ 2,186

[Table of Contents](#)**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 13: Stockholders' Equity***Share Repurchase Program*

HP's share repurchase program authorizes both open market and private repurchase transactions. In the first quarter of fiscal 2013, HP executed share repurchases of 19 million shares which were settled for \$253 million in the first quarter of fiscal 2013. HP paid approximately \$780 million in connection with repurchases of approximately 29 million shares during the three months ended January 31, 2012. As of January 31, 2013, HP had remaining authorization of \$8.9 billion for future share repurchases.

Taxes related to Items of Other Comprehensive Loss/ Income

	Three months ended January 31	
	2013	2012
	In millions	
Tax (expense) benefit on change in unrealized gains/ losses on available-for-sale securities	\$ (33)	\$ 5
Tax (expense) benefit on change in unrealized gains/ losses on cash flow hedges:		
Tax benefit (expense) on unrealized gains/losses arising during the period	102	(152)
Tax (benefit) expense on gains/losses reclassified into earnings	(17)	37
	85	(115)
Tax (expense) benefit on change in unrealized components of defined benefit plans:		
Tax benefit on net losses arising during the period		24
Tax benefit on amortization of actuarial loss and prior service benefit	(5)	(10)
Tax expense on curtailments, settlements and other	(1)	(84)
	(6)	(70)
Tax benefit on change in cumulative translation adjustment	18	14
Tax benefit (expense) on other comprehensive loss/ income	\$ 64	\$ (166)

The components of accumulated other comprehensive loss, net of taxes, were as follows:

	January 31, 2013	October 31, 2012
	In millions	
Net unrealized gain on available-for-sale securities	\$ 57	\$ 87
Net unrealized loss on cash flow hedges	(264)	(99)
Unrealized components of defined benefit plans	(5,000)	(5,090)
Cumulative translation adjustment	(465)	(457)
Accumulated other comprehensive loss	\$ (5,672)	\$ (5,559)

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 14: Retirement and Post-Retirement Benefit Plans**

HP's net pension and post-retirement benefit costs (credit) were as follows:

	Three months ended January 31					
	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Post- Retirement Benefit Plans	
	2013	2012	2013	2012	2013	2012
	In millions					
Service cost	\$	\$	\$	\$	\$	\$
Interest cost	140	141	172	176	8	8
Expected return on plan assets	(211)	(198)	(257)	(208)	(8)	(9)
Amortization and deferrals:						
Actuarial loss (gain)	20	11	87	60		(1)
Prior service benefit			(7)	(6)	(17)	(21)
Net periodic benefit (credit) cost	\$ (51)	\$ (46)	\$ 81	\$ 96	\$ (15)	\$ (21)
Curtailment gain					(3)	
Special termination benefits			3	1		
Settlement loss (gain)	5			(28)		
Net benefit (credit) cost	\$ (46)	\$ (46)	\$ 84	\$ 69	\$ (18)	\$ (21)

Employer Contributions and Funding Policy

HP previously disclosed in its Consolidated Financial Statements for the fiscal year ended October 31, 2012 that it expected to contribute in fiscal 2013, approximately \$674 million to its non-US pension plans and approximately \$33 million to cover benefit payments to U.S. non-qualified plan participants. HP expects to pay approximately \$124 million to cover benefit claims for HP's post-retirement benefit plans. HP's funding policy is to contribute cash to its pension plans so that it makes at least the minimum contribution required by local government, funding and taxing authorities.

During the three months ended January 31, 2013, HP made \$181 million of contributions to its non-US pension plans, paid \$14 million to cover benefit payments to U.S. non-qualified plan participants, and paid \$25 million to cover benefit claims under HP's post-retirement benefit plans. During the remainder of fiscal 2013, HP anticipates making additional contributions of approximately \$493 million to its non-US pension plans and approximately \$19 million to its U.S. non-qualified plan participants and expects to pay approximately \$99 million to cover benefit claims under HP's post-retirement benefit plans. HP's pension and other post-retirement benefit costs and obligations are dependent on various assumptions. Differences between expected and actual returns on investments will be reflected as unrecognized gains or losses, and such gains or losses will be amortized and recorded in future periods. Poor financial performance of invested assets in any year could lead to increased contributions in certain countries and increased future pension plan expense. Asset gains or losses are determined at the measurement date and amortized over the remaining service life or life expectancy of plan participants. HP's next measurement date is October 31, 2013.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 15: Litigation and Contingencies**

HP is involved in lawsuits, claims, investigations and proceedings, including those identified below, consisting of intellectual property, commercial, securities, employment, employee benefits and environmental matters that arise in the ordinary course of business. HP records a provision for a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. HP believes it has adequate provisions for any such matters, and, as of January 31, 2013, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the amounts already recognized on HP's financial statements. HP reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on its experience, HP believes that any damage amounts claimed in the specific matters discussed below are not a meaningful indicator of HP's potential liability. Litigation is inherently unpredictable. However, HP believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Litigation, Proceedings and Investigations

Copyright Levies. As described below, proceedings are ongoing or have been concluded involving HP in certain European Union ("EU") member countries, including litigation in Germany, Belgium and Austria, seeking to impose or modify levies upon equipment (such as multifunction devices ("MFDs"), personal computers ("PCs") and printers) and alleging that these devices enable producing private copies of copyrighted materials. Descriptions of some of the ongoing proceedings are included below. The levies are generally based upon the number of products sold and the per-product amounts of the levies, which vary. Some EU member countries that do not yet have levies on digital devices are expected to implement similar legislation to enable them to extend existing levy schemes, while some other EU member countries are expected to limit the scope of levy schemes and applicability in the digital hardware environment. HP, other companies and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders.

VerwertungsGesellschaft Wort ("VG Wort"), a collection agency representing certain copyright holders, instituted legal proceedings against HP in the Stuttgart Civil Court seeking levies on printers. On December 22, 2004, the court held that HP is liable for payments regarding all printers using ASCII code sold in Germany but did not determine the amount payable per unit. HP appealed this decision in January 2005 to the Stuttgart Court of Appeals. On May 11, 2005, the Stuttgart Court of Appeals issued a decision confirming that levies are due. On June 6, 2005, HP filed an appeal to the German Federal Supreme Court in Karlsruhe. On December 6, 2007, the German Federal Supreme Court issued a judgment that printers are not subject to levies under the existing law. The court issued a written decision on January 25, 2008, and VG Wort subsequently filed an application with the German Federal Supreme Court under Section 321a of the German Code of Civil Procedure contending that the court did not consider their arguments. On May 9, 2008, the German Federal Supreme Court denied VG Wort's application. VG Wort appealed the decision by filing a claim with the German Federal Constitutional Court challenging the ruling that printers are not subject to levies. On September 21, 2010, the Constitutional Court published a decision holding that the German Federal Supreme Court erred by not referring questions on interpretation of German copyright law to the Court of Justice of the European Union ("CJEU") and therefore revoked the German Federal

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Supreme Court decision and remitted the matter to it. On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive. The CJEU conducted an oral hearing in October 2012 and is expected to issue a decision approximately seven months thereafter, after which the matter will be remitted back to the German Federal Supreme Court.

In September 2003, VG Wort filed a lawsuit against Fujitsu Siemens Computer GmbH ("FSC") in the Munich Civil Court in Munich, Germany seeking levies on PCs. This is an industry test case in Germany, and HP has agreed not to object to the delay if VG Wort sues HP for such levies on PCs following a final decision against FSC. On December 23, 2004, the Munich Civil Court held that PCs are subject to a levy and that FSC must pay €12 plus compound interest for each PC sold in Germany since March 2001. FSC appealed this decision in January 2005 to the Munich Court of Appeals. On December 15, 2005, the Munich Court of Appeals affirmed the Munich Civil Court decision. FSC filed an appeal with the German Federal Supreme Court in February 2006. On October 2, 2008, the German Federal Supreme Court issued a judgment that PCs were not photocopiers within the meaning of the German copyright law that was in effect until December 31, 2007 and, therefore, not subject to the levies on photocopiers established by that law. VG Wort subsequently filed a claim with the German Federal Constitutional Court challenging that ruling. In January 2011, the Constitutional Court published a decision holding that the German Federal Supreme Court decision was inconsistent with the German Constitution and revoking the German Federal Supreme Court decision. The Constitutional Court remitted the matter to the German Federal Supreme Court for further action. On July 21, 2011, the German Federal Supreme Court stayed the proceedings and referred several questions to the CJEU with regard to the interpretation of the European Copyright Directive. The CJEU conducted an oral hearing in October 2012 and is expected to issue a decision approximately seven months thereafter, after which the matter will be remitted back to the German Federal Supreme Court.

Reprobel, a cooperative society with the authority to collect and distribute the remuneration for reprography to Belgian copyright holders, requested HP by extra-judicial means to amend certain copyright levy declarations submitted for inkjet MFDs sold in Belgium from January 2005 to December 2009 to enable it to collect copyright levies calculated based on the generally higher copying speed when the MFDs are operated in draft print mode rather than when operated in normal print mode. In March 2010, HP filed a lawsuit against Repobel in the French-speaking chambers of the Court of First Instance of Brussels seeking a declaratory judgment that no copyright levies are payable on sales of MFDs in Belgium or, alternatively, that copyright levies payable on such MFDs must be assessed based on the copying speed when operated in the normal print mode set by default in the device. On November 16, 2012, the court issued a decision holding that Belgian law is not in conformity with EU law in a number of respects and ordered that, by November 2013, Repobel substantiate that the amounts claimed by Repobel are commensurate with the harm resulting from legitimate copying under the reprographic exception. HP subsequently appealed that court decision to the Courts of Appeal in Brussels seeking to confirm that the Belgian law is not in conformity with EU law and that, if Belgian law is interpreted in a manner consistent with EU law, no payments by HP are required or, alternatively, the payments already made by HP are sufficient to comply with its obligations under Belgian law. Hearings on the appeal are scheduled to be held in September 2013.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Based on industry opposition to the extension of levies to digital products, HP's assessments of the merits of various proceedings and HP's estimates of the number of units impacted and the amounts of the levies, HP has accrued amounts that it believes are adequate to address the matters described above. However, the ultimate resolution of these matters and the associated financial impact on HP, including the number of units impacted, the amount of levies imposed and the ability of HP to recover such amounts through increased prices, remains uncertain.

Skold, et al. v. Intel Corporation and Hewlett-Packard Company is a lawsuit filed against HP on June 14, 2004 that is pending in state court in Santa Clara County, California. The lawsuit alleges that Intel Corporation ("Intel") concealed performance problems related to the Intel Pentium 4 processor by, among other things, the manipulation of performance benchmarks. The lawsuit alleges that HP aided and abetted Intel's allegedly unlawful conduct. The plaintiffs seek unspecified damages, restitution, attorneys' fees and costs. On April 19, 2012, the court issued an order granting in part and denying in part the plaintiffs' motion to certify a nationwide class asserting claims under the California Unfair Competition Law. As to Intel, the court certified a nationwide class excluding residents of Illinois. As to HP, the court certified a class limited to California residents who purchased their computers "from HP" for "personal, family or household use." As required by the same order, the plaintiffs filed an amended complaint that limits their claims against HP to a California class while reserving the right to seek additional state-specific subclasses as to HP.

Inkjet Printer Litigation. As described below, HP is involved in several lawsuits claiming breach of express and implied warranty, unjust enrichment, deceptive advertising and unfair business practices where the plaintiffs have alleged, among other things, that HP employed a "smart chip" in certain inkjet printing products in order to register ink depletion prematurely and to render the cartridge unusable through a built-in expiration date that is hidden, not documented in marketing materials to consumers, or both. The plaintiffs have also contended that consumers received false ink depletion warnings and that the smart chip limits the ability of consumers to use the cartridge to its full capacity or to choose competitive products.

A consolidated lawsuit captioned In re HP Inkjet Printer Litigation was filed in the United States District Court for the Northern District of California seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees.

A lawsuit captioned Blennis v. HP was filed on January 17, 2007 in the United States District Court for the Northern District of California seeking class certification, restitution, damages (including enhanced damages), injunctive relief, interest, costs, and attorneys' fees.

A lawsuit captioned Rich v. HP was filed against HP on May 22, 2006 in the United States District Court for the Northern District of California alleging that HP designed its color inkjet printers to unnecessarily use color ink in addition to black ink when printing black and white images and text and seeking to certify a nationwide injunctive class and a California-only damages class.

Two class actions against HP and its subsidiary, Hewlett-Packard (Canada) Co., are pending in Canada, one commenced in British Columbia in February 2006 and one commenced in Ontario in June 2006, where the plaintiffs are seeking class certification, restitution, declaratory relief, injunctive relief and unspecified statutory, compensatory and punitive damages.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

On August 25, 2010, HP and the plaintiffs in *In re HP Inkjet Printer Litigation*, *Blennis v. HP* and *Rich v. HP* entered into an agreement to settle those lawsuits on behalf of the proposed classes. Under the terms of the settlement, the lawsuits were consolidated, and eligible class members each have the right to obtain e-credits not to exceed \$5 million in the aggregate for use in purchasing printers or printer supplies through HP's website. As part of the settlement, HP also agreed to provide class members with additional information regarding HP inkjet printer functionality and to change the content of certain software and user guide messaging provided to users regarding the life of inkjet printer cartridges. In addition, the settlement provides for class counsel and the class representatives to be paid attorneys' fees and expenses and stipends. On March 29, 2011, the court granted final approval of the settlement. On April 27, 2011, certain class members who objected to the settlement filed an appeal in the United States Court of Appeals for the Ninth Circuit of the court's order granting final approval of the settlement.

Fair Labor Standards Act Litigation. HP is involved in several lawsuits in which the plaintiffs are seeking unpaid overtime compensation and other damages based on allegations that various employees of EDS or HP have been misclassified as exempt employees under the Fair Labor Standards Act and/or in violation of the California Labor Code or other state laws. Those matters include the following:

Cunningham and Cunningham, et al. v. Electronic Data Systems Corporation is a purported collective action filed on May 10, 2006 in the United States District Court for the Southern District of New York claiming that current and former EDS employees allegedly involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees. Another purported collective action, *Steavens, et al. v. Electronic Data Systems Corporation*, which was filed on October 23, 2007, is also now pending in the same court alleging similar facts. The *Steavens* case has been consolidated for pretrial purposes with the *Cunningham* case. On December 14, 2010, the court granted conditional certification of a class consisting of employees in 20 legacy EDS job codes in the consolidated *Cunningham* and *Steavens* matter. Approximately 2,600 current and former EDS employees have filed consents to opt in to the litigation. Plaintiffs had alleged separate "opt-out" classes based on the overtime laws of the states of California, Washington, Massachusetts and New York, but plaintiffs have dismissed those claims.

Salva v. Hewlett-Packard Company is a purported collective action filed on June 15, 2012 in the United States District Court for the Western District of New York alleging that certain information technology employees allegedly involved in installing and/or maintaining computer software and hardware were misclassified as exempt employees under the Fair Labor Standards Act. On August 31, 2012, HP filed its answer to plaintiffs' complaint and counterclaims against two of the three named plaintiffs. Also on August 31, 2012, HP filed a motion to transfer venue to the United States District Court for the Eastern District of Texas. A hearing on HP's motion to transfer venue was scheduled for November 21, 2012, but was postponed by the court.

Heffelfinger, et al. v. Electronic Data Systems Corporation is a class action filed in November 2006 in California Superior Court claiming that certain EDS information technology workers in California were misclassified as exempt employees. The case was subsequently transferred to the United States District Court for the Central District of California, which, on January 7, 2008, certified a class of information technology workers in California. On June 6, 2008, the court granted the defendant's motion for summary judgment. The plaintiffs subsequently filed an

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES**Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 15: Litigation and Contingencies (Continued)**

appeal with the United States Court of Appeals for the Ninth Circuit. On June 7, 2012, the Court of Appeals affirmed summary judgment for two of the named plaintiffs, but reversed summary judgment on the third named plaintiff, remanding the case back to the trial court and inviting the trial court to revisit its prior certification order. On February 26, 2013, the trial court issued a final order and opinion granting the defendant's motion to decertify the class. Another purported class action originally filed in California Superior Court, Karlbom, et al. v. Electronic Data Systems Corporation, which was filed on March 16, 2009, alleges similar facts and is pending in San Diego County Superior Court.

Blake, et al. v. Hewlett-Packard Company is a purported nationwide collective action filed on February 17, 2011 in the United States District Court for the Southern District of Texas claiming that a class of information technology support personnel were misclassified as exempt employees under the Fair Labor Standards Act. On February 10, 2012, plaintiffs filed a motion requesting that the court conditionally certify the case as a collective action. HP has opposed plaintiffs' motion for conditional certification, and the court has taken the motion under advisement. Only one opt-in plaintiff had joined the named plaintiff in the lawsuit at the time that the motion was filed.

Benedict v. Hewlett-Packard Company is a purported collective action filed on January 10, 2013 in the United States District Court for the Northern District of California alleging that certain technical support employees allegedly involved in installing, maintaining and/or supporting computer software and/or hardware for HP were misclassified as exempt employees under the Fair Labor Standards Act. The plaintiff has also alleged that HP violated California law by, among other things, allegedly improperly classifying these employees as exempt.

India Directorate of Revenue Intelligence Proceedings. On April 30 and May 10, 2010, the India Directorate of Revenue Intelligence (the "DRI") issued show cause notices to Hewlett-Packard India Sales Private Ltd ("HPI"), a subsidiary of HP, seven current HP employees and one former HP employee alleging that HP underpaid customs duties while importing products and spare parts into India and seeking to recover an aggregate of approximately \$370 million, plus penalties. Prior to the issuance of the show cause notices, HP deposited approximately \$16 million with the DRI and agreed to post a provisional bond in exchange for the DRI's agreement to not seize HP products and spare parts and to not interrupt the transaction of business by HP in India.

On April 11, 2012, the Bangalore Commissioner of Customs issued an order on the products show cause notice affirming certain duties and penalties against HPI and the named individuals of approximately \$386 million, of which HPI had already deposited \$9 million. On December 11, 2012, HPI voluntarily deposited an additional \$10 million in connection with the products show cause notice.

On April 20, 2012, the Commissioner issued an order on the parts show cause notice affirming certain duties and penalties against HPI and certain of the named individuals of approximately \$17 million, of which HPI had already deposited \$7 million. After the order, HPI deposited an additional \$3 million in connection with the parts show cause notice so as to avoid certain penalties.

HPI filed appeals of the Commissioner's orders before the Customs Tribunal along with applications for waiver of the pre-deposit of remaining demand amounts as a condition for hearing the appeals. The customs department has also filed cross-appeals before the Customs Tribunal. A hearing on the application for waiver of the deposit was heard on January 24, 2013, and the Customs Tribunal ordered HPI to deposit an additional \$24 million against the products order by March 14, 2013. The Customs Tribunal did not order any additional deposit to be made under the parts order.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Russia GPO and Related Investigations. The German Public Prosecutor's Office ("German PPO") has been conducting an investigation into allegations that current and former employees of HP engaged in bribery, embezzlement and tax evasion relating to a transaction between Hewlett-Packard ISE GmbH in Germany, a former subsidiary of HP, and the General Prosecutor's Office of the Russian Federation. The approximately €35 million transaction, which was referred to as the Russia GPO deal, spanned the years 2001 to 2006 and was for the delivery and installation of an IT network. The German PPO has issued an indictment of four individuals, including one current and two former HP employees, on charges including bribery, breach of trust and tax evasion. The German PPO has also asked that HP be made an associated party to the case, and, if the German PPO's request is granted, HP would participate in any portion of the court proceedings that could ultimately bear on the question of whether HP should be subject to potential disgorgement of profits based on the conduct of the indicted current and former employees.

The U.S. Department of Justice and the SEC have also been conducting an investigation into the Russia GPO deal and potential violations of the Foreign Corrupt Practices Act ("FCPA"). Under the FCPA, a person or an entity could be subject to fines, civil penalties of up to \$500,000 per violation and equitable remedies, including disgorgement and other injunctive relief. In addition, criminal penalties could range from the greater of \$2 million per violation or twice the gross pecuniary gain or loss from the violation.

In addition to information about the Russia GPO deal, the U.S. enforcement authorities have requested information from HP relating to certain transactions in Russia and in the Commonwealth of Independent States sub-region dating back to 2000.

HP is cooperating with these investigating agencies.

ECT Proceedings. In January 2011, the postal service of Brazil, Empresa Brasileira de Correios e Telégrafos ("ECT"), notified HP that it had initiated administrative proceedings against an HP subsidiary in Brazil ("HP Brazil") to consider whether to suspend HP Brazil's right to bid and contract with ECT related to alleged improprieties in the bidding and contracting processes whereby employees of HP Brazil and employees of several other companies coordinated their bids for three ECT contracts in 2007 and 2008. In late July 2011, ECT notified HP it had decided to apply the penalties against HP Brazil, suspending HP Brazil's right to bid and contract with ECT for five years, based upon the evidence before it. In August 2011, HP filed petitions with ECT requesting that the decision be revoked and seeking injunctive relief to have the application of the penalties suspended until a final, non-appealable decision is made on the merits of the case. HP is currently awaiting a response from ECT on both petitions. Because ECT did not rule on the substance of HP's petitions in a timely manner, HP filed a lawsuit seeking similar relief from the court. The court of first instance has not decided the merits of HP's lawsuit, but has denied HP's request for injunctive relief suspending application of the penalties pending a final, non-appealable decision on the merits of the case. HP appealed the denial of its request for injunctive relief to the intermediate appellate court, which issued a preliminary ruling denying the request for injunctive relief but reducing the length of the sanctions from five to two years. HP appealed that decision and, in December 2011, obtained a ruling staying enforcement of ECT's sanctions until HP can be heard on the full merits of the case. HP expects the court of first instance to issue a decision on the merits of the case during 2013 and any appeal on the merits to last several years.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Stockholder Litigation. As described below, HP is involved in various stockholder litigation commenced against certain current and former HP executive officers and/or certain current and former members of the HP Board of Directors in which the plaintiffs are seeking to recover certain compensation paid by HP to the defendants, other damages and/or injunctive relief:

Saginaw Police & Fire Pension Fund v. Marc L. Andreessen, et al. is a lawsuit filed on October 19, 2010 in the United States District Court for the Northern District of California alleging, among other things, that the defendants breached their fiduciary duties and were unjustly enriched by consciously disregarding HP's alleged violations of the FCPA. On August 15, 2011, the defendants filed a motion to dismiss the lawsuit. On March 21, 2012, the court granted the defendants' motion to dismiss, and the court entered judgment in the defendants' favor and closed the case on May 29, 2012. On June 28, 2012, the plaintiff filed an appeal with the United States Court of Appeals for the Ninth Circuit.

A.J. Copeland v. Raymond J. Lane, et al. is a lawsuit filed on March 7, 2011 in the United States District Court for the Northern District of California alleging, among other things, that the defendants breached their fiduciary duties and wasted corporate assets in connection with HP's alleged violations of the FCPA, HP's severance payments made to Mr. Hurd, and HP's acquisition of 3PAR Inc. The lawsuit also alleges violations of Section 14(a) of the Exchange Act in connection with HP's 2010 and 2011 proxy statements. On February 8, 2012, the defendants filed a motion to dismiss the lawsuit. On October 10, 2012, the Court granted the defendants' motion to dismiss with leave to file an amended complaint. On November 1, 2012, plaintiff filed an amended complaint adding an unjust enrichment claim and claims that the defendants violated Section 14(a) of the Exchange Act and breached their fiduciary duties in connection with HP's 2012 proxy statement. On December 13, 14 and 17, 2012, the defendants moved to dismiss the amended complaint. The court has not yet ruled on the motions.

Richard Gammel v. Hewlett-Packard Company, et al. is a putative securities class action filed on September 13, 2011 in the United States District Court for the Central District of California alleging, among other things, that from November 22, 2010 to August 18, 2011, the defendants violated Sections 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements about HP's business model, the future of the webOS operating system, and HP's commitment to developing and integrating webOS products, including the TouchPad tablet PC. On April 11, 2012, the defendants filed a motion to dismiss the lawsuit. On September 4, 2012, the court granted the defendants' motion to dismiss and gave plaintiff 30 days to file an amended complaint. On October 19, 2012, plaintiff filed an amended complaint that asserts the same causes of action but drops one of the defendants and shortens the period that the alleged violations of the Exchange Act occurred to February 9, 2011 to August 18, 2011. On December 3, 2012, the defendants moved to dismiss the amended complaint. The court has not yet ruled on the motion.

Ernesto Espinoza v. Léo Apotheker, et al. and Larry Salat v. Léo Apotheker, et al. are consolidated lawsuits filed on September 21, 2011 in the United States District Court for the Central District of California alleging, among other things, that the defendants violated Section 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business. The lawsuits also

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

allege that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched when they authorized HP's repurchase of its own stock on August 29, 2010 and July 21, 2011. The lawsuits are currently stayed pending developments in the Gammel matter.

Luis Gonzalez v. Léo Apotheker, et al. and Richard Tyner v. Léo Apotheker, et al. are consolidated lawsuits filed on September 29, 2011 and October 5, 2011, respectively, in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched by concealing material information and making false statements about HP's business model and the future of webOS, the TouchPad and HP's PC business and by authorizing HP's repurchase of its own stock on August 29, 2010 and July 21, 2011. The lawsuits are currently stayed pending resolution of the Espinoza/Salat consolidated action in federal court.

Cement & Concrete Workers District Council Pension Fund v. Hewlett-Packard Company, et al. is a putative securities class action filed on August 3, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from November 13, 2007 to August 6, 2010 the defendants violated Sections 10(b) and 20(a) of the Exchange Act by making statements regarding HP's Standards of Business Conduct ("SBC") that were false and misleading because Mr. Hurd, who was serving as HP's Chairman and Chief Executive Officer during that period, had been violating the SBC and concealing his misbehavior in a manner that jeopardized his continued employment with HP. On February 7, 2013, the defendants moved to dismiss the amended complaint. The Court has not yet ruled on the motion.

Autonomy-Related Legal Matters

Investigations. As a result of the findings of an ongoing investigation, HP has provided information to the U.K. Serious Fraud Office, the U.S. Department of Justice and the SEC related to the accounting improprieties, disclosure failures and misrepresentations at Autonomy that occurred prior to and in connection with HP's acquisition of Autonomy. On November 21, 2012, representatives of the U.S. Department of Justice advised HP that they had opened an investigation relating to Autonomy. On February 6, 2013, representatives of the U.K. Serious Fraud Office advised HP that they had also opened an investigation relating to Autonomy. HP is cooperating with the three investigating agencies.

Litigation. As described below, HP is involved in various stockholder litigation relating to, among other things, its November 20, 2012 announcement that it recorded a non-cash charge for the impairment of goodwill and intangible assets within its Software segment of approximately \$8.8 billion in the fourth quarter of its 2012 fiscal year and HP's statements that, based on HP's findings from an ongoing investigation, the majority of this impairment charge related to accounting improprieties, misrepresentations to the market and disclosure failures at Autonomy that occurred prior to and in connection with HP's acquisition of Autonomy and the impact of those improprieties, failures and misrepresentations on the expected future financial performance of the Autonomy business over the long term. This stockholder litigation was commenced against, among others, certain current and former HP executive officers, certain current and former members of the HP Board of Directors, and certain advisors to HP. The plaintiffs in these litigation matters are seeking to recover certain

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

compensation paid by HP to the defendants and/or other damages. These matters include the following:

Allan J. Nicolow v. Hewlett-Packard Co., et al. is a putative securities class action filed on November 26, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 19, 2011 to November 20, 2012, the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") by concealing material information and making false statements related to HP's acquisition of Autonomy and the financial performance of HP's Enterprise Services business.

Davin Pokoik v. Hewlett-Packard Co., et al. is a putative securities class action filed on November 30, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 19, 2011 to November 19, 2012, the defendants violated Sections 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements related to HP's acquisition of Autonomy and the financial performance of HP's Enterprise Services business.

In re Hewlett-Packard Shareholder Derivative Litigation consists of eight consolidated lawsuits filed beginning on November 26, 2012 in the United States District Court for the Northern District of California alleging, among other things, that the defendants violated Sections 10(b) and 20(a) of the Exchange Act by concealing material information and making false statements related to HP's acquisition of Autonomy and the financial performance of HP's Enterprise Services business. The lawsuits also allege that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012. One lawsuit further alleges that certain individual defendants engaged in or assisted insider trading and thereby breached their fiduciary duties, were unjustly enriched and violated Sections 25402 and 25403 of the California Corporations Code.

Miriam Birinkrant v. Michael R. Lynch, et al. is a lawsuit filed on December 14, 2012 in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties, wasted corporate assets and were unjustly enriched in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012.

Vincent Ho v. Margaret C. Whitman, et al. is a lawsuit filed on January 22, 2013 in California Superior Court alleging, among other things, that the defendants breached their fiduciary duties and wasted corporate assets in connection with HP's acquisition of Autonomy and by causing HP to repurchase its own stock at allegedly inflated prices between August 2011 and October 2012.

Mike Laffen v. Hewlett-Packard Co., et al. is a putative class action filed on December 6, 2012 in the United States District Court for the Northern District of California alleging, among other things, that, from December 12, 2011 to November 22, 2012, HP, HP's 401(k) Plan Committee and HP's Investment Review Committee breached their fiduciary obligations to HP's 401(k) Plan and its participants and thereby violated Sections 404(a)(1) and 405(a) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 15: Litigation and Contingencies (Continued)

Karvn Lustig v. Margaret C. Whitman, et al. is a putative class action filed on December 18, 2012 in the United States District Court for the Northern District of California alleging, among other things, that from August 19, 2011 to November 20, 2012, the defendants breached their fiduciary obligations to HP's 401(k) Plan and its participants and thereby violated Sections 404(a)(1) and 405(a) of ERISA by concealing negative information regarding the financial performance of Autonomy and HP's enterprise services business and failing to restrict participants from investing in HP stock.

Kenneth A. Kotyuk v. Hewlett-Packard Co., et al. is a putative class action filed on January 22, 2013 in the United States District Court for the Northern District of California alleging, among other things, that from August 18, 2011 to November 22, 2012, HP, HP's 401(k) Plan Committee and HP's Investment Review Committee breached their fiduciary obligations to HP's 401(k) Plan and its participants and thereby violated Sections 404(a)(1) and 405(a) of ERISA.

Environmental

HP's operations and products are subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the content of HP's products and the recycling, treatment and disposal of those products. In particular, HP faces increasing complexity in its product design and procurement operations as it adjusts to new and future requirements relating to the chemical and materials composition of its products, their safe use, and the energy consumption associated with those products, including requirements relating to climate change. HP is also subject to legislation in an increasing number of jurisdictions that makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products (sometimes referred to as "product take-back legislation"). HP could incur substantial costs, its products could be restricted from entering certain jurisdictions, and it could face other sanctions, if it were to violate or become liable under environmental laws or if its products become non-compliant with environmental laws. HP's potential exposure includes fines and civil or criminal sanctions, third-party property damage or personal injury claims and clean up costs. The amount and timing of costs under environmental laws are difficult to predict.

HP is party to, or otherwise involved in, proceedings brought by U.S. or state environmental agencies under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), known as "Superfund," or state laws similar to CERCLA and may become a party to, or otherwise involved in, proceedings brought by private parties for contribution towards clean-up costs. HP is also conducting environmental investigations or remediations at several current or former operating sites pursuant to administrative orders or consent agreements with state environmental agencies.

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information

Description of Segments

HP is a leading global provider of products, technologies, software, solutions and services to individual consumers, small and medium-sized businesses ("SMBs"), and large enterprises, including customers in the government, health and education sectors. HP's offerings span personal computing and other access devices; imaging and printing-related products and services; multi-vendor customer services, including infrastructure technology and business process outsourcing, application development and support services and consulting and integration services; enterprise information technology ("IT") infrastructure, including enterprise storage and server technology, networking products and solutions, technology support and maintenance; and IT management software, information management solutions and security intelligence/risk management solutions.

HP's operations are organized into seven reportable business segments for financial reporting purposes: Personal Systems, Printing, the Enterprise Group, Enterprise Services, Software, HP Financial Services ("HPFS") and Corporate Investments. HP's organizational structure is based on a number of factors that management uses to evaluate, view and run its business operations, which include, but are not limited to, customer base, homogeneity of products and technology. The reportable business segments are based on this organizational structure and information reviewed by HP's management to evaluate the business segment results.

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group ("PPS"). While PPS is not a financial reporting segment, HP sometimes provides financial data aggregating the segments within it in order to provide a supplementary view of its business.

HP has implemented certain organizational realignments. As a result of these realignments, HP has re-evaluated its segment financial reporting structure and, effective in the first quarter of fiscal 2013, created two new financial reporting segments, the EG segment and the ES segment, and eliminated two other financial reporting segments, the ESSN segment and the Services segment. The EG segment consists of the business units within the former ESSN segment and most of the services offerings of the TS business unit, which was previously a part of the former Services segment. The ES segment consists of the ABS and ITO business units from the former Services segment, along with the end-user workplace support services business that was previously a part of the TS business unit.

Also as a result of these realignments, the financial results of the Personal Systems commercial products support business, which were previously reported as part of the TS business unit, will now be reported as part of the Other business unit within the Personal Systems segment, and the financial results of the portion of the business intelligence services business that had continued to be reported as part of the Corporate Investments segment following the implementation of prior realignment actions will now be reported as part of the ABS business unit. In addition, the end-user workplace support business, which, as noted above, was previously a part of the TS business unit and will now become a part of the ES segment, will be reported as part of the ITO business unit within that segment.

A description of the types of products and services provided by each business segment follows.

The *Printing and Personal Systems Group's* mission is to leverage the respective strengths of the Personal Systems business and the Printing business in creating a single, unified business that is

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

customer-focused and poised to capitalize on rapidly shifting industry trends. Each of the business segments within PPS is described in detail below.

Personal Systems provides commercial PCs, consumer PCs, workstations, calculators and other related accessories, software, support and services for the commercial and consumer markets. We group commercial notebooks, commercial desktops and workstations into commercial PC's and consumer notebooks and consumer desktops into consumer PC's when describing our performance in these markets. Described below are our global business capabilities within Personal Systems.

Commercial PCs are optimized for commercial uses, including enterprise and SMB customers, and for connectivity and manageability in networked environments. Commercial PCs include the HP ProBook and HP EliteBook lines of notebooks and the Compaq Pro, Compaq Elite, HP Pro and HP Elite lines of business desktops, as well as the All-in-One Touchsmart and Omni PCs, HP Mini-Note PCs, retail POS systems, HP Thin Clients and HP ElitePad Tablet PCs.

Consumer PCs include the HP Spectre, Pavilion, HP ENVY and Compaq Presario series of multi-media consumer notebooks, desktops and mini notebooks, including the TouchSmart line of touch-enabled notebooks and all-in-one desktops.

Workstations are designed and optimized to reliably operate in high performance and demanding application environments, such as computer animation, graphic design, video and audio production, software development, financial trading, engineering design and analysis, architectural engineering, image analysis and energy exploration.

Printing provides consumer and commercial printer hardware, supplies, media, software and services, as well as scanning devices. Printing is also focused on imaging solutions in the commercial markets. We group laserjet, large format and Indigo printers into commercial hardware and inkjet printers into consumer hardware when describing our performance in these markets. Described below are our global business capabilities within Printing.

Inkjet and Printing Solutions delivers HP's consumer and SMB inkjet solutions (hardware, supplies, media, web-connected hardware and services). It includes single-function and all-in-one inkjet printers targeted toward consumers and SMBs, as well as ePrintCenter.

LaserJet and Enterprise Solutions delivers products, services and solutions to the medium-sized business and enterprise segments, including LaserJet printers and supplies, multi-function devices, scanners, web-connected hardware and services and enterprise software solutions, such as Exstream Software and Web Jetadmin. HP Managed Solutions include managed service products, support and solutions delivered to enterprise customers partnering with third-party software providers to offer workflow solutions in the enterprise environment.

Graphics Solutions include large format printing (Designjet and Scitex) and supplies, Indigo digital presses and supplies, inkjet high-speed production solutions and supplies, specialty printing systems and graphics services. Graphic Solutions targets print service providers, architects, engineers, designers, photofinishers and industrial solution providers.

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Software and Web Services delivers a robust platform and a suite of offerings that includes: photo-storage and printing offerings such as Snapfish; document storage; entertainment services; web-connected printing; and PC back-up and related services.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

The *Enterprise Group* provides servers, storage, networking, technology services and, when combined with HP's Cloud Service Automation software suite, the HP CloudSystem. The CloudSystem enables infrastructure, platform and software-as-a-service in private, public or hybrid environments. Described below are our business units and capabilities within EG.

Industry Standard Servers offers ProLiant servers, running primarily Windows, Linux and virtualization platforms from Microsoft Corporation, VMware, Inc. and other major vendors and leveraging Intel Corporation and Advanced Micro Devices, Inc. x86 processors. The business spans a range of server product lines, including pedestal-tower, traditional rack, density-optimized rack, blades and solutions for large distributed computing companies (Hyperscale class) who buy and deploy compute nodes at a massive scale.

Business Critical Systems offers HP Integrity servers based on the Intel Itanium-based processor, HP Integrity NonStop solutions and scale-up x86 ProLiant Servers.

Storage offerings include traditional storage and converged storage solutions. Traditional storage includes tape, storage networking and legacy external disk products such as EVA and XP. Converged storage solutions include 3PAR, StoreOnce, StoreVirtual and StoreAll products.

Networking portfolio includes switches and routers that span the data center, campus and branch environments and deliver network management and unified communications. HP's wireless networking offerings include wireless LAN access points and controllers/switches.

Technology Services differentiates the HP product experience for customers with consulting and support services focused on the data center. Support services includes Datacenter Care, Foundation Care, Proactive Care and Lifecycle Event services that help align support service levels to business needs, as well as warranty support across EG's product lines. Consulting services, which are tightly aligned and optimized for HP's enterprise product portfolio, include data center, network and storage consulting, and education services, as well as converged cloud, mobility and big data consulting services.

Enterprise Services provides technology consulting, outsourcing and support services across infrastructure, applications and business process domains. ES is divided into two main areas: Infrastructure Technology Outsourcing and Application and Business Services.

Infrastructure Technology Outsourcing delivers comprehensive services that encompass the data center, IT security, cloud-based computing, workplace technology, network, unified communications, and enterprise service management.

Application and Business Services helps clients develop, revitalize and manage their applications and information assets. This full application life cycle approach encompasses application development, testing, modernization, system integration, maintenance and management for both packaged and custom-built applications. The ABS portfolio also includes intellectual property-based industry solutions, services and technologies to help clients better manage critical business processes. HP also offers services for customer relationship management, finance and administration, human resources, payroll and document processing.

Software provides IT management, information management, and security solutions for businesses and enterprises of all sizes. HP's IT management solutions help customers around the world deliver

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Note 16: Segment Information (Continued)

applications and services that perform to defined standards and automate and assure the underlying infrastructure, be it traditional, cloud or hybrid. Our information management solutions include our Autonomy and Vertica platforms, which are designed to help customers get faster answers from all of their structured and unstructured information. Our security solutions provide customers with security at all levels of their enterprise from the infrastructure through applications and information. HP's Software offerings have complementary support and professional services to provide an end-to-end solution.

HP Financial Services supports and enhances HP's global product and services solutions, providing a broad range of value-added financial life cycle management services. HPFS enables HP's worldwide customers to acquire complete IT solutions, including hardware, software and services. HPFS offers leasing, financing, utility programs, and asset recovery services, as well as financial asset management services for large global and enterprise customers. HPFS also provides an array of specialized financial services to SMBs and educational and governmental entities. HPFS offers innovative, customized and flexible alternatives to balance unique customer cash flow, technology obsolescence and capacity needs.

Corporate Investments includes HP Labs, the webOS business and certain business incubation projects.

Segment Data

HP derives the results of the business segments directly from its internal management reporting system. The accounting policies HP uses to derive business segment results are substantially the same as those the consolidated company uses. Management measures the performance of each business segment based on several metrics, including earnings from operations. Management uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments. HP does not allocate to its business segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include primarily restructuring charges and any associated adjustments related to restructuring actions, amortization of purchased intangible assets, stock-based compensation expense related to HP-granted employee stock options, PRUs, restricted stock awards and the employee stock purchase plan, certain acquisition-related charges and charges for purchased IPR&D, as well as certain corporate governance costs.

Segment revenue includes revenues from sales to external customers and intersegment revenues that reflect transactions between the segments that are carried out at an arm's-length transfer price. Intersegment revenues primarily consist of sales of hardware and software that are sourced internally and, in the majority of the cases, are structured through HPFS as operating leases. HP's Consolidated Net Revenue is derived and reported after elimination of intersegment revenues for such arrangements in accordance with U.S. GAAP.

To provide improved visibility and comparability, HP has reflected the 2013 changes to its reporting structure in prior financial reporting periods on an as-if basis, which has resulted in the transfer of revenue and operating profit among the Personal Systems, the EG, ES and Corporate Investments segments. These changes had no impact on the previously reported financial results for the Printing, Software or HPFS segments. In addition, none of these changes impacted HP's previously reported consolidated net revenue, earnings from operations, net earnings or net earnings per share.

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 16: Segment Information (Continued)**

Selected operating results information for each business segment was as follows for the three months ended January 31:

	Printing and Personal Systems		Enterprise Group	Enterprise Services	HP			Total
	Personal Systems	Printing			Software	Financial Services	Corporate Investments	
2013								
Net revenue	\$ 8,040	\$ 5,884	\$ 6,821	\$ 5,792	\$ 872	\$ 946	\$ 4	\$ 28,359
Intersegment net revenue and other	164	42	163	127	54	11		561
Total segment net revenue	\$ 8,204	\$ 5,926	\$ 6,984	\$ 5,919	\$ 926	\$ 957	\$ 4	\$ 28,920
Earnings (loss) from operations	\$ 223	\$ 953	\$ 1,084	\$ 76	\$ 157	\$ 101	\$ (65)	\$ 2,529
2012								
Net revenue	\$ 8,652	\$ 6,226	\$ 7,030	\$ 6,272	\$ 887	\$ 940	\$ 29	\$ 30,036
Intersegment net revenue and other	240	32	252	99	59	10	1	693
Total segment net revenue	\$ 8,892	\$ 6,258	\$ 7,282	\$ 6,371	\$ 946	\$ 950	\$ 30	\$ 30,729
Earnings (loss) from operations	\$ 459	\$ 761	\$ 1,329	\$ 145	\$ 162	\$ 91	\$ (50)	\$ 2,897

The reconciliation of segment operating results information to HP consolidated totals was as follows:

	Three months ended January 31	
	2013	2012
	In millions	
Net revenue:		
Segment total	\$ 28,920	\$ 30,729
Eliminations of intersegment net revenue and other	(561)	(693)
Total HP consolidated net revenue	\$ 28,359	\$ 30,036
Earnings before taxes:		
Total segment earnings from operations	\$ 2,529	\$ 2,897
Corporate and unallocated costs and eliminations	(109)	(153)
Unallocated costs related to stock-based compensation expense	(184)	(174)
Amortization of purchased intangible assets	(350)	(466)
Restructuring charges	(130)	(40)
Acquisition-related charges	(4)	(22)

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Interest and other, net	(179)	(221)
Total HP consolidated earnings before taxes	\$ 1,573	\$ 1,821

Table of Contents**HEWLETT-PACKARD COMPANY AND SUBSIDIARIES****Notes to Consolidated Condensed Financial Statements (Continued)****(Unaudited)****Note 16: Segment Information (Continued)**

In connection with certain fiscal 2013 organizational realignments, HP reclassified total assets between its EG and ES financial reporting segments. There have been no material changes to the total assets of HP's individual segments since October 31, 2012.

Net revenue by segment and business unit

	Three months ended January 31	
	2013	2012
	In millions	
Net revenue:		
Notebooks	\$ 4,128	\$ 4,942
Desktops	3,321	3,206
Workstations	535	535
Other	220	209
Personal Systems	8,204	8,892
Supplies	3,893	4,079
Commercial Hardware	1,354	1,489
Consumer Hardware	679	690
Printing	5,926	6,258
Printing and Personal Systems Group	14,130	15,150
Industry Standard Servers	2,994	3,072
Technology Services	2,243	2,264
Storage	833	955
Networking	608	586
Business Critical Systems	306	405
Enterprise Group	6,984	7,282
Infrastructure Technology Outsourcing	3,736	3,980
Application and Business Services	2,183	2,391
Enterprise Services	5,919	6,371
Software	926	946
HP Financial Services	957	950
Corporate Investments	4	30
Total segments	28,920	30,729
Eliminations of intersegment net revenue and other	(561)	(693)

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Total HP consolidated net revenue \$ 28,359 \$ 30,036

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES

**Management's Discussion and Analysis of
Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and the related notes that appear elsewhere in this document.

OVERVIEW

We are a leading global provider of products, technologies, software, solutions and services to individual consumers, small- and medium-sized businesses ("SMBs"), and large enterprises, including customers in the government, health and education sectors. Our offerings span:

personal computing and other access devices;

imaging and printing-related products and services;

multi-vendor customer services, including infrastructure technology and business process outsourcing, application development and support services and consulting and integration services;

enterprise information technology infrastructure, including enterprise server and storage technology, networking products and solutions, technology support and maintenance; and

IT management software, information management solutions and security intelligence/risk management solutions.

HP's operations are organized into seven reportable business segments for financial reporting purposes: Personal Systems, Printing, the Enterprise Group ("EG"), Enterprise Services ("ES"), Software, HP Financial Services ("HPFS") and Corporate Investments.

Our strategy and operations are currently focused on the following initiatives:

Strategic Focus

The core of our business is our hardware and infrastructure products, which include our PC, server, storage, networking, and imaging and printing products. Our software business provides enterprise IT management software, information management solutions and security intelligence/risk management solutions delivered in the form of traditional software licenses or as software-as-a-service that allow us to differentiate our hardware products and deploy them in a manner that helps our customers solve problems and meets our customers' needs to manage their infrastructure, operations, application life cycles, application quality and security, business processes, and structured and unstructured data. Our Converged Infrastructure portfolio of servers, storage and networking combined with our Cloud Service Automation software suite enables enterprise and service provider clients to deliver infrastructure, platform and software-as-a-service in a private, public or hybrid cloud environment. Layered on top of our hardware and software businesses is our services business, which provides opportunities to drive usage of HP products and solutions, enables us to implement and manage all the technologies upon which our customers rely, and gives us a platform to be more solution-oriented, particularly in our focus areas of cloud, security and analytics, and to be a better strategic partner with our customers.

Table of Contents

Leveraging our Portfolio and Scale

We offer one of the IT industry's broadest portfolios of products and services, and we are leveraging that portfolio to our strategic advantage. For example, we are able to provide servers, storage and networking products packaged with services that can be delivered to customers in the manner of their choosing, be it in-house, outsourced as a service via the Internet, or via a hybrid environment. Our portfolio of management software completes the package by allowing our customers to manage their IT operations in an efficient and cost-effective manner. In addition, we are working to optimize our supply chain by eliminating complexity, reducing fixed costs, and leveraging our scale to ensure the availability of components at favorable prices even during shortages. We are also expanding our use of industry standard components in our enterprise products to further leverage our scale.

Addressing the Challenges Facing Our Business

Our business has experienced a multi-quarter decline in revenue and operating margins. This decline in financial performance reflects a series of challenges facing our business. Many of those challenges relate to structural and execution issues, including the following: we need to align our costs with our revenue trajectory; we need to address our underinvestment in R&D and in our internal IT systems in recent years, which has made us less competitive, effective and efficient; we need to implement the data gathering and reporting tools and systems needed to track and report on all key business performance metrics so as to most effectively manage a company of our size, scale and diversity; and we need to rebuild our business relationships with our channel partners. We are also facing dynamic market trends, such as the growth of mobility, the increasing demand for hyperscale computing infrastructure, the shift to software-as-a-service and the transition towards cloud computing, and we need to develop products and services that position us to win in a very competitive marketplace. Furthermore, we face a series of significant macroeconomic challenges, including broad-based weakness in consumer spending, weak demand in the SMB and enterprise sectors in Europe, and declining growth in some emerging markets.

We are addressing these challenges through consistency of leadership, focus, execution and, most importantly, superior products, services and solutions. During fiscal 2012, we implemented some leadership and organizational changes, including consolidating our personal computer and printing businesses under the same senior executive leadership, merging our global accounts sales organization into EG, and centralizing all of our marketing and communications activities. We also began implementing cost-reduction initiatives, including a company-wide restructuring plan we expect to be implemented through the end of fiscal 2014. In addition, we began making significant changes to our sales force to improve our go-to-market selling activities and reduce cost, and we renewed our focus on developing new products, services and solutions. We also began working to optimize our supply chain, reduce the number of stock keeping units (SKUs) and platforms, refine our real estate strategy, improve our business processes and implement consistent pricing and promotions. During fiscal 2013, we are focused on working through the anticipated disruptions expected to accompany the changes made in fiscal 2012 and continuing to implement our cost-reduction and operational initiatives.

Investing in our Business

The cost-reduction and operational efficiency initiatives discussed above are also intended to facilitate increased investment in our business. We expect to invest savings from these efforts across our businesses, including investing to respond to market trends and customer expectations, strengthen our position in our core markets, accelerate growth in adjacent markets, and drive leadership in the three strategic areas of cloud computing, security and information management. Over time, we expect these investments to allow us to expand in higher margin and higher growth industry segments and further strengthen our portfolio of hardware, software and services to solve customer problems. However, the rate at which we are able to invest in our business and the returns that we are able to achieve from

Table of Contents

these investments will be affected by many factors, including the efforts to address the execution, industry and macroeconomic challenges facing our business as discussed above.

The following provides an overview of our key first quarter fiscal 2013 financial metrics:

	Printing and Personal Systems Group							HPFS
	HP ⁽¹⁾ Consolidated	Personal Systems	Printing	Total	Enterprise Group	Enterprise Services	Software	
In millions, except per share amounts								
Net revenue	\$ 28,359	\$ 8,204	\$ 5,926	\$ 14,130	\$ 6,984	\$ 5,919	\$ 926	\$ 957
Year-over-year net revenue % (decrease) increase	(5.6)%	(7.7)%	(5.3)%	(6.7)%	(4.1)%	(7.1)%	(2.1)%	0.7%
Earnings from operations	\$ 1,752	\$ 223	\$ 953	\$ 1,176	\$ 1,084	\$ 76	\$ 157	\$ 101
Earnings from operations as a % of net revenue	6.2%	2.7%	16.1%	8.3%	15.5%	1.3%	17.0%	10.6%
Net earnings	\$ 1,232							
Net earnings per share								
Basic	\$ 0.63							
Diluted	\$ 0.63							

(1) HP consolidated net revenue includes a reduction of approximately \$0.6 billion primarily related to the elimination of intersegment net revenue and revenue from our Corporate Investments segment. HP consolidated earnings from operations includes amounts related to the amortization of purchased intangible assets, unallocated costs related to certain stock-based compensation expenses, restructuring charges, corporate and unallocated costs and eliminations, a loss from the Corporate Investments segment, and acquisition-related charges.

Cash and cash equivalents at January 31, 2013 totaled \$12.6 billion, an increase of \$1.3 billion from the October 31, 2012 balance of \$11.3 billion. The increase for the first three months of fiscal 2013 was due primarily to \$2.6 billion of cash provided from operations, the effect of which was partially offset by \$0.5 billion of cash used to repurchase common stock and pay dividends, and \$0.5 billion net investment in property, plant and equipment

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist in understanding our Consolidated Condensed Financial Statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our Consolidated Condensed Financial Statements.

The discussion of results of operations at the consolidated level is followed by a more detailed discussion of results of operations by segment.

For a further discussion of trends, uncertainties and other factors that could impact our operating results, see the section entitled "Factors That Could Affect Future Results."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Condensed Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions 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 that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Management believes that the accounting

Table of Contents

estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes that there have been no significant changes during the three months ended January 31, 2013 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended October 31, 2012.

ACCOUNTING PRONOUNCEMENTS

The following is a summary of certain accounting pronouncements with application to our consolidated financial statements in future periods.

In February 2013, the Financial Accounting Standards Board ("FASB") issued amendments to the FASB Accounting Standards Codification relating to the reporting of reclassifications out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. We are required to adopt these amendments in the first quarter of fiscal 2014 prospectively, although early adoption is permitted.

CONSTANT CURRENCY PRESENTATION

Revenue from our international operations has historically represented, and we expect will continue to represent, a majority of our overall net revenue. As a result, our revenue growth has been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. In order to provide a framework for assessing how each of our business segments performed excluding the impact of foreign currency fluctuations, we present the year-over-year percentage change in revenue performance on a constant currency basis, which assumes no change in the exchange rate from the prior-year period. This constant currency disclosure is provided in addition to, and not as a substitute for, the year-over-year percentage change in revenue on an as-reported basis.

Table of Contents**RESULTS OF OPERATIONS**

Set forth below is an analysis of our financial results comparing the three months ended January 31, 2013 to the three months ended January 31, 2012. Unless otherwise noted, all comparative performance data included below reflect year-over-year comparisons.

Results of operations in dollars and as a percentage of net revenue were as follows:

	Three months ended January 31			
	2013		2012	
	Dollars	% of Revenue	Dollars	% of Revenue
In millions				
Net revenue	\$ 28,359	100%	\$ 30,036	100%
Cost of sales ⁽¹⁾	22,029	77.7%	23,313	77.6%
Gross profit	6,330	22.3%	6,723	22.4%
Research and development	794	2.8%	786	2.6%
Selling, general and administrative	3,300	11.6%	3,367	11.2%
Amortization of purchased intangible assets	350	1.2%	466	1.6%
Restructuring charges	130	0.5%	40	0.1%
Acquisition-related charges	4		22	0.1%
Earnings from operations	1,752	6.2%	2,042	6.8%
Interest and other, net	(179)	(0.6)%	(221)	(0.8)%
Earnings before taxes	1,573	5.6%	1,821	6.0%
Provision for taxes	(341)	(1.3)%	(353)	(1.1)%
Net earnings	\$ 1,232	4.3%	\$ 1,468	4.9%

(1) Cost of products, cost of services and financing interest.

Net Revenue

The components of the weighted net revenue change were as follows:

	Three months ended January 31, 2013
	Percentage Points
Personal Systems	(2.3)
Enterprise Services	(1.5)
Printing	(1.1)
Enterprise Group	(1.0)
Software	(0.1)
HP Financial Services	
Corporate Investments/Other	0.4
Total HP	(5.6)

For the three months ended January 31, 2013, total HP net revenue decreased 5.6% (decreased 4.3% on a constant currency basis). U.S. net revenue decreased 0.9% to \$10.1 billion for the first quarter of fiscal 2013, while net revenue from outside of the United States decreased 8.0% to \$18.3 billion.

Table of Contents

The decline in HP revenue for the first quarter of fiscal 2013 was primarily the result of the following factors: we continue to experience weak global macroeconomic demand, particularly in Europe, the Middle East, and Africa ("EMEA"), a large customer market for us, with several key countries experiencing double-digit revenue declines; and a continued deterioration in our Personal Systems business, particularly in notebooks, due to the broad market contraction taking place. In Personal Systems we are seeing areas of progress on a regional basis, with growth in Asia Pacific driven by China and India.

From a segment perspective, as mentioned above, in Personal Systems, we are experiencing the impact of a broad market decline, particularly with respect to notebook products. The net revenue decrease in ES was driven primarily by net service revenue runoff, softness in contract signings and contractual price declines in ongoing contracts. Net revenue in Printing declined as we continued to target strong returns for our unit placements consistent with our shift in focus from low-end to high-end printers. The net revenue decline in EG was due to several factors: continued global macroeconomic demand challenges, particularly in EMEA; new product and technology transitions in Storage and Industry Standard Servers ("ISS"); a continued decline in our Business Critical Systems ("BCS") business; and a competitive pricing environment. An analysis of the change in net revenue for each business segment is included under "Segment Information" below.

Gross Margin

Total HP gross margin decreased by 0.1 percentage points for the three months ended January 31, 2013. From a segment perspective, the small decrease in gross margin was due to gross margin declines in Personal Systems, ES and EG being partially offset by gross margin expansion in Printing. The primary factors impacting gross margin performance in each of our segments are summarized as follows:

Personal Systems experienced a gross margin decline primarily due to unfavorable currency impacts and competitive pricing partially offset by lower component costs;

ES gross margin decreased due primarily to net service revenue runoff and contractual price declines partially offset by improved resource management;

EG experienced a gross margin decline primarily resulting from declines in the support component of Technology Services ("TS") as a result of eroding hardware sales in our BCS business unit and less profitable vendor support contracts;

Software gross margin decreased due primarily to a decline in higher margin license revenue;

Printing gross margin increased due to rate improvements in high-end inkjet printers combined with a favorable mix shift to ink supplies; and

HPFS gross margin increased due primarily to a lower mix of operating leases and lower bad debt expense.

A more detailed discussion of segment gross margins is included under "Segment Information" below.

Operating Expenses

Research and Development

Total research and development ("R&D") expense increased in the three months ended January 31, 2013 due primarily to innovation-focused spending for storage and HP converged cloud, the effect of which was partially offset by a VAT subsidy credit and the elimination of R&D expense associated with the former webOS device business. R&D expense increased for EG, ES and Personal Systems, and decreased for Corporate Investments, Printing and Software.

Table of Contents

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense decreased for the three months ended January 31, 2013 due primarily to lower field selling costs. We are starting to see cost savings from the restructuring program announced in May 2012. SG&A expense as a percentage of net revenue increased for each of our segments except for Software and ES, each of which experienced a decrease.

Amortization of Purchased Intangible Assets

The decrease in amortization expense for the three months ended January 31, 2013 was due primarily to lower levels of amortization expense as a result of the purchased intangible asset impairment taken in the second half of fiscal 2012 related to the Autonomy acquisition.

Restructuring

Restructuring charges for the three months ended January 31, 2013 were \$130 million. These charges included \$290 million of costs related to our fiscal 2012 Plan, partially offset by a \$160 million reversal of restructuring accruals related to our fiscal 2010 ES plan and fiscal 2008 HP/EDS plan. Restructuring charges for the three months ended January 31, 2012 were \$40 million. These charges included \$29 million of severance and facility costs related to our fiscal 2008 restructuring plan, \$7 million of severance costs related to our fiscal 2009 restructuring plan and \$4 million of severance and facility costs related to our fiscal 2010 ES restructuring plan.

As part of our ongoing business operations, we incurred workforce rebalancing charges for severance and related costs within certain business segments during the first three months of fiscal 2013. Workforce rebalancing activities are considered part of normal operations as we continue to optimize our cost structure. Workforce rebalancing costs are included in our business segment results, and we expect to incur additional workforce rebalancing costs in the future.

Acquisition-Related Charges

The decrease in acquisition-related charges for the three months ended January 31, 2013 was due primarily to lower retention bonuses associated with acquisitions completed in fiscal 2010 and 2011. For the three months ended January 31, 2013 and January 31, 2012, we recorded acquisition-related charges of \$4 million and \$22 million, respectively.

Interest and Other, Net

Interest and other, net expense decreased by \$42 million for the three months ended January 31, 2013. The decrease was driven primarily by lower currency transaction losses.

Provision for Taxes

Our effective tax rate was 21.7% and 19.4% for the three months ended January 31, 2013 and January 31, 2012, respectively. Our effective tax rate increased due to discrete items in the three months ended January 31, 2013, which are described below. Our effective tax rate generally differs from the U.S. federal statutory rate of 35% due to favorable tax rates associated with certain earnings from our operations in lower-tax jurisdictions throughout the world. We have not provided U.S. taxes for all of such earnings because we plan to reinvest some of those earnings indefinitely outside the United States.

In the three months ended January 31, 2013, we recorded discrete items resulting in a net tax charge of \$5 million, increasing the effective tax rate. These amounts consisted primarily of a tax charge of \$150 million related to a past uncertain tax position offset by approximately \$50 million of various adjustments to estimated tax provisions of foreign jurisdictions as well as \$45 million of benefits

Table of Contents

associated with restructuring charges, various uncertain tax positions and valuation allowance adjustments. In addition, in January 2013, the American Taxpayer Relief Act of 2012 was signed into law. We recorded a tax benefit of \$50 million arising from the retroactive research and development credit provided by that legislation in the first quarter of fiscal 2013.

In the three months ended January 31, 2012, we recorded discrete items with a net tax benefit of \$49 million, decreasing the effective tax rate. These amounts included net tax benefits of \$28 million from restructuring and acquisition charges, and \$23 million from reversals of accrued interest expense and penalties on uncertain tax positions, net of tax.

Segment Information

A description of the products and services for each segment can be found in Note 16 to the Consolidated Condensed Financial Statements. Future changes to this organizational structure may result in changes to the business segments disclosed.

HP has implemented certain organizational realignments. As a result of these realignments, HP has re-evaluated its segment financial reporting structure and, effective in the first quarter of fiscal 2013:

HP has created a new EG segment consisting of its TS business unit, which was previously a part of its former Services segment, and its former Enterprise Servers, Storage and Networking ("ESSN") segment;

HP has created a new ES segment consisting of its Application and Business Services ("ABS") business unit and its Infrastructure Technology Outsourcing ("ITO") business unit, both of which were previously a part of its former Services segment;

HP has transferred its Personal Systems commercial products support business from its TS business unit to the Other business unit within its Personal Systems segment;

HP has transferred its end-user workplace support business from its TS business unit to its ITO business unit within its new ES segment; and

HP has transferred the portion of its business intelligence services business that was a part of its Corporate Investments segment to its ABS business unit within its new ES segment.

As noted above, as a result of these changes, HP has created two new financial reporting segments, the EG segment and the ES segment. Also as noted above, HP has eliminated two existing financial reporting segments, the ESSN segment and the Services segment. Taking into account these changes, effective at the beginning of HP's first quarter of fiscal 2013, HP's seven financial reporting segments are Personal Systems, Printing, the Enterprise Group, Enterprise Services, Software, HP Financial Services and Corporate Investments.

Printing and Personal Systems Group

The Personal Systems segment and the Printing segment are structured beneath a broader Printing and Personal Systems Group. We describe the results of the business segments within the Printing and Personal Systems Group below.

Table of Contents*Personal Systems*

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	\$ 8,204	\$ 8,892	(7.7)%
Earnings from operations	\$ 223	\$ 459	(51.4)%
Earnings from operations as a % of net revenue	2.7%	5.2%	

The components of the weighted net revenue change by business units were as follows:

	Three months ended January 31, 2013 Percentage Points
Notebook PCs	(9.1)
Desktop PCs	1.3
Workstations	
Other	0.1
Total Personal Systems	(7.7)

Personal Systems net revenue decreased 7.7% (decreased 5.8% on a constant currency basis) for the three months ended January 31, 2013. Our Personal Systems business continues to experience significant challenges due to the market shift toward tablet products coupled with particularly weak demand in the EMEA region. While Personal Systems also experienced revenue declines in the Americas region, the business did experience areas of growth both in the Asia Pacific region and with desktop products. The decline in Personal Systems revenue was driven by a 5% decline in unit volume along with a 3% decline in average selling prices ("ASPs"). The unit volume decrease was led by declines in notebook demand as a result of the market shift towards tablet products. Partially offsetting the volume decline was unit growth in desktops. The decline in ASPs was due primarily to unfavorable currency impacts and a competitive price environment. For the three months ended January 31, 2013, net revenue for consumer clients and commercial clients decreased by 13% and 4%, respectively. Net revenue for Notebook PCs decreased 16%, while net revenue for Desktop PCs increased 4%. Net revenue remained flat in workstations while net revenue increased 5% in the Other business unit. The net revenue increase in Other was related primarily to increased sales of extended warranties, the effect of which was partially offset by a decrease in third-party branded options.

Personal Systems earnings from operations as a percentage of net revenue decreased 2.5 percentage points for the three months ended January 31, 2013. The decrease was driven by a decline in gross margin combined with an increase in operating expenses as a percentage of net revenue. The decline in gross margin was due to unfavorable currency impacts and competitive pricing pressure. Partially offsetting these unfavorable impacts to gross margin were lower component, logistics and warranty costs. Operating expenses as a percentage of net revenue increased due primarily to the revenue decline and increased marketing and R&D costs, the effect of which was partially offset by cost savings associated with our ongoing restructuring efforts.

Table of Contents**Printing**

	Three months ended January 31		
	2013	2012	% (Decrease) Increase
	In millions		
Net revenue	\$ 5,926	\$ 6,258	(5.3)%
Earnings from operations	\$ 953	\$ 761	25.2%
Earnings from operations as a % of net revenue	16.1%	12.2%	

The components of the weighted net revenue change by business units were as follows:

	Three months ended January 31, 2013 Percentage Points
Supplies	(3.0)
Commercial Hardware	(2.1)
Consumer Hardware	(0.2)
Total Printing	(5.3)

Printing net revenue decreased 5.3% (decreased 4.6% on a constant currency basis) for the three months ended January 31, 2013, as we continued to shift our focus to higher usage printers from low-end printers. As a result of this shift, printer unit volumes declined by 11% while average revenue per unit increased by 3%. Net revenue for Supplies decreased 5% for the three months ended January 31, 2013, due to weak demand in all regions. These effects were partially offset by growth in large format printing supplies. Net revenue for Commercial Hardware decreased 9% due primarily to volume reductions of 6% along with lower average revenue per unit of 6%. These effects were partially offset by double-digit net revenue growth in the graphics services and managed print services businesses. Net revenue for Consumer Hardware decreased 2% while average revenue per unit increased by 14%. While low-end printer volumes declined, unit volume and average revenue per unit increased within high-end printers as a result of our continued focus on more profitable high-end printers. Additionally, the introduction of our new inkjet SMB printers has favorably impacted revenues and average selling prices.

Printing earnings from operations as a percentage of net revenue increased by 3.9 percentage points for the three months ended January 31, 2013, due primarily to an increase in gross margin, the effect of which was partially offset by higher operating expenses as a percentage of net revenue. Gross margin increased due to our focus on higher-end inkjet printers combined with a higher mix of ink supplies, coupled with toner rate improvements due to lower discounting. These effects were partially offset by an unfavorable currency impact primarily driven by weakness in the Euro currency. Operating expenses as a percentage of net revenue increased due to the decline in net revenue and higher marketing expenses, the effects of which were partially offset by lower administrative expenses and cost savings associated with our ongoing restructuring efforts.

Enterprise Group

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	\$ 6,984	\$ 7,282	(4.1)%
Earnings from operations	\$ 1,084	\$ 1,329	(18.4)%
Earnings from operations as a % of net revenue	15.5%	18.3%	

Table of Contents

The components of the weighted net revenue change by business units were as follows:

	Three months ended January 31, 2013 Percentage Points
Storage	(1.7)
Business Critical Systems	(1.3)
Industry Standard Servers	(1.1)
Technology Services	(0.3)
Networking	0.3
 Total EG	 (4.1)

EG net revenue decreased 4.1% (decreased 2.7% on a constant currency basis) for the three months ended January 31, 2013 due primarily to the following factors: continued macroeconomic demand challenges, particularly in EMEA; new product and technology transitions in Storage and ISS; and a competitive pricing environment. Each of the business units within EG experienced year-over-year revenue declines except Networking. For the three months ended January 31, 2013, Storage net revenue decreased by 13%. This Storage decline was due primarily to revenue declines in traditional storage products, which include our tape, storage networking, and legacy external disk products. The decline was partially offset by strong growth in converged storage solutions, which include our 3PAR, StoreOnce, StoreVirtual and StoreAll products. BCS net revenue decreased by 24% for the three months ended January 31, 2013 mainly as a result of ongoing pressure from a declining UNIX market and lower demand for our Itanium-based servers. ISS net revenue decreased by 3%, driven primarily by unit volume declines, the effects of which were partially offset by favorable average unit pricing impacts from our Generation 8 products. TS net revenue decreased by 1% for the three months ended January 31, 2013, driven primarily by revenue declines in the consulting business, as a result of our decision to focus on more profitable services offerings. Partially offsetting the decline in consulting was slight growth in the support business. TS experienced weak demand in EMEA due to declines in certain key countries in the region. Networking net revenue increased by 4% for the three months ended January 31, 2013 due to higher market demand for our core data center products, the effect of which was partially offset by the impact of the divestiture of our video surveillance business in the first quarter of fiscal 2012.

EG earnings from operations as a percentage of net revenue decreased by 2.8 percentage points for the three months ended January 31, 2013 driven by a decrease in gross margin coupled with an increase in operating expenses as a percentage of net revenue. The gross margin decrease was due primarily to a gross margin decline in the support business of TS and, to a lesser extent, in BCS. The decline in TS gross margin was due to the impact of eroding hardware sales in BCS, an increase in delivery costs and less profitable vendor support contracts. The increase in operating expenses as a percentage of net revenue was driven by an increase in administrative expense and R&D costs due to planned investments in the business, the effect of which was partially offset by cost savings associated with our ongoing restructuring efforts and a VAT subsidy credit related to R&D.

Enterprise Services

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	\$ 5,919	\$ 6,371	(7.1)%
Earnings from operations	\$ 76	\$ 145	(47.6)%
Earnings from operations as a % of net revenue	1.3%	2.3%	

65

Table of Contents

The components of the weighted net revenue change by business units were as follows:

	Three months ended January 31, 2013 Percentage Points
Infrastructure Technology Outsourcing	(3.8)
Application and Business Services	(3.3)
Total ES	(7.1)

ES net revenue decreased 7.1% (decreased 6.6% on a constant currency basis) for the three months ended January 31, 2013. The net revenue decrease in ES was driven primarily by net service revenue runoff, softness in contract signings and contractual price declines in ongoing contracts. Net revenue declined in both of the business units within this segment and across all regions. ITO net revenue decreased by 6% due to softness in contract signings, net service revenue runoff and contractual price declines in ongoing contracts. Partially offsetting these declines was revenue growth in security and cloud offerings. ABS net revenue declined 9% due primarily to net service revenue runoff and softness in contract signings, the effect of which was partially offset by revenue growth in cloud and information and analytics offerings.

ES earnings from operations as a percentage of net revenue decreased by 1.0 percentage points for the three months ended January 31, 2013 due to a decrease in gross margin, the effect of which was partially offset by a decrease in operating expenses as a percentage of net revenue. Gross margin declined due primarily to net service revenue runoff and contractual price declines, the effect of which was partially offset by our continued focus on improving resource management and profit improvements on selected low performing accounts. Operating expenses as a percentage of net revenue decreased due primarily to reduced field selling costs related to lower headcount.

Software

	Three months ended January 31		
	2013	2012	% Decrease
	In millions		
Net revenue	\$ 926	\$ 946	(2.1)%
Earnings from operations	\$ 157	\$ 162	(3.1)%
Earnings from operations as a % of net revenue	17.0%	17.1%	

Software net revenue decreased 2.1% (decreased 0.7% on a constant currency basis) for the three months ended January 31, 2013 due primarily to a decline in license revenue from information management products and IT/cloud management products and a decline in services revenue from information management products, the effects of which were partially offset by revenue growth from our big data analytics and security products. Net revenue from licenses and services decreased by 16% and 8%, respectively, while at the same time net revenue from support increased by 11%. The increase in support revenue was due in part, to growth in big data analytics and security products.

Table of Contents

Software earnings from operations as a percentage of net revenue decreased by 0.1 percentage points for the three months ended January 31, 2013. The decline was due primarily to a decrease in gross margin, the effect of which was partially offset by a decrease in operating expense as a percentage of net revenue. The decrease in gross margin was due primarily to the decline in higher-margin license revenue. The decrease in operating expense as a percentage of revenue was driven by cost controls and lower integration costs associated with the Autonomy acquisition.

HP Financial Services

	Three months ended January 31		
	2013	2012	% Increase
	In millions		
Net revenue	\$ 957	\$ 950	0.7%
Earnings from operations	\$ 101	\$ 91	11.0%
Earnings from operations as a % of net revenue	10.6%	9.6%	

HPFS net revenue increased by 0.7% for the three months ended January 31, 2013. The net revenue increase was due primarily to higher revenue from several large early customer buyouts and higher finance income from an increase in finance lease assets. These effects were partially offset by lower rental revenue from a decrease in operating lease assets and unfavorable currency impacts.

HPFS earnings from operations as a percentage of net revenue increased by 1.0 percentage points for the three months ended January 31, 2013 due primarily to an increase in gross margin, the effect of which was partially offset by an increase in operating expenses as a percentage of net revenue resulting from lower capitalization of initial direct costs. The increase in gross margin was the result of higher portfolio margins from a lower mix of operating leases, lower bad debt expense, coupled with lower transaction taxes. These effects were partially offset by lower margins on end-of-term activities, including early customer buyouts and unfavorable currency impacts.

Financing Originations

	Three months ended January 31	
	2013	2012
	In millions	
Total financing originations	\$ 1,162	\$ 1,543

New financing originations, which represent the amounts of financing provided to customers for equipment and related software and services, including intercompany activity, decreased 24.7% for the three months ended January 31, 2013. The decrease was driven by lower financing associated with HP product sales and services offerings, the increase in costs of providing customer financing, our focus on achieving higher returns, along with unfavorable currency impacts.

Portfolio Assets and Ratios

HPFS maintains a strategy to generate a competitive return on equity by effectively leveraging its portfolio against the risks associated with interest rates and credit. The HPFS business model is asset-intensive and uses certain internal metrics to measure its performance against other financial services companies, including a segment balance sheet that is derived from our internal management reporting system. The accounting policies used to derive these amounts are substantially the same as those used by the consolidated company. However, certain intercompany loans and accounts that are reflected in the segment balances are eliminated in our Consolidated Condensed Financial Statements.

Table of Contents

The portfolio assets and ratios derived from the segment balance sheet for HPFS were as follows:

	January 31, 2013	October 31, 2012
	In millions	
Portfolio assets ⁽¹⁾	\$ 12,811	\$ 13,054
Allowance for doubtful accounts ⁽²⁾	154	149
Operating lease equipment reserve	82	81
Total reserves	236	230
Net portfolio assets	\$ 12,575	\$ 12,824
Reserve coverage	1.8%	1.8%
Debt to equity ratio ⁽³⁾	7.0x	7.0x

(1) Portfolio assets include gross financing receivables of approximately \$7.6 billion and \$7.7 billion at January 31, 2013 and October 31, 2012, respectively, and net equipment under operating leases of \$2.3 billion and \$2.4 billion at January 31, 2013 and October 31, 2012, respectively, as disclosed in Note 9 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference. Portfolio assets also include capitalized profit on intercompany equipment transactions of approximately \$0.8 billion and \$0.9 billion at January 31, 2013 and October 31, 2012, respectively, and intercompany leases of approximately \$2.1 billion for both January 31, 2013 and October 31, 2012, which are eliminated in consolidation.

(2) Allowance for doubtful accounts includes both the short-term and the long-term portions of the allowance on financing receivables.

(3) HPFS debt consists of intercompany equity that is treated as debt for segment reporting purposes, intercompany debt and \$1.0 billion of debt issued directly by HPFS. At January 31, 2013 and October 31, 2012, debt allocated to HPFS totaled \$11.2 billion and \$11.3 billion, respectively. The allocated intercompany debt to equity ratio above is comparable to that of other similar financing companies.

At January 31, 2013 and October 31, 2012, HPFS cash balances were approximately \$1.0 billion and \$0.7 billion, respectively.

Net portfolio assets at January 31, 2013 decreased 1.9% from October 31, 2012. The decrease resulted from lower levels of new financing originations and early buyouts of customer lease contracts, the effect of which was partially offset by favorable currency impacts. The overall percentage of portfolio asset reserves remained flat as a percentage of the portfolio assets.

For the three months ended January 31, 2013 and 2012, HPFS recorded net bad debt expenses of \$15 million and \$18 million, respectively.

Corporate Investments

	Three months ended January 31		
	2013	2012	% (Decrease) Increase
	In millions		
Net revenue	\$ 4	\$ 30	(86.7)%
Loss from operations	\$ (65)	\$ (50)	30.0%
Loss from operations as a % of net revenue	*	(166.7)%	

*
Not meaningful.

Table of Contents

Net revenue in Corporate Investments decreased primarily as a result of a decline in residual activity from the webOS device business. In August 2011, we announced the wind down of the webOS device business.

Corporate Investments reported a larger loss from operations for the three months ended January 31, 2013, due primarily to the decline in residual activity related to the webOS device business. The loss from operations in Corporate Investments was also due to expenses carried in the segment associated with corporate strategy, global alliances and HP Labs.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balances are held in numerous locations throughout the world, with substantially all of those amounts held outside of the United States. Amounts held outside of the United States are generally utilized to support non-U.S. liquidity needs, although a portion of those amounts may from time to time be subject to short-term intercompany loans into the United States. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. Except for foreign earnings that are considered indefinitely reinvested outside of the United States, we have provided for the U.S. federal tax liability on these earnings for financial statement purposes. Repatriation could result in additional income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that cash balances would remain outside of the United States and we would meet liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. We do not expect restrictions or potential taxes on repatriation of amounts held outside of the United States to have a material effect on HP's overall liquidity, financial condition or results of operations.

FINANCIAL CONDITION (Sources and Uses of Cash)

	Three months ended January 31	
	2013	2012
	In millions	
Net cash provided by operating activities	\$ 2,562	\$ 1,193
Net cash used in investing activities	(644)	(751)
Net cash used in financing activities	(630)	(372)
Net increase in cash and cash equivalents	\$ 1,288	\$ 70

Operating Activities

Compared to the corresponding period in 2012, net cash provided by operating activities increased by approximately \$1.4 billion for the three months ended January 31, 2013. The increase was due primarily to efficient utilization of cash resources for payment of accounts payable and a reduction in payments associated with webOS contract cancellations.

Table of Contents

Our key working capital metrics are as follows:

	Three months ended January 31	
	2013	2012
Days of sales outstanding in accounts receivable	45	48
Days of supply in inventory	26	28
Days of purchases outstanding in accounts payable.	(48)	(48)
Cash conversion cycle	23	28

Days of sales outstanding in accounts receivable ("DSO") measures the average number of days our receivables are outstanding. DSO is calculated by dividing ending accounts receivable, net of allowance for doubtful accounts, by a 90-day average net revenue. Our accounts receivable balance was \$14.2 billion as of January 31, 2013.

Days of supply in inventory ("DOS") measures the average number of days from procurement to sale of our product. DOS is calculated by dividing ending inventory by a 90-day average cost of goods sold. Our inventory balance was \$6.4 billion as of January 31, 2013.

Days of purchases outstanding in accounts payable ("DPO") measures the average number of days our accounts payable balances are outstanding. DPO is calculated by dividing ending accounts payable by a 90-day average cost of goods sold. Our accounts payable balance was \$11.7 billion as of January 31, 2013.

Our working capital requirements depend upon our effective management of the cash conversion cycle, which represents effectively the number of days that elapse from the day we pay for the purchase of raw materials to the collection of cash from our customers. The cash conversion cycle is the sum of DSO and DOS less DPO.

The cash conversion cycle for the first quarter of fiscal 2013 decreased by five days compared to the corresponding period in fiscal 2012. The decrease in DSO was due primarily to an increase in cash discounts, favorable revenue linearity and improved collections. The decrease in DOS was due to lower inventory balances in most segments as of January 31, 2013. DPO remained flat due primarily to unfavorable purchasing linearity, the effects of which were offset by favorable payment term changes.

Investing Activities

Compared to the corresponding period in fiscal 2012, net cash used in investing activities decreased by approximately \$0.1 billion for the three months ended January 31, 2013 due primarily to lower investment in property, plant and equipment, the absence in the current period of investments made in connection with business acquisitions and divestitures, the effects of which were partially offset by higher purchases of available-for-sale securities.

Financing Activities

Compared to the corresponding period in fiscal 2012, net cash used in financing activities increased by approximately \$0.3 billion for the three months ended January 31, 2013. The increase was due primarily to lower net proceeds from the issuance of U.S. Dollar Global Notes, the effect of which was partially offset by lower net repayments of commercial paper and a decrease in cash paid for the repurchase of common stock.

For more information on our share repurchase programs, see Note 13 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Table of Contents**CAPITAL RESOURCES***Debt Levels*

We maintain debt levels that we establish through consideration of a number of factors, including cash flow expectations, cash requirements for operations, investment plans (including acquisitions), share repurchase activities, overall cost of capital and targeted capital structure. Outstanding borrowings decreased to \$28.2 billion as of January 31, 2013, as compared to \$28.4 billion at October 31, 2012, bearing weighted-average interest rates of 2.90% and 2.95%, respectively. During the first three months of fiscal 2013, we issued \$0.5 billion and repaid \$0.6 billion of commercial paper.

During the next four fiscal quarters, \$5.5 billion of Global Notes will mature. We expect to have sufficient cash, cash from operations and access to capital markets to repay those maturing Global Notes. For more information on our borrowings, see Note 11 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Our weighted-average interest rate reflects the average effective rate on our borrowings prevailing during the period; it factors in the impact of swapping some of our global notes with fixed interest rates for global notes with floating interest rates. For more information on our interest rate swaps, see Note 8 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Available Borrowing Resources

At January 31, 2013, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

	At January 31, 2013	
	In millions	
2012 Shelf Registration Statement ⁽¹⁾		Unspecified
Commercial paper programs ⁽¹⁾	\$	16,147
Uncommitted lines of credit ⁽¹⁾	\$	1,374

⁽¹⁾ For more information on our available borrowings resources, see Note 11 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Credit Ratings

Our credit risk is evaluated by three independent rating agencies based upon publicly available information as well as information obtained in our ongoing discussions with them. Moody's Investors Service downgraded our long-term debt from A3 to Baa1 in November 2012. Accordingly, our ratings as of January 31, 2013 were:

	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings Services
Short-term debt ratings	A-2	Prime-2	F2
Long-term debt ratings	BBB+	Baa1	A-

Our credit ratings remain under negative outlook by Moody's Investors Service. While we do not have any rating downgrade triggers that would accelerate the maturity of a material amount of our debt, these downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper and may require the posting of additional collateral under some of our derivative contracts. In addition, any further downgrade in our credit ratings by any of the three rating agencies may further impact us in a similar manner, and, depending on the extent of the downgrade, could have a negative impact on our liquidity and capital position. We will rely on

Table of Contents

alternative sources of funding, including drawdowns under our credit facilities or the issuance of debt or other securities under our existing shelf registration statement, if necessary to offset reductions in the market capacity for our commercial paper.

CONTRACTUAL AND OTHER OBLIGATIONS

Income Tax Obligations

At January 31, 2013 we had approximately \$2.3 billion of recorded liabilities and related interest and penalties pertaining to uncertainty in income tax positions, which will be partially offset by \$352 million of deferred tax assets and interest receivable. These liabilities and related interest and penalties include \$111 million expected to be paid within one year. For the remaining amount, we are unable to make a reasonable estimate as to when cash settlement with the tax authorities might occur due to the uncertainties related to these tax matters. See Note 12 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference, for additional information on taxes.

Restructuring Funding Commitments

As a result of our approved restructuring plans, we expect future cash expenditures of approximately \$2.3 billion. We expect to make cash payments of approximately \$1.3 billion during the remainder of fiscal 2013 with remaining cash payments through fiscal 2016. We expect to have sufficient cash, cash from operations and access to capital markets to meet our near-term funding commitments.

Guarantees and Indemnifications

For more information on liabilities that may arise from guarantees and indemnification, see Note 10 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Litigation and Contingencies

For more information on liabilities that may arise from litigation and contingencies, see Note 15 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Off-Balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 31, 2013, we are not involved in any material unconsolidated SPEs.

HP has third-party financing arrangements consisting of revolving short-term financing intended to facilitate the working capital requirements of certain partners. The total aggregate capacity of the facilities was \$1.7 billion as of January 31, 2013, including a \$0.9 billion partial recourse facility entered into in May 2011 and an aggregate capacity of \$0.8 billion in non-recourse facilities. For more information on our revolving trade receivables-based facilities, see Note 4 to the Consolidated Condensed Financial Statements in Item 1, which is incorporated herein by reference.

Table of Contents

FACTORS THAT COULD AFFECT FUTURE RESULTS

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

If we are unsuccessful at addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.

There are many challenges facing our business. Many of those challenges relate to structural and execution issues, including the following: we need to align our costs with our revenue trajectory; we need to address our underinvestment in R&D and in our internal IT systems in recent years, which has made us less competitive, effective and efficient; we need to implement the data gathering and reporting tools and systems needed to track and report on all key business performance metrics so as to most effectively manage a company of our size, scale and diversity; and we need to rebuild our business relationships with our channel partners. We are also facing dynamic market trends, such as the growth of mobility, the increasing demand for hyperscale computing infrastructure, the shift to software-as-a-service and the transition towards cloud computing, and we need to develop products and services that position us to win in a very competitive marketplace. Furthermore, we face a series of significant macroeconomic challenges, including broad-based weakness in consumer spending, weak demand in the SMB and enterprise sectors in Europe, and declining growth in some emerging markets.

We are working to address these challenges. During fiscal 2012, we implemented some leadership and organizational changes, including consolidating our personal computer and printing businesses under the same senior executive leadership, combining our global accounts sales organization with the Enterprise Group, and centralizing all of our marketing and communications activities. We also began implementing cost reduction initiatives, including the company-wide restructuring plan discussed below. In addition, we began making significant changes to our sales force to improve our go-to-market selling activities and reduce cost, and we renewed our focus on developing new products, services and solutions. We also began working to optimize our supply chain, reduce the number of stock keeping units (SKUs) and platforms, refine our real estate strategy, improve our business processes and implement consistent pricing and promotions. Our focus during fiscal 2013 will be focused on working through the anticipated disruptions expected to accompany the changes made in fiscal 2012 and continuing to implement our cost reduction and operational initiatives. We may experience delays in the anticipated timing of activities related to these efforts and higher than expected or unanticipated costs in implementing them. In addition, we are vulnerable to increased risks associated with implementing these changes given our large portfolio of businesses, the broad range of geographic regions in which we and our customers and partners operate, and the number of acquisitions that we have completed in recent years. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.

In May 2012, we announced a company-wide restructuring plan expected to be implemented through the end of fiscal 2014. The restructuring plan includes both voluntary early retirement programs and non-voluntary workforce reductions and is expected to result in 29,000 employees exiting the company by the end of that period. Significant risks associated with these actions and other workforce management issues that may impair our ability to achieve anticipated cost reductions or that may otherwise harm our business include delays in implementation of anticipated workforce reductions in highly regulated locations outside of the United States, particularly in Europe and Asia, decreases in employee morale and the failure to meet operational targets due to the loss of employees. In addition, our ability to achieve the anticipated cost savings and other benefits from these actions within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our

Table of Contents

control. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our business and results of operations could be adversely affected.

Competitive pressures could harm our revenue, gross margin and prospects.

We encounter aggressive competition from numerous and varied competitors in all areas of our business, and our competitors may target our key market segments. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, reputation, distribution, range of products and services, ease of use of our products, account relationships, customer training, service and support, security, availability of application software, and Internet infrastructure offerings. If our products, services, support and cost structure do not enable us to compete successfully based on any of those criteria, our operations, results and prospects could be harmed.

We have a large portfolio of businesses and must allocate resources across all of those businesses while competing with companies that have much smaller portfolios or specialize in one or more of these product lines. As a result, we may invest less in certain areas of our businesses than our competitors do, and these competitors may have greater financial, technical and marketing resources available to them than our businesses that compete against them. Industry consolidation also may affect competition by creating larger, more homogeneous and potentially stronger competitors in the markets in which we compete, and our competitors also may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers.

Companies with whom we have alliances in some areas may be competitors in other areas. For example, in the second quarter of fiscal 2011, an alliance partner that also markets a line of competing servers announced that it intended to cease software development for our Itanium-based servers, which has resulted in orders for our servers being canceled or delayed. While we have obtained a court ruling finding that the alliance partner has an obligation to continue developing software for our Itanium-based servers, we may continue to experience reduced demand. In addition, companies with whom we have alliances also may acquire or form alliances with our competitors, thereby reducing their business with us. Any inability to effectively manage these complicated relationships with alliance partners could have an adverse effect on our results of operations.

We may have to continue lowering the prices of many of our products and services to stay competitive, while at the same time trying to maintain or improve revenue and gross margin. The markets in which we do business are highly competitive, and we encounter aggressive price competition for all of our products and services from numerous companies globally. In addition, competitors in some of the markets in which we compete who have a greater presence in lower-cost jurisdictions may be able to offer lower prices than we are able to offer. Our results of operations and financial condition may be adversely affected by these and other industry-wide pricing pressures.

Because our business model is based on providing innovative and high quality products, we may spend a proportionately greater amount on research and development than some of our competitors. If we cannot proportionately decrease our cost structure on a timely basis in response to competitive price pressures, our gross margin and, therefore, our profitability could be adversely affected. In addition, if our pricing and other factors are not sufficiently competitive, or if there is an adverse reaction to our product decisions, we may lose market share in certain areas, which could adversely affect our revenue and prospects.

Even if we are able to maintain or increase market share for a particular product, revenue could decline because the product is in a maturing industry. Revenue and margins also could decline due to increased competition from other types of products. For example, growing demand for an increasing array of mobile computing devices and the development of cloud-based solutions may reduce demand for some of our existing hardware products. In addition, refill and remanufactured alternatives for some of HP's LaserJet toner and inkjet cartridges compete with HP's supplies business. Other companies

Table of Contents

have also developed and marketed new compatible cartridges for HP's LaserJet and inkjet products, particularly in jurisdictions outside of the United States where adequate intellectual property protection may not exist.

If we cannot successfully execute on our strategy and continue to develop, manufacture and market products, services and solutions that meet customer requirements for innovation and quality, our revenue and gross margin may suffer.

Our long-term strategy is focused on leveraging our portfolio of hardware, software and services as we adapt to a changing/hybrid model of IT delivery and consumption driven by the growing adoption of cloud computing and increased demand for integrated IT solutions. To successfully execute on this strategy, we need to continue to further evolve the focus of our organization towards the delivery of integrated IT solutions for our customers and to invest and expand into cloud computing, security, and information management and analytics. Any failure to successfully execute this strategy could adversely affect our operating results.

The process of developing new high technology products, software services and solutions and enhancing existing hardware and software products, services and solutions is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. For example, as we transition to an environment characterized by cloud-based computing and software being delivered as a service, we must continue to successfully develop and deploy cloud-based solutions for our customers. We must make long-term investments, develop or obtain, and protect appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products, services and solutions. In addition, after we develop a product, we must be able to manufacture appropriate volumes quickly and at low costs. To accomplish this, we must accurately forecast volumes, mixes of products and configurations that meet customer requirements, and we may not succeed at doing so within a given product's life cycle or at all. Any delay in the development, production or marketing of a new product, service or solution could result in us not being among the first to market, which could further harm our competitive position.

In the course of conducting our business, we must adequately address quality issues associated with our products, services and solutions, including defects in our engineering, design and manufacturing processes and unsatisfactory performance under service contracts, as well as defects in third-party components included in our products and unsatisfactory performance by third-party contractors. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the causes of problems and to determine appropriate solutions. However, the products, services and solutions that we offer are complex, and our regular testing and quality control efforts may not be effective in controlling or detecting all quality issues or errata, particularly with respect to faulty components manufactured by third parties. If we are unable to determine the cause, find an appropriate solution or offer a temporary fix (or "patch") to address quality issues with our products, we may delay shipment to customers, which would delay revenue recognition and could adversely affect our revenue and reported results. Addressing quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. If new or existing customers have difficulty operating our products or are dissatisfied with our services or solutions, our operating margins could be adversely affected, and we could face possible claims if we fail to meet our customers' expectations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could, in turn, adversely affect our operating results.

Table of Contents

Economic weakness and uncertainty could adversely affect our revenue, gross margin and expenses.

Our revenue and gross margin depend significantly on worldwide economic conditions and the demand for technology hardware, software and services in the markets in which we compete. Economic weakness and uncertainty have resulted, and may result in the future, in decreased revenue, gross margin, earnings or growth rates and in increased difficulty in managing inventory levels. For example, in recent periods we have experienced macroeconomic challenges across many geographic regions, particularly in the United States and Western Europe, broad-based weakness in consumer demand, the impact of the continuing uncertainties associated with the debt crisis in certain countries in the European Union and austerity measures being implemented or contemplated by various countries in the EMEA region. The U.S. federal government spending cuts that went into effect on March 1, 2013 might reduce demand for our products, services and solutions from organizations that receive funding from the U.S. government and could negatively affect macroeconomic conditions in the United States, which could further reduce demand for our products, services and solutions. In addition, sustained uncertainty about current global economic conditions may adversely affect demand for our products, services and solutions. Economic weakness and uncertainty also make it more difficult for us to make accurate forecasts of revenue, gross margin and expenses.

We also have experienced, and may experience in the future, gross margin declines in certain businesses, reflecting the effect of items such as competitive pricing pressures, inventory write-downs and increases in component and manufacturing costs resulting from higher labor and material costs borne by our manufacturers and suppliers that, as a result of competitive pricing pressures or other factors, we are unable to pass on to our customers. In addition, our business may be disrupted if we are unable to obtain equipment, parts or components from our suppliers and our suppliers from their suppliers due to the insolvency of key suppliers or the inability of key suppliers to obtain credit.

Economic weakness and uncertainty could cause our expenses to vary materially from our expectations. Any financial turmoil affecting the banking system and financial markets or any significant financial services institution failures could negatively impact our treasury operations, as the financial condition of such parties may deteriorate rapidly and without notice in times of market volatility and disruption. Poor financial performance of asset markets combined with lower interest rates and the adverse effects of fluctuating currency exchange rates could lead to higher pension and post-retirement benefit expenses. Other income and expense could vary materially from expectations depending on changes in interest rates, borrowing costs, currency exchange rates, hedging expenses and the fair value of derivative instruments. Economic downturns also may lead to restructuring actions and associated expenses.

We depend on third-party suppliers, and our revenue and gross margin could suffer if we fail to manage suppliers properly.

Our operations depend on our ability to anticipate our needs for components, products and services, as well as our suppliers' ability to deliver sufficient quantities of quality components, products and services at reasonable prices in time for us to meet critical schedules. Given the wide variety of systems, products and services that we offer, the large number of our suppliers and contract manufacturers that are located around the world, and the long lead times required to manufacture, assemble and deliver certain components and products, problems could arise in production, planning, and inventory management that could seriously harm us. In addition, our ongoing efforts to optimize the efficiency of our supply chain could cause supply disruptions and be more expensive, time-consuming and resource intensive than expected. Other supplier problems that we could face include component shortages, excess supply, risks related to the terms of our contracts with suppliers, risks associated with contingent workers, and risks related to our relationships with single source suppliers, as described below.

Table of Contents

Shortages. Occasionally we may experience a shortage of, or a delay in receiving, certain components as a result of strong demand, capacity constraints, supplier financial weaknesses, inability of suppliers to borrow funds in the credit markets, disputes with suppliers (some of whom are also customers), disruptions in the operations of component suppliers, other problems experienced by suppliers or problems faced during the transition to new suppliers. For example, our PC business relies heavily upon Outsourced Manufacturers ("OMs") to manufacture its products and is therefore dependent upon the continuing operations of those OMs to fulfill demand for our PC products. HP represents a substantial portion of the business of some of these OMs, and any changes to the nature or volume of business transacted by HP with a particular OM could adversely affect the operations and financial condition of the OM and lead to shortages or delays in receiving products from that OM. If shortages or delays persist, the price of certain components may increase, and we may be exposed to quality issues or the components may not be available at all. We may not be able to secure enough components at reasonable prices or of acceptable quality to build products or provide services in a timely manner in the quantities or according to the specifications needed. Accordingly, our revenue and gross margin could suffer as we could lose time-sensitive sales, incur additional freight costs or be unable to pass on price increases to our customers. If we cannot adequately address supply issues, we might have to reengineer some products or services offerings, resulting in further costs and delays.

Oversupply. In order to secure components for the provision of products or services, at times we may make advance payments to suppliers or enter into non-cancelable commitments with vendors. In addition, we may purchase components strategically in advance of demand to take advantage of favorable pricing or to address concerns about the availability of future components. If we fail to anticipate customer demand properly, a temporary oversupply could result in excess or obsolete components, which could adversely affect our gross margin.

Contractual terms. As a result of binding price or purchase commitments with vendors, we may be obligated to purchase components or services at prices that are higher than those available in the current market and be limited in our ability to respond to changing market conditions. In the event that we become committed to purchase components or services for prices in excess of the then-current market price, we may be at a disadvantage to competitors who have access to components or services at lower prices, and our gross margin could suffer. In addition, many of our competitors obtain products or components from the same OMs and suppliers that we utilize. Our competitors may obtain better pricing, more favorable contractual terms and conditions, and more favorable allocations of products and components during periods of limited supply, and our ability to engage in relationships with certain OMs and suppliers could be limited. The practice employed by our PC business of purchasing product components and transferring those components to its OMs may create large supplier receivables with the OMs that, depending on the financial condition of the OMs, may create collectibility risks. In addition, certain of our OMs and suppliers may decide in the future to discontinue conducting business with us. Any of these actions by our competitors, OMs or suppliers could adversely affect our future operating results and financial condition.

Contingent workers. We also rely on third-party suppliers for the provision of contingent workers, and our failure to manage our use of such workers effectively could adversely affect our results of operations. We have been exposed to various legal claims relating to the status of contingent workers in the past and could face similar claims in the future. We may be subject to shortages, oversupply or fixed contractual terms relating to contingent workers. Our ability to manage the size of, and costs associated with, the contingent workforce may be subject to additional constraints imposed by local laws.

Table of Contents

Single source suppliers. Our use of single source suppliers for certain components could exacerbate any supplier issues. We obtain a significant number of components from single sources due to technology, availability, price, quality or other considerations. For example, we rely on Intel to provide us with a sufficient supply of processors for many of our PCs, workstations and servers, and some of those processors are customized for our products. New products that we introduce may utilize custom components obtained from only one source initially until we have evaluated whether there is a need for additional suppliers. Replacing a single source supplier could delay production of some products as replacement suppliers may be subject to capacity constraints or other output limitations. For some components, such as customized components and some of the processors that we obtain from Intel, alternative sources either may not exist or may be unable to produce the quantities of those components necessary to satisfy our production requirements. In addition, we sometimes purchase components from single source suppliers under short-term agreements that contain favorable pricing and other terms but that may be unilaterally modified or terminated by the supplier with limited notice and with little or no penalty. The performance of such single source suppliers under those agreements (and the renewal or extension of those agreements upon similar terms) may affect the quality, quantity and price of components to HP. The loss of a single source supplier, the deterioration of our relationship with a single source supplier, or any unilateral modification to the contractual terms under which we are supplied components by a single source supplier could adversely affect our revenue and gross margins.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics or pandemics and other natural or manmade disasters or catastrophic events, for which we are predominantly self-insured. The occurrence of any of these business disruptions could result in significant losses, seriously harm our revenue, profitability and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters and a portion of our research and development activities are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults known for seismic activity. In addition, six of our principal worldwide IT data centers are located in the southern United States, making our operations more vulnerable to natural disasters or other business disruptions occurring in that geographical area. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including Shanghai, Singapore and India. We also rely on major logistics hubs primarily in Asia to manufacture and distribute our products and in the southwestern United States to import products into the Americas region. Our operations could be adversely affected if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, regulatory or political issues. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near locations more vulnerable to the occurrence of the aforementioned business disruptions, such as near major earthquake faults, and being consolidated in certain geographical areas is unknown and remains uncertain.

Table of Contents

System security risks, data protection breaches, cyber attacks and systems integration issues could disrupt our internal operations or information technology services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business. In addition, our outsourcing services business routinely processes, stores and transmits large amounts of data for our clients, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our clients or customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. We also could lose existing or potential customers of outsourcing services or other IT solutions or incur significant expenses in connection with our customers' system failures or any actual or perceived security vulnerabilities in our products. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time-consuming, disruptive and resource intensive. Such disruptions could adversely impact our ability to fulfill orders and respond to customer requests and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected, and in the future could adversely affect, our financial results, stock price and reputation.

The revenue and profitability of our operations have historically varied, which makes our future financial results less predictable.

Our revenue, gross margin and profit vary among our products and services, customer groups and geographic markets and therefore will likely be different in future periods than our current results. Our revenue depends on the overall demand for our products and services. Delays or reductions in IT spending could materially adversely affect demand for our products and services, which could result in a significant decline in revenues. Overall gross margins and profitability in any given period are dependent partially on the product, service, customer and geographic mix reflected in that period's net revenue. Competition, lawsuits, investigations and other risks affecting those businesses therefore may have a significant impact on our overall gross margin and profitability. Certain segments have a higher fixed cost structure and more variation in gross margins across their business units and product portfolios than others and may therefore experience significant operating profit volatility on a quarterly

Table of Contents

basis. In addition, newer geographic markets may be relatively less profitable due to investments associated with entering those markets and local pricing pressures, and we may have difficulty establishing and maintaining the operating infrastructure necessary to support the high growth rate associated with some of those markets. Market trends, industry shifts, competitive pressures, commoditization of products, seasonal rebates, increased component or shipping costs, regulatory impacts and other factors may result in reductions in revenue or pressure on gross margins of certain segments in a given period, which may necessitate adjustments to our operations. Moreover, the execution of our efforts to address the challenges facing our business could increase the level of variability in our financial results, as the rate at which we are able to realize the benefits from those efforts may vary from period to period.

HP's stock price has historically fluctuated and may continue to fluctuate, which may make future prices of HP's stock difficult to predict.

HP's stock price, like that of other technology companies, can be volatile. Some of the factors that could affect our stock price are:

speculation in the media or investment community about, or actual changes in, our business, strategic position, market share, organizational structure, operations, financial condition, financial reporting and results, effectiveness of cost-cutting efforts, value or liquidity of our investments, exposure to market volatility, prospects, business combination or investment transactions, stock price performance or executive team;

the announcement of new, planned or contemplated products, services, technological innovations, acquisitions, divestitures or other significant transactions by HP or its competitors;

quarterly increases or decreases in revenue, gross margin, earnings or cash flow from operations, changes in estimates by the investment community or guidance provided by HP and variations between actual and estimated financial results;

announcements of actual and anticipated financial results by HP's competitors and other companies in the IT industry;

investor sentiment with respect to our company, competitors, business partners or industry in general;

media coverage of our business and financial performance;

any developments relating to pending investigations, claims and disputes; and

the timing and amount of share repurchases by HP.

General or industry specific market conditions or stock market performance or domestic or international macroeconomic and geopolitical factors unrelated to HP's performance also may affect the price of HP stock. For these reasons, investors should not rely on recent or historical trends to predict future stock prices, financial condition, results of operations or cash flows. In addition, as discussed in Note 15 to the Consolidated Condensed Financial Statements, we are involved in several securities class action litigation matters. Additional volatility in the price of our securities could result in the filing of additional securities class action litigation matters, which could result in substantial costs and the diversion of management time and resources.

Our revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce the intellectual property rights on which our businesses depend or if third parties assert that we violate their intellectual property rights.

We rely upon patent, copyright, trademark and trade secret laws in the United States, similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in the products and services we sell, provide or

Table of Contents

otherwise use in our operations. However, any of our intellectual property rights could be challenged, invalidated, infringed or circumvented, or such intellectual property rights may not be sufficient to permit us to take advantage of current market trends or to otherwise provide competitive advantages, either of which could result in costly product redesign efforts, discontinuance of certain product offerings or other harm to our competitive position. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use; this, too, could adversely affect our competitive position.

Because of the rapid pace of technological change in the information technology industry, much of our business and many of our products rely on key technologies developed or licensed by third parties. We may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. In addition, it is possible that as a consequence of a merger or acquisition, third parties may obtain licenses to some of our intellectual property rights or our business may be subject to certain restrictions that were not in place prior to the transaction. Consequently, we may lose a competitive advantage with respect to these intellectual property rights or we may be required to enter into costly arrangements in order to terminate or limit these rights.

Third parties also may claim that we or customers indemnified by us are infringing upon their intellectual property rights. For example, individuals and groups frequently purchase intellectual property assets for the purpose of asserting claims of infringement and attempting to extract settlements from companies such as HP and their customers. The number of these claims has increased significantly in recent periods and may continue to increase in the future. If we cannot or do not license infringed intellectual property at all or on reasonable terms, or if we are required to substitute similar technology from another source, our operations could be adversely affected. Even if we believe that intellectual property claims are without merit, they can be time-consuming and costly to defend against and may divert management's attention and resources away from our business. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlement or license agreements, pay costly damage awards, or face a temporary or permanent injunction prohibiting us from importing, marketing or selling certain of our products. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable or unwilling to uphold its contractual obligations to us.

Finally, our results of operations and cash flows have been and could continue to be affected in certain periods and on an ongoing basis by the imposition, accrual and payment of copyright levies or similar fees. In certain countries (primarily in Europe), proceedings are ongoing or have been concluded involving HP in which groups representing copyright owners have sought to impose upon and collect from HP levies upon equipment (such as PCs, MFDs and printers) alleged to be copying devices under applicable laws. Other such groups have also sought to modify existing levy schemes to increase the amount of the levies that can be collected from HP. Other countries that have not imposed levies on these types of devices are expected to extend existing levy schemes, and countries that do not currently have levy schemes may decide to impose copyright levies on these types of devices. The total amount of the copyright levies will depend on the types of products determined to be subject to the levy, the number of units of those products sold during the period covered by the levy, and the per unit fee for each type of product, all of which are affected by several factors, including the outcome of ongoing litigation involving HP and other industry participants and possible action by the legislative bodies in the applicable countries, and could be substantial. Consequently, the ultimate impact of these copyright levies or similar fees, and the ability of HP to recover such amounts through increased prices, remains uncertain.

Table of Contents

Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, costs and expenses and financial condition.

Sales outside the United States make up approximately 64% of our net revenue. In addition, an increasing portion of our business activity is being conducted in emerging markets, including Brazil, Russia, India and China. Our future revenue, gross margin, expenses and financial condition could suffer due to a variety of international factors, including:

ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations and actual or anticipated military or political conflicts;

longer collection cycles and financial instability among customers;

trade regulations and procedures and actions affecting production, pricing and marketing of products;

local labor conditions and regulations, including local labor issues faced by specific HP suppliers and OMs;

managing a geographically dispersed workforce;

changes in the regulatory or legal environment;

differing technology standards or customer requirements;

import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;

difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and

fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

The factors described above also could disrupt our product and component manufacturing and key suppliers located outside of the United States. For example, we rely on manufacturers in Taiwan for the production of notebook computers and other suppliers in Asia for product assembly and manufacture.

As approximately 64% of our sales are from countries outside of the United States, other currencies, including the euro, the British pound, Chinese yuan renminbi and the Japanese yen, can have an impact on HP's results (expressed in U.S. dollars). In particular, the uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations and the related European financial restructuring efforts may cause the value of the euro to fluctuate. Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. For example, in the event that one or more European countries were to replace the euro with another currency, HP sales into such countries, or into Europe generally, would likely be adversely affected until stable exchange rates are established. Accordingly, fluctuations in foreign currency rates, most notably the strengthening of the dollar against the euro, could adversely affect our revenue growth in future periods. In addition, currency variations can adversely affect margins on sales of our products in countries outside of the United States and margins on sales of products that include components obtained from suppliers located outside of the United States. We use a combination of forward contracts and options designated as cash flow hedges to protect against foreign currency exchange rate

Table of Contents

risks. The effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and services and highly volatile exchange rates. As a result, we could incur significant losses from our hedging activities if our forecasts are incorrect. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Gains or losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. For example, as discussed in Note 15 to the Consolidated Condensed Financial Statements, the German Public Prosecutor's Office, the U.S. Department of Justice and the SEC have been investigating allegations that certain current and former employees of HP engaged in bribery, embezzlement and tax evasion or were involved in kickbacks or other improper payments. Although we implement policies and procedures designed to facilitate compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation could have an adverse effect on our business and reputation.

If we fail to manage the distribution of our products and services properly, our revenue, gross margin and profitability could suffer.

We use a variety of distribution methods to sell our products and services, including third-party resellers and distributors and both direct and indirect sales to enterprise accounts and consumers. Successfully managing the interaction of our direct and indirect channel efforts to reach various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks and gross margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and gross margins and therefore our profitability. Other distribution risks are described below.

Our financial results could be materially adversely affected due to channel conflicts or if the financial conditions of our channel partners were to weaken.

Our operating results may be adversely affected by any conflicts that might arise between our various sales channels, the loss or deterioration of any alliance or distribution arrangement or the loss of retail shelf space. Moreover, some of our wholesale and retail distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness and industry consolidation. Many of our significant distributors operate on narrow product margins and have been negatively affected by business pressures. Considerable trade receivables that are not covered by collateral or credit insurance are outstanding with our distribution and retail channel partners. Revenue from indirect sales could suffer, and we could experience disruptions in distribution if our distributors' financial conditions, abilities to borrow funds in the credit markets or operations weaken.

Our inventory management is complex as we continue to sell a significant mix of products through distributors.

We must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors and seasonal fluctuations in end-user demand. Our reliance upon indirect distribution methods may reduce visibility to demand and pricing issues, and therefore make forecasting more difficult. If we have excess or obsolete inventory, we may

Table of Contents

have to reduce our prices and write down inventory. Moreover, our use of indirect distribution channels may limit our willingness or ability to adjust prices quickly and otherwise to respond to pricing changes by competitors. We also may have limited ability to estimate future product rebate redemptions in order to price our products effectively.

If we do not effectively manage our product and services transitions, our revenue may suffer.

Many of the markets in which we compete are characterized by rapid technological advances in hardware performance and software features and functionality, frequent introduction of new products, short product life cycles, and continual improvement in product price characteristics relative to product performance. To maintain our competitive position in these markets, we must successfully develop and introduce new products and services. Among the risks associated with the introduction of new products and services are: delays in development or manufacturing, variations in costs, delays in customer purchases or reductions in the price of existing products in anticipation of new introductions, difficulty in predicting customer demand for the new offerings and challenges of effectively managing inventory levels so that they are in line with anticipated demand; risks associated with customer qualification and evaluation of new products; and the risk that new products may have quality or other defects or may not be supported adequately by application software. If we do not make an effective transition from existing products and services to future offerings, our revenue may decline.

Our revenue and gross margin also may suffer as a result of the timing of product or service introductions by our suppliers and competitors. This is especially challenging when a product has a short life cycle or a competitor introduces a new product just before our own product introduction. Furthermore, sales of our new products and services may replace sales or result in discounting of some of our current offerings, offsetting the benefit of even a successful introduction. There also may be overlaps in the current products and services of HP and portfolios acquired through mergers and acquisitions that we must manage. In addition, it may be difficult to ensure performance of new customer contracts in accordance with our revenue, margin and cost estimates and to achieve operational efficiencies embedded in our estimates. Given the competitive nature of our industry, if any of these risks materializes, future demand for our products and services and our results of operations may suffer.

Our revenue and profitability could suffer if we do not manage the risks associated with our services business properly.

The risks that accompany our services business differ from those of our other businesses and include the following:

The success of our services business is to a significant degree dependent on our ability to retain our significant services clients and maintain or increase the level of revenues from these clients. We may lose clients due to their merger or acquisition, business failure, contract expiration or their conversion to a competing service provider or decision to in-source services. In addition, we may not be able to retain or renew relationships with our significant clients in the future. As a result of business downturns or for other business reasons, we are also vulnerable to reduced processing volumes from our clients, which can reduce the scope of services provided and the prices for those services. We may not be able to replace the revenue and earnings from any such lost clients or reductions in services in the short- or long-term. In addition, our contracts may allow a client to terminate the contract for convenience, and we may not be able to fully recover our investments in such circumstances.

The pricing and other terms of some of our IT services agreements, particularly our long-term IT outsourcing services agreements, require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. Any increased or unexpected

Table of Contents

costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these agreements less profitable or unprofitable, which would have an adverse affect on the profit margin of our IT services business.

Some of our IT services agreements require significant investment in the early stages that is expected to be recovered through billings over the life of the agreement. These agreements often involve the construction of new IT systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each agreement with these characteristics, and some or all elements of service delivery under these agreements are dependent upon successful completion of the development, construction and deployment phases. Any failure to perform satisfactorily under these agreements may expose us to legal liability, result in the loss of customers and harm our reputation, which could decrease the revenues and profitability of our IT services business.

Some of our outsourcing services agreements contain pricing provisions that permit a client to request a benchmark study by a mutually acceptable third party. The benchmarking process typically compares the contractual price of our services against the price of similar services offered by other specified providers in a peer comparison group, subject to agreed upon adjustment and normalization factors. Generally, if the benchmarking study shows that our pricing has a difference outside a specified range, and the difference is not due to the unique requirements of the client, then the parties will negotiate in good faith any appropriate adjustments to the pricing. This may result in the reduction of our rates for the benchmarked services performed after the implementation of those pricing adjustments, which could decrease the revenues and profitability of our IT services business.

If we do not hire, train, motivate and effectively utilize employees with the right mix of skills and experience in the right geographic regions to meet the needs of our services clients, our profitability could suffer. For example, if our employee utilization rate is too low, our profitability and the level of engagement of our employees could suffer. If that utilization rate is too high, it could have an adverse effect on employee engagement and attrition and the quality of the work performed, as well as our ability to staff projects. If we are unable to hire and retain a sufficient number of employees with the skills or backgrounds to meet current demand, we might need to redeploy existing personnel, increase our reliance on subcontractors or increase employee compensation levels, all of which could also negatively affect our profitability. In addition, if we have more employees than we need with certain skill sets or in certain geographies, we may incur increased costs as we work to rebalance our supply of skills and resources with client demand in those geographies.

If we fail to comply with our customer contracts or government contracting regulations, our revenue could suffer.

Our contracts with our customers may include unique and specialized performance requirements. In particular, our contracts with federal, state, provincial and local governmental customers are subject to various procurement regulations, contract provisions and other requirements relating to their formation, administration and performance. Any failure by us to comply with the specific provisions in our customer contracts or any violation of government contracting regulations could result in the imposition of various civil and criminal penalties, which may include termination of contracts, forfeiture of profits, suspension of payments and, in the case of our government contracts, fines and suspension from future government contracting. In addition, we have in the past been, and may in the future be, subject to qui tam litigation brought by private individuals on behalf of the government relating to our government contracts, which could include claims for up to treble damages. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its

Table of Contents

accuracy, may damage our business by affecting our ability to compete for new contracts. If our customer contracts are terminated, if we are suspended or disbarred from government work, or if our ability to compete for new contracts is adversely affected, we could suffer a reduction in expected revenue.

Failure to maintain our credit ratings could adversely affect our liquidity, capital position, borrowing costs and access to capital markets.

Our credit risk is evaluated by three independent rating agencies. Those rating agencies, Standard & Poor's Ratings Services, Fitch Ratings Services and Moody's Investors Service, downgraded our ratings on November 30, 2011, December 2, 2011 and January 20, 2012, respectively. In addition, Fitch Ratings Services and Moody's Investors Service downgraded our ratings a second time on October 5, 2012 and November 27, 2012, respectively. Our credit ratings remain under negative outlook by Moody's Investors Service. These downgrades have increased the cost of borrowing under our credit facilities, have reduced market capacity for our commercial paper, and may require the posting of additional collateral under some of our derivative contracts. There can be no assurance that we will be able to maintain our current credit ratings, and any additional actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, may further impact us in a similar manner and may have a negative impact on our liquidity, capital position and access to capital markets.

We make estimates and assumptions in connection with the preparation of HP's Consolidated Condensed Financial Statements, and any changes to those estimates and assumptions could adversely affect our results of operations.

In connection with the preparation of HP's Consolidated Condensed Financial Statements, we use certain estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. In addition, as discussed in Note 15 to the Consolidated Condensed Financial Statements, we make certain estimates, including decisions related to provisions for legal proceedings and other contingencies. While we believe that these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could adversely affect our results of operations.

Unanticipated changes in HP's tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability.

We are subject to income and other taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge for inventory, services, licenses, funding and other items in intercompany transactions. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In addition, our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to

Table of Contents

generate future taxable income in the United States. In addition, President Obama's administration has announced proposals for other U.S. tax legislation that, if adopted, could adversely affect our tax rate. There are also other tax proposals that have been introduced, that are being considered, or that have been enacted by the United States Congress or the legislative bodies in foreign jurisdictions that could affect our tax rate, the carrying value of deferred tax assets, or our other tax liabilities. Any of these changes could affect our profitability.

Our sales cycle makes planning and inventory management difficult and future financial results less predictable.

In some of our segments, our quarterly sales often have reflected a pattern in which a disproportionate percentage of each quarter's total sales occurs towards the end of such quarter. This uneven sales pattern makes prediction of revenue, earnings, cash flow from operations and working capital for each financial period difficult, increases the risk of unanticipated variations in quarterly results and financial condition and places pressure on our inventory management and logistics systems. If predicted demand is substantially greater than orders, there will be excess inventory. Alternatively, if orders substantially exceed predicted demand, we may not be able to fulfill all of the orders received in the last few weeks of each quarter. Other developments late in a quarter, such as a systems failure, component pricing movements, component shortages or global logistics disruptions, could adversely impact inventory levels and results of operations in a manner that is disproportionate to the number of days in the quarter affected.

We experience some seasonal trends in the sale of our products that also may produce variations in quarterly results and financial condition. For example, sales to governments (particularly sales to the U.S. government) are often stronger in the third calendar quarter, consumer sales are often stronger in the fourth calendar quarter, and many customers whose fiscal and calendar years are the same spend their remaining capital budget authorizations in the fourth calendar quarter prior to new budget constraints in the first calendar quarter of the following year. European sales are often weaker during the summer months. Demand during the spring and early summer also may be adversely impacted by market anticipation of seasonal trends. Moreover, to the extent that we introduce new products in anticipation of seasonal demand trends, our discounting of existing products may adversely affect our gross margin prior to or shortly after such product launches. Typically, our third fiscal quarter is our weakest and our fourth fiscal quarter is our strongest. Many of the factors that create and affect seasonal trends are beyond our control.

In order to be successful, we must attract, retain, train, motivate, develop and transition key employees, and failure to do so could seriously harm us.

In order to be successful, we must attract, retain, train, motivate, develop and transition qualified executives and other key employees, including those in managerial, technical, sales, marketing and IT support positions. Identifying, developing internally or hiring externally, training and retaining qualified executives, engineers, skilled solutions providers in the IT support business and qualified sales representatives are critical to our future, and competition for experienced employees in the IT industry can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and share-based compensation. Our share-based incentive awards include stock options, restricted stock units and performance-based restricted units, some of which contain conditions relating to HP's stock price performance and HP's long-term financial performance that make the future value of those awards uncertain. In addition, the value of all of our share-based incentive awards depends on HP's stock price, which declined by nearly 50% during fiscal 2012. If the anticipated value of such share-based incentive awards does not materialize, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, if our total compensation package is not viewed as being competitive, or if we do

Table of Contents

not obtain the shareholder approval needed to continue granting share-based incentive awards in the amounts we believe are necessary, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

Terrorist acts, conflicts, wars and geopolitical uncertainties may seriously harm our business and revenue, costs and expenses and financial condition and stock price.

Terrorist acts, conflicts or wars (wherever located around the world) may cause damage or disruption to HP, our employees, facilities, partners, suppliers, distributors, resellers or customers or adversely affect our ability to manage logistics, operate our transportation and communication systems or conduct certain other critical business operations. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars, including the ongoing military operations in Afghanistan, have created many economic and political uncertainties. In addition, as a major multinational company with headquarters and significant operations located in the United States, actions against or by the United States may impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, if they occur, they could result in a decrease in demand for our products, make it difficult or impossible to provide services or deliver products to our customers or to receive components from our suppliers, create delays and inefficiencies in our supply chain and result in the need to impose employee travel restrictions. We are predominantly uninsured for losses and interruptions caused by terrorist acts, conflicts and wars.

Any failure by us to identify, manage, complete and integrate acquisitions, divestitures and other significant transactions successfully could harm our financial results, business and prospects, and the costs, expenses and other financial and operational effects associated with managing, completing and integrating acquisitions may result in financial results that are different than expected.

As part of our business strategy, we frequently acquire companies or businesses, divest businesses or assets, enter into strategic alliances and joint ventures and make investments to further our business (collectively, "business combination and investment transactions"). In order to pursue this strategy successfully, we must identify candidates for and successfully complete business combination and investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products, services or employees. Risks associated with business combination and investment transactions include the following, any of which could adversely affect our revenue, gross margin and profitability:

Managing business combination and investment transactions requires varying levels of management resources, which may divert our attention from other business operations.

We may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third parties.

Business combination and investment transactions have resulted, and in the future may result, in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, goodwill and asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans.

Table of Contents

Any increased or unexpected costs, unanticipated delays or failure to meet contractual obligations could make business combination and investment transactions less profitable or unprofitable.

Our ability to conduct due diligence with respect to business combination and investment transactions, and our ability to evaluate the results of such due diligence, is dependent upon the veracity and completeness of statements and disclosures made or actions taken by third parties or their representatives.

Our due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal control deficiencies.

The pricing and other terms of our contracts for business combination and investment transactions require us to make estimates and assumptions at the time we enter into these contracts, and, during the course of our due diligence, we may not identify all of the factors necessary to estimate accurately our costs, timing and other matters.

In order to complete a business combination and investment transaction, we may issue common stock, potentially creating dilution for existing stockholders.

We may borrow to finance business combination and investment transactions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect our liquidity and financial condition.

HP's effective tax rate on an ongoing basis is uncertain, and business combination and investment transactions could adversely impact our effective tax rate.

An announced business combination and investment transaction may not close timely or at all, which may cause our financial results to differ from expectations in a given quarter.

Business combination and investment transactions may lead to litigation.

If we fail to identify and successfully complete and integrate business combination and investment transactions that further our strategic objectives, we may be required to expend resources to develop products, services and technology internally, which may put us at a competitive disadvantage.

HP has incurred and will incur additional depreciation and amortization expense over the useful lives of certain assets acquired in connection with business combination and investment transactions, and, to the extent that the value of goodwill or intangible assets with indefinite lives acquired in connection with a business combination and investment transaction becomes impaired, we may be required to incur additional material charges relating to the impairment of those assets. For example, in our third fiscal quarter of 2012, we recorded an \$8.0 billion impairment charge relating to the goodwill associated with our enterprise services reporting unit within our former Services segment and a \$1.2 billion impairment charge as a result of an asset impairment analysis of the "Compaq" trade name acquired in 2002. In addition, in our fourth fiscal quarter of 2012, we recorded an \$8.8 billion impairment charge relating to the goodwill and intangible assets associated with Autonomy. If there are future changes in our stock price or significant changes in the business climate or operating results of our reporting units, we may incur additional goodwill impairment charges.

Integration issues are often complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business, including the business acquired as a result of any business combination and investment transaction. The challenges involved in integration include:

combining product and service offerings and entering or expanding into markets in which we are not experienced or are developing expertise;

Table of Contents

convincing customers and distributors that the transaction will not diminish client service standards or business focus, persuading customers and distributors to not defer purchasing decisions or switch to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and expanding and coordinating sales, marketing and distribution efforts;

consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code and business processes;

minimizing the diversion of management attention from ongoing business concerns;

persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, engaging with employee works councils representing an acquired company's non-U.S. employees, integrating employees into HP, correctly estimating employee benefit costs and implementing restructuring programs;

coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures;

achieving savings from supply chain integration; and

managing integration issues shortly after or pending the completion of other independent transactions.

While we do not currently plan to divest any of our major businesses, we do regularly evaluate the potential disposition of assets and businesses that may no longer help us meet our objectives. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the achievement of our strategic objectives. We may also dispose of a business at a price or on terms that are less desirable than we had anticipated. In addition, we may experience greater dis-synergies than expected, and the impact of the divestiture on our revenue growth may be larger than projected. After reaching an agreement with a buyer or seller for the acquisition or disposition of a business, we are subject to satisfaction of pre-closing conditions as well as to necessary regulatory and governmental approvals on acceptable terms, which may prevent us from completing the transaction. Dispositions may also involve continued financial involvement in the divested business, such as through continuing equity ownership, guarantees, indemnities or other financial obligations. Under these arrangements, performance by the divested businesses or other conditions outside of our control could affect our future financial results.

Unforeseen environmental costs could impact our future net earnings.

We are subject to various federal, state, local and foreign laws and regulations concerning environmental protection, including laws addressing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, the content of our products and the recycling, treatment and disposal of our products, including batteries. In particular, we face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and materials composition of our products, their safe use, the energy consumption associated with those products, climate change laws and regulations, and product take-back legislation. We could incur substantial costs, our products could be restricted from entering certain jurisdictions, and we could face other sanctions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws. Our potential exposure includes fines and civil or criminal sanctions, third-party property damage, personal injury claims and clean up costs. Further, liability under some environmental laws relating to contaminated sites can be imposed retroactively, on a joint

Table of Contents

and several basis, and without any finding of noncompliance or fault. The amount and timing of costs under environmental laws are difficult to predict.

Some anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

We have provisions in our certificate of incorporation and bylaws, each of which could have the effect of rendering more difficult or discouraging an acquisition of HP deemed undesirable by our Board of Directors. These include provisions:

authorizing blank check preferred stock, which HP could issue with voting, liquidation, dividend and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, HP's directors and officers;

specifying that HP stockholders may take action only at a duly called annual or special meeting of stockholders and otherwise in accordance with our bylaws and limiting the ability of our stockholders to call special meetings;

requiring advance notice of proposals by HP stockholders for business to be conducted at stockholder meetings and for nominations of candidates for election to our Board of Directors;

requiring a vote by the holders of two-thirds of HP's outstanding shares to amend certain bylaws relating to HP stockholder meetings, the Board of Directors and indemnification; and

controlling the procedures for conduct of HP's Board and stockholder meetings and election, appointment and removal of HP directors.

These provisions, alone or together, could deter or delay hostile takeovers, proxy contests and changes in control or management of HP. As a Delaware corporation, HP also is subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders from engaging in certain business combinations without approval of the holders of substantially all of HP's outstanding common stock.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control of HP could limit the opportunity for our stockholders to receive a premium for their shares of HP common stock and also could affect the price that some investors are willing to pay for HP common stock.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For quantitative and qualitative disclosures about market risk affecting HP, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended October 31, 2012, which is incorporated herein by reference. Our exposure to market risk has not changed materially since October 31, 2012.

Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted 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 Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to HP, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed,

Table of Contents

summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to HP's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any change in our internal control over financial reporting during that quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings.**

The information set forth above under Note 15 contained in the "Notes to Consolidated Condensed Financial Statements" is incorporated herein by reference.

Item 1A. Risk Factors.

A description of factors that could materially affect our business, financial condition or operating results is included under "Factors that Could Affect Future Results" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in Item 2 of Part I of this report. This description includes any material changes to the risk factor disclosure in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended October 31, 2012 and is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Recent Sales of Unregistered Securities**

There were no unregistered sales of equity securities during the period covered by this report.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
In thousands, except per share amounts				
Month #1				
(November 2012)	16,441	\$ 13.19	16,441	\$ 8,959,180
Month #2				
(December 2012)	2,791	\$ 12.80	2,791	\$ 8,923,470
Month #3				
(January 2013)				\$ 8,923,470
Total	19,232	\$ 13.13	19,232	

Table of Contents

HP repurchased shares in the first quarter of fiscal 2013 under an ongoing program to return cash to stockholders when sufficient liquidity exists, the shares are trading at a discount relative to estimated intrinsic value, and there is no alternative investment opportunity expected to generate a higher risk-adjusted return on investment. This program, which does not have a specific expiration date, authorizes repurchases in the open market or in private transactions. All shares repurchased in the first quarter of fiscal 2013 were purchased in open market transactions. As of January 31, 2013, HP had remaining authorization of \$8.9 billion for future share repurchases under the \$10.0 billion repurchase authorization approved by HP's Board of Directors on July 21, 2011.

Item 5. Other Information.

The disclosure below is included in this report in lieu of filing a Current Report on Form 8-K.

Based on input from stockholders and their advisors gathered during 2013 regarding the design of HP's short-term incentive compensation program, on March 10, 2013, the HR and Compensation Committee (the "Committee") of the HP Board of Directors approved the addition of a total shareholder return ("TSR") metric to the performance metrics applicable to fiscal 2013 awards to HP Section 16 officers (the "Section 16 Officers") under the Hewlett-Packard Company 2005 Pay for Results Plan (the "PFR Plan"). As described in HP's definitive proxy statement on Schedule 14A filed with the SEC on January 31, 2013, under the PFR Plan, annual payouts can be zero if performance thresholds are not met and can be up to 250% of target if performance is exceptional. Also, as described in HP's definitive proxy statement, the Committee previously approved a new, additional incentive opportunity for fiscal 2013 based on year-over-year improvement in return on invested capital ("ROIC") pursuant to which each Section 16 Officer may receive an additional payout of up to 100% of his or her target annual bonus such that the maximum payout that he or she could earn for fiscal 2013 performance is 350% of target. Taking into account the addition of the TSR metric, the maximum payout that a Section 16 Officer may receive under the PFR Plan with respect to fiscal 2013 performance will now be 250% of his or her annual target bonus unless HP's fiscal 2013 TSR exceeds the median TSR of all companies in the S&P 500 Index, in which case the 250% cap would be removed and the maximum payout would return to 350% of target.

The Committee has also committed to undertake a review of its compensation programs with a view towards including relative performance metrics in 2014 and future compensation plans.

Item 6. Exhibits.

The Exhibit Index beginning on page 95 of this report sets forth a list of exhibits.

Table of Contents

SIGNATURE

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

HEWLETT-PACKARD COMPANY

/s/ CATHERINE A. LESJAK

Catherine A. Lesjak
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Date: March 11, 2013

Table of Contents

HEWLETT-PACKARD COMPANY AND SUBSIDIARIES
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
3(a)	Registrant's Certificate of Incorporation.	10-Q	001-04423	3(a)	June 12, 1998
3(b)	Registrant's Amendment to the Certificate of Incorporation.	10-Q	001-04423	3(b)	March 16, 2001
3(c)	Registrant's Amended and Restated Bylaws effective March 21, 2012.	8-K	001-04423	3.1	March 23, 2012
4(a)	Senior Indenture between HP and The Bank of New York Mellon Trust Company, National Association, as successor in interest to J.P. Morgan Trust Company, National Association (formerly known as Chase Manhattan Bank and Trust Company, National Association), as Trustee, dated June 1, 2000.	S-3	333-134327	4.9	June 7, 2006
4(b)	Indenture, dated as of June 1, 2000, between the Registrant and J.P. Morgan Trust Company, National Association (formerly Chase Manhattan Bank), as Trustee.	S-3	333-134327	4.9	June 7, 2006
4(c)	Form of Registrant's Floating Rate Global Note due March 1, 2012, 5.25% Global Note due March 1, 2012 and 5.40% Global Note due March 1, 2017.	8-K	001-04423	4.1, 4.2 and 4.3	February 28, 2007
4(d)	Form of Registrant's Floating Rate Global Note due September 3, 2009, 4.50% Global Note due March 1, 2013 and 5.50% Global Note due March 1, 2018.	8-K	001-04423	4.1, 4.2 and 4.3	February 29, 2008
4(e)	Form of Registrant's 6.125% Global Note due March 1, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1 and 4.2	December 8, 2008
4(f)	Form of Registrant's Floating Rate Global Note due February 24, 2011, 4.250% Global Note due February 24, 2012 and 4.750% Global Note due June 2, 2014 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	February 27, 2009

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
4(g)	Form of Registrant's Floating Rate Global Note due September 13, 2012, 1.250% Global Note due September 13, 2013 and 2.125% Global Note due September 13, 2015 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	September 13, 2010
4(h)	Form of Registrant's 2.200% Global Note due December 1, 2015 and 3.750% Global Note due December 1, 2020 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.3	December 2, 2010
4(i)	Form of Registrant's Floating Rate Global Note due May 24, 2013, Floating Rate Global Note due May 30, 2014, 1.550% Global Note due May 30, 2014, 2.650% Global Note due June 1, 2016 and 4.300% Global Note due June 1, 2021 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3, 4.4, 4.5 and 4.6	June 1, 2011
4(j)	Form of Registrant's Floating Rate Global Note due September 19, 2014, 2.350% Global Note due March 15, 2015, 3.000% Global Note due September 15, 2016, 4.375% Global Note due September 15, 2021 and 6.000% Global Note due September 15, 2041 and form of related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3, 4.4, 4.5 and 4.6	September 19, 2011
4(k)	Form of Registrant's 2.625% Global Note due December 9, 2014, 3.300% Global Note due December 9, 2016, 4.650% Global Note due December 9, 2021 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2, 4.3 and 4.4	December 12, 2011
4(l)	Form of Registrant's 2.600% Global Note due September 15, 2017 and 4.050% Global Note due September 15, 2022 and related Officers' Certificate.	8-K	001-04423	4.1, 4.2 and 4.3	March 12, 2012
4(m)	Specimen certificate for the Registrant's common stock.	8-A/A	001-04423	4.1	June 23, 2006
10(a)	Registrant's 2004 Stock Incentive Plan.*	S-8	333-114253	4.1	April 7, 2004
10(b)	Registrant's 2000 Stock Plan, amended and restated effective September 17, 2008.*	10-K	001-04423	10(b)	December 18, 2008

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(c)	Registrant's Excess Benefit Retirement Plan, amended and restated as of January 1, 2006.*	8-K	001-04423	10.2	September 21, 2006
10(d)	Hewlett-Packard Company Cash Account Restoration Plan, amended and restated as of January 1, 2005.*	8-K	001-04423	99.3	November 23, 2005
10(e)	Registrant's 2005 Pay-for-Results Plan, as amended.*	10-K	001-04423	10(h)	December 14, 2011
10(f)	Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	8-K	001-04423	10.1	September 21, 2006
10(g)	First Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(q)	June 8, 2007
10(h)	Employment Agreement, dated June 9, 2005, between Registrant and R. Todd Bradley.*	10-Q	001-04423	10(x)	September 8, 2005
10(i)	Registrant's Executive Severance Agreement.*	10-Q	001-04423	10(u)(u)	June 13, 2002
10(j)	Registrant's Executive Officers Severance Agreement.*	10-Q	001-04423	10(v)(v)	June 13, 2002
10(k)	Form letter regarding severance offset for restricted stock and restricted units.*	8-K	001-04423	10.2	March 22, 2005
10(l)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan, Registrant's 2000 Stock Plan, as amended, and Registrant's 1995 Incentive Stock Plan, as amended.*	10-Q	001-04423	10(b)(b)	June 8, 2007
10(m)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(c)(c)	June 8, 2007
10(n)	Second Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(l)(l)	December 18, 2007
10(o)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California).*	8-K	001-04423	10.2	January 24, 2008
10(p)	Form of Agreement Regarding Confidential Information and Proprietary Developments (Texas).*	10-Q	001-04423	10(o)(o)	March 10, 2008

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference File No.	Exhibit(s)	Filing Date
10(q)	Form of Restricted Stock Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(p)(p)	March 10, 2008
10(r)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(q)(q)	March 10, 2008
10(s)	Form of Stock Option Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(r)(r)	March 10, 2008
10(t)	Form of Option Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(t)(t)	June 6, 2008
10(u)	Form of Common Stock Payment Agreement for Registrant's 2000 Stock Plan.*	10-Q	001-04423	10(u)(u)	June 6, 2008
10(v)	Third Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(v)(v)	December 18, 2008
10(w)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(w)(w)	December 18, 2008
10(x)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(y)(y)	December 18, 2008
10(y)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(z)(z)	December 18, 2008
10(z)	Form of Restricted Stock Unit Agreement for Registrant's 2004 Stock Incentive Plan.*	10-Q	001-04423	10(a)(a)(a)	March 10, 2009
10(a)(a)	First Amendment to the Hewlett-Packard Company Excess Benefit Retirement Plan.*	10-Q	001-04423	10(b)(b)(b)	March 10, 2009
10(b)(b)	Fourth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(c)(c)(c)	June 5, 2009
10(c)(c)	Fifth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(d)(d)(d)	September 4, 2009
10(d)(d)	Amended and Restated Hewlett-Packard Company 2004 Stock Incentive Plan.*	8-K	001-04423	10.2	March 23, 2010

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Filing Date
			File No.	Exhibit(s)	
10(e)(e)	Form of Stock Notification and Award Agreement for awards of restricted stock units.*	10-K	001-04423	10(f)(f)(f)	December 15, 2010
10(f)(f)	Form of Stock Notification and Award Agreement for awards of performance-based restricted units.*	10-K	001-04423	10(g)(g)(g)	December 15, 2010
10(g)(g)	Form of Stock Notification and Award Agreement for awards of restricted stock.*	10-K	001-04423	10(h)(h)(h)	December 15, 2010
10(h)(h)	Form of Stock Notification and Award Agreement for awards of non-qualified stock options.*	10-K	001-04423	10(i)(i)(i)	December 15, 2010
10(i)(i)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California new hires).*	10-K	001-04423	10(j)(j)(j)	December 15, 2010
10(j)(j)	Form of Agreement Regarding Confidential Information and Proprietary Developments (California current employees).*	10-K	001-04423	10(k)(k)(k)	December 15, 2010
10(k)(k)	Letter Agreement, dated December 15, 2010, between the Registrant and Catherine A. Lesjak.*	10-K	001-04423	10(l)(l)(l)	December 15, 2010
10(l)(l)	First Amendment to the Registrant's Executive Deferred Compensation Plan, as amended and restated effective October 1, 2004.*	10-Q	001-04423	10(o)(o)(o)	September 9, 2011
10(m)(m)	Sixth Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-Q	001-04423	10(p)(p)(p)	September 9, 2011
10(n)(n)	Employment offer letter, dated September 27, 2011, between the Registrant and Margaret C. Whitman.*	8-K	001-04423	10.2	September 29, 2011
10(o)(o)	Letter Agreement, dated November 17, 2011, among the Registrant, Relational Investors LLC and the other parties named therein.*	8-K	001-04423	99.1	November 17, 2011
10(p)(p)	Seventh Amendment to the Registrant's 2005 Executive Deferred Compensation Plan, as amended and restated effective October 1, 2006.*	10-K	001-04423	10(e)(e)(e)	December 14, 2011
10(q)(q)	Registrant's Severance Plan for Executive Officers, as amended and restated.*	10-K	001-04423	10(f)(f)(f)	December 14, 2011

Edgar Filing: STMICROELECTRONICS NV - Form 20-F

Table of Contents

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Filing Date
			File No.	Exhibit(s)	
10(r)(r)	Aircraft Time Sharing Agreement, dated March 16, 2012, between the Registrant and Margaret C. Whitman.*	10-Q	001-04423	10(h)(h)(h)	June 8, 2012
11	None.				
12	Statement of Computation of Ratio of Earnings to Fixed Charges.				
15	None.				
18-19	None.				
22-24	None.				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				

*

Indicates management contract or compensatory plan, contract or arrangement.

Filed herewith.

Furnished herewith.

The registrant agrees to furnish to the Commission supplementally upon request a copy of (1) any instrument with respect to long-term debt not filed herewith as to which the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis and (2) any omitted schedules to any material plan of acquisition, disposition or reorganization set forth above.

